



2015 APEC CEO Survey

Creating the Future: Better, Stronger, Together

A custom report for The Philippines
October 2015



Welcome to the 2015 APEC CEO Survey

Welcome to PwC's 2015 APEC CEO Survey. This report compares aggregate responses for business leaders responsible for growth in The Philippines with aggregate responses for business leaders in all 21 Asia-Pacific Economic Cooperation member economies.

PwC developed and conducted this Survey in its role as Knowledge Partner for the APEC 2015 CEO Summit. This is the fifth annual Survey.

We scored responses from 800 business leaders from 23 June to 21 August 2015, including 110 with primary responsibility for The Philippines.

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Note, 'don't know' responses are not shown. The number of responses for each question is shown in the supporting data tables provided.

About this report

After almost two decades, The Philippines is chairing the annual APEC Economic Leaders' Meeting and CEO Summit. PwC Philippines is honoured to participate and through this Survey, provide the voice of the APEC's business leaders.

Our analysis of responses from CEOs responsible for growth in The Philippines reveals some interesting differences, and areas where all APEC CEOs are in resounding agreement. First, the differences: We see a greater degree of optimism among Philippine business leaders than the rest of their APEC peers in prospects for revenue growth in the next 12 months. In fact, as a group, they are almost twice as confident (51% 'very confident' in 2016 revenue growth versus 28% for the rest of APEC). The Philippines is also one of the top six destination APEC economies where business leaders plan to increase investments during the next year.

Philippine respondents are aligned with their peers in seeing bright opportunities for business growth in this region. Looking past today's economic uncertainties, by 2020, most believe there will be fewer barriers to procuring services, and that new technologies like robotics, Internet of Things and 3D printing will transform manufacturing in the region. They also expect barriers to the movement of skilled people across APEC economies to recede.

Within their own operations, we see rising demand for IT expertise and risk reduction services as Philippine CEOs respond to the demands of a global marketplace for digital business and disaster risk reduction and preparedness. These are the two scenarios where more Philippine CEOs think their organisations would be adversely affected: a major disruption of the Internet or a cyber-attack on critical infrastructure, and a natural disaster disrupting a major trading or manufacturing hub.

Like their APEC peers, Philippine CEOs are optimistic on regional economic integration. More believe that expanded broadband access and increased participation in the digital economy hold the most promise for their business from regional connectivity. Among the many regional and bilateral trade projects in APEC, most say that the ASEAN Economic Community (AEC) offers the greatest opportunity for their organisations.

Exciting growth lies ahead in this region with the promise of new technologies and the AEC, but Philippine CEOs also recognise the risks that shortages of critical skills over and fraying infrastructures pose to business growth. These concerns are not just being felt locally, but across the region. Improved collaboration among APEC economies can only be truly effective if inclusive growth happens.

Philippine CEOs recognise that business has a significant influence on enlarging the middle class. They ranked access to high-quality education and improved transportation infrastructures as one and two, respectively, as the most effective policy levers at hand to foster inclusive prosperity.

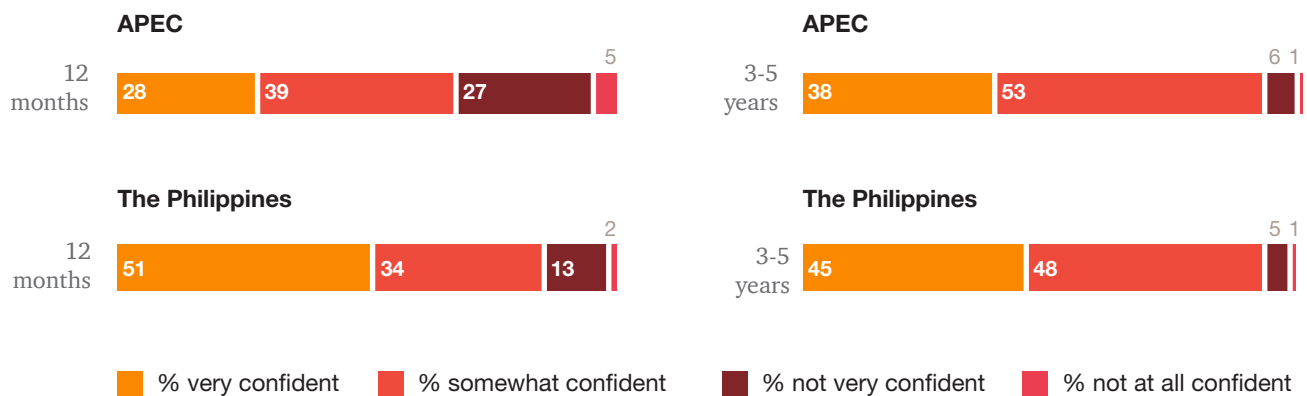
We present these insights with the hope we can spark an exchange of ideas among the delegates to this year's APEC CEO Summit. The Philippine business community can consider these findings as they plan their organisations' future in this dynamic region.



Atty. Alexander B. Cabrera
Chairman and Senior Partner,
PwC Philippines

Doing business in APEC

How confident are you about your organisation's prospects for revenue growth in your principal APEC economy over the next....



Business growth prospects are bright for Philippine CEOs

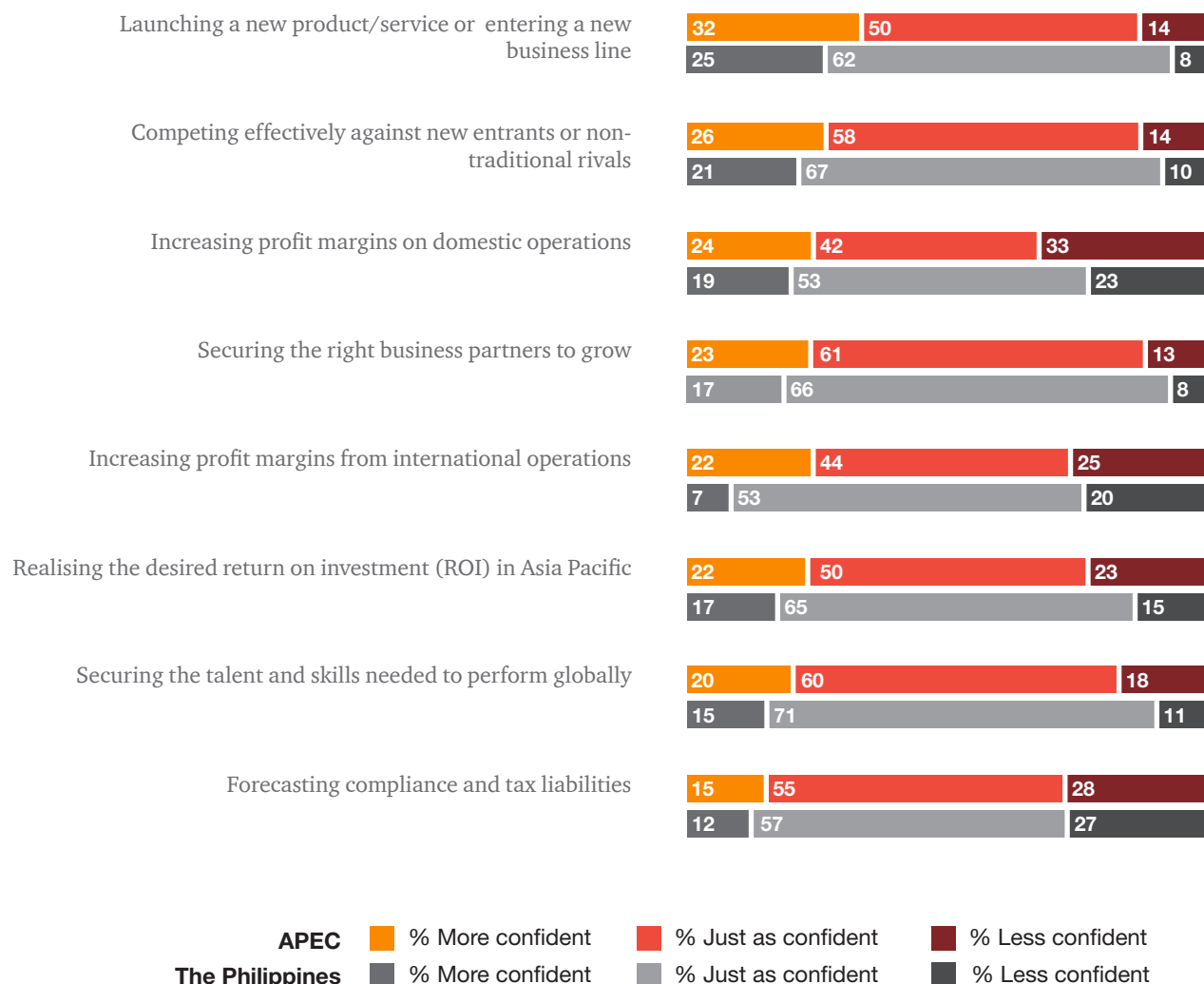
We asked CEOs to gauge their confidence in achieving revenue growth in their business during the next 12 months, and in three to five years' time.

CEOs with oversight for the Philippine market are more confident in revenue growth than the rest of their peers in APEC. Fifty-one percent (51%) of the Philippine CEOs feel very confident about their organisation's revenue growth in the next year versus 28% for CEOs in the rest of APEC. In the longer term (three to five years), the difference is not that notable, but still apparent, at 45% against 38%.

"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

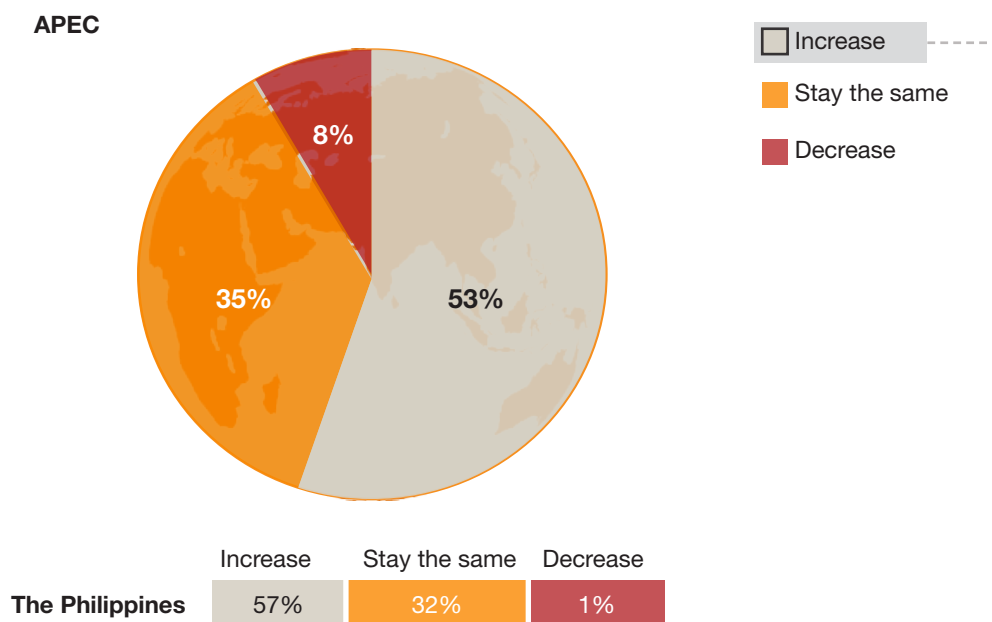
Compared to a year ago, how has your confidence changed about achieving the following in your principal APEC economy?



CEOs are 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. One in every four CEOs with oversight for the Philippines market, on the other hand, feels “more confident”. This is one of the reasons why we expect innovation efforts to accelerate.

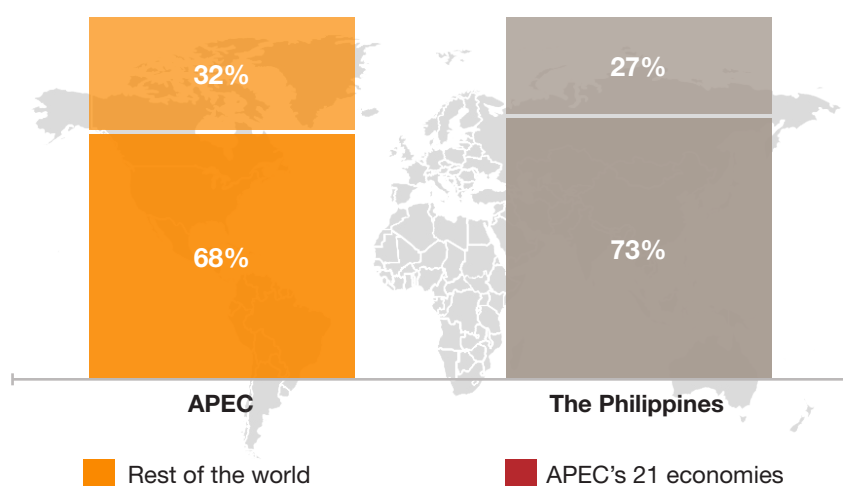
A profit squeeze is being felt by CEOs in the Philippines on domestic operations, with just 19% who feel “more confident” now than they did a year ago. They are losing confidence in domestic margin expansion.

Thinking of your business investments globally, will your investments increase, stay the same or decrease in the next 12 months?



What proportion of this increase do you expect to allocate within APEC's 21 economies as well as to the rest of the world?

Caution: The Philippines results based on less than 50 responses, indicative only

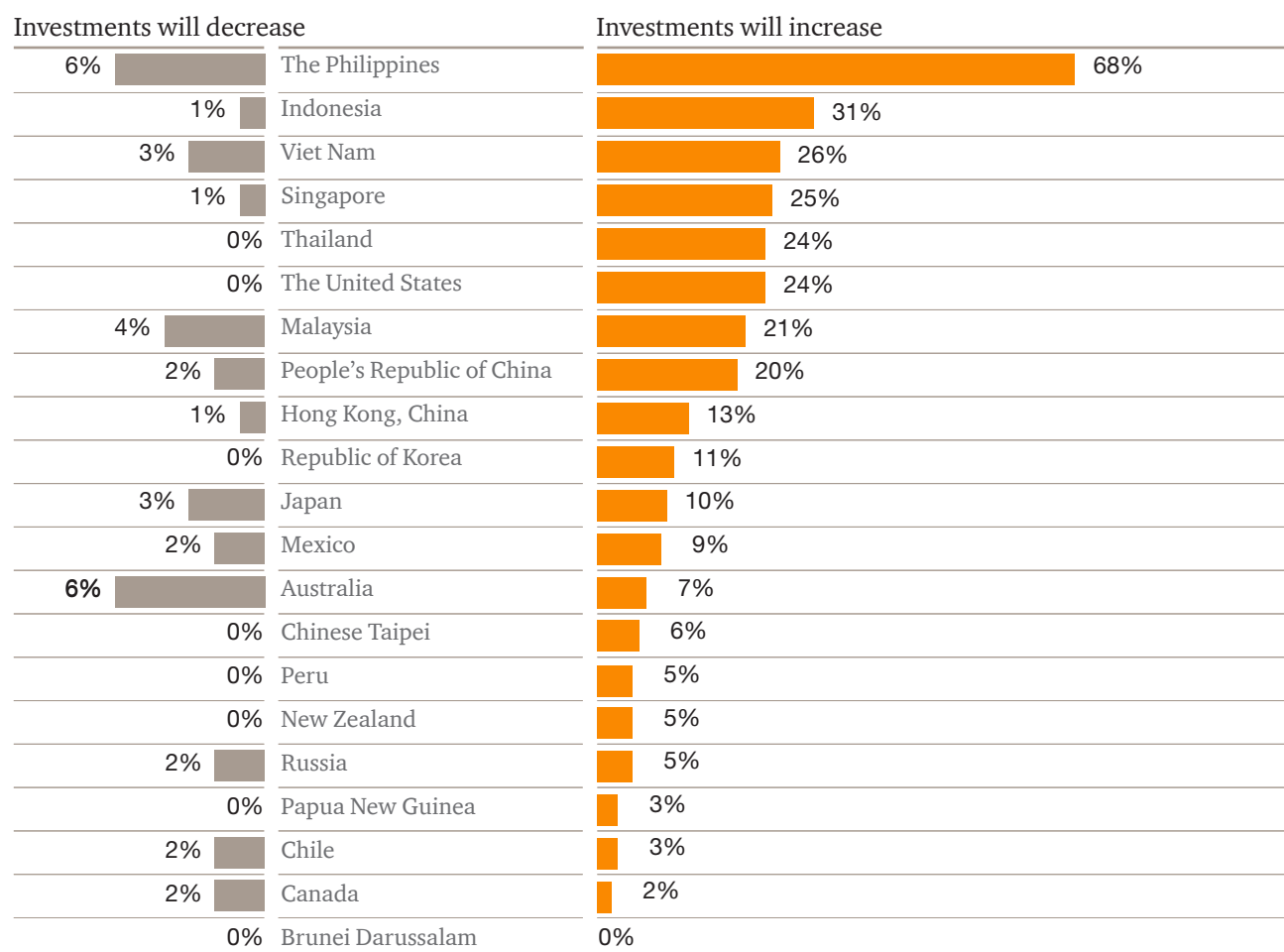


After historic FDI inflows in 2014 to developing Asia, some pullback could be expected. Yet our findings show that half of CEOs (53%) plan to increase investments during the next 12 months. And this is also true for the Philippines (57%).

Overall, CEOs say 68% of planned new investment will be disbursed in APEC economies compared with the 32% that they plan to spread around the rest of the world. A similar indication is seen with the Philippines at 73%.

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

Responses shown for The Philippines only. Not showing where investments 'stay the same'.



The Philippines' neighbours are popular investment destinations

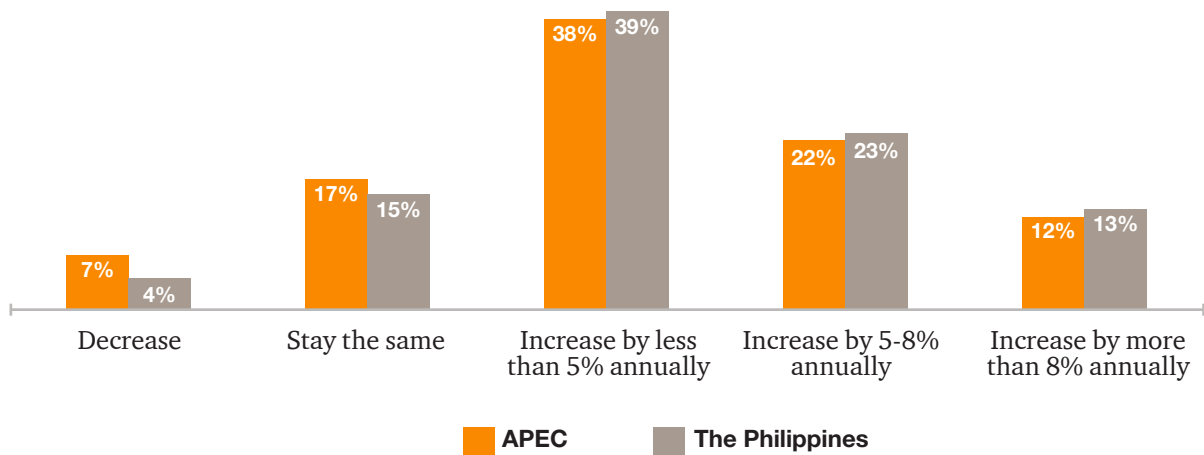
Sixty-eight percent (68%) of the CEOs in the Philippines stated that their investments will increase in the APEC region over the next 12 months.

When asked to think of their footprint in the APEC region and if their investments will increase, stay the same or decrease over the next 12 months, Philippine CEOs gave us an interesting insight into where they see opportunities to grow. Neighbouring countries like Indonesia, Vietnam and Thailand are more popular than the big economies like Japan and Australia.

In a survey conducted by PwC Philippines for the Management Association of the Philippines (M.A.P.) during the third quarter of 2015¹, 41% of Philippine CEOs said that there are currently more opportunities to grow their companies than three years ago. Some of these opportunities are:

- Demand for basic services such as energy and broadband connection
- The wider ASEAN market
- Importance of strengthening back office and support system
- The Philippines’ economic growth over the past years
- Increase in overseas Filipino workers’ remittances and business process outsourcing revenues

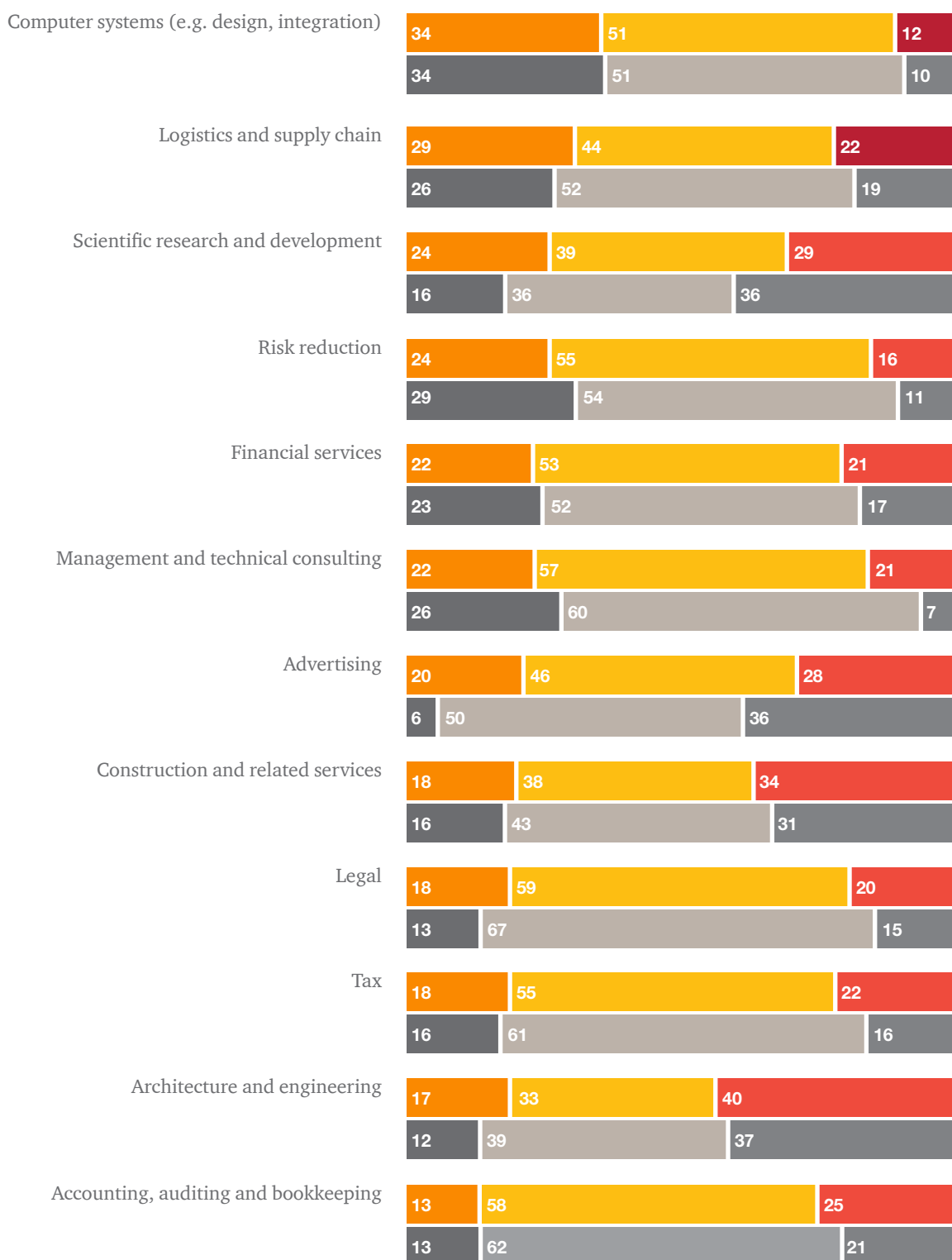
Over the next 3-5 years, what do you expect to happen to your organisation's headcount in the Asia Pacific region?



On the aggregate, 75% of Philippine CEOs plan to expand workforces in the next three to five years. This is similar to the overall APEC result of 72%. The high numbers are indicative of the positive outlook that businesses in the Philippines have towards the country’s economy in the near future.

¹ PwC and the Management Association of the Philippines, “Innovation for transformation: A Philippine CEO Survey,” 2015. (<http://www.pwc.com/ph/en/ceo-survey/innovation-for-transformation-ceo-survey.html>)

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



APEC % to a great extent % to some extent % not at all
The Philippines % to a great extent % to some extent % not at all

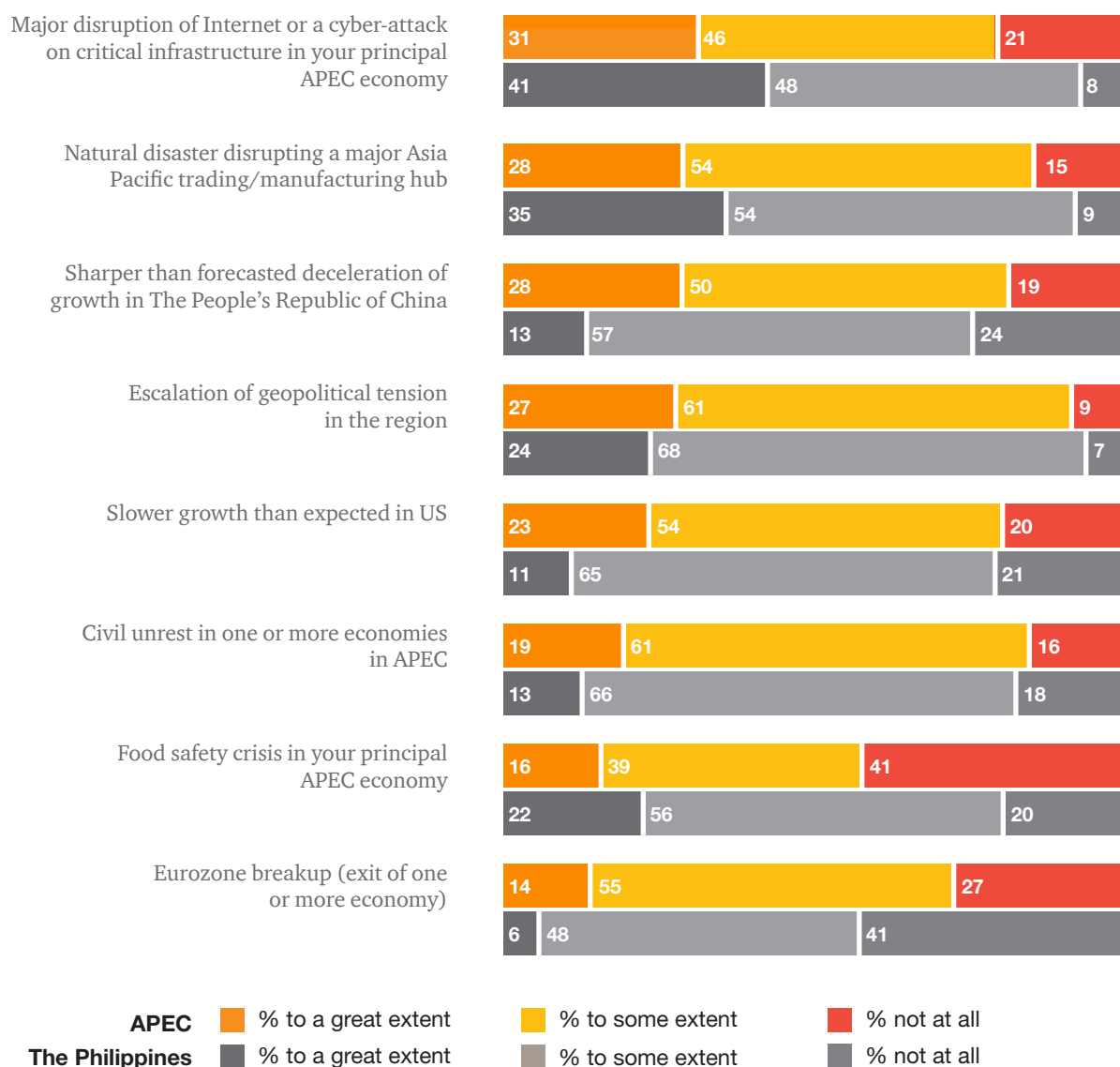
Demand for IT, risk reduction services growing fastest

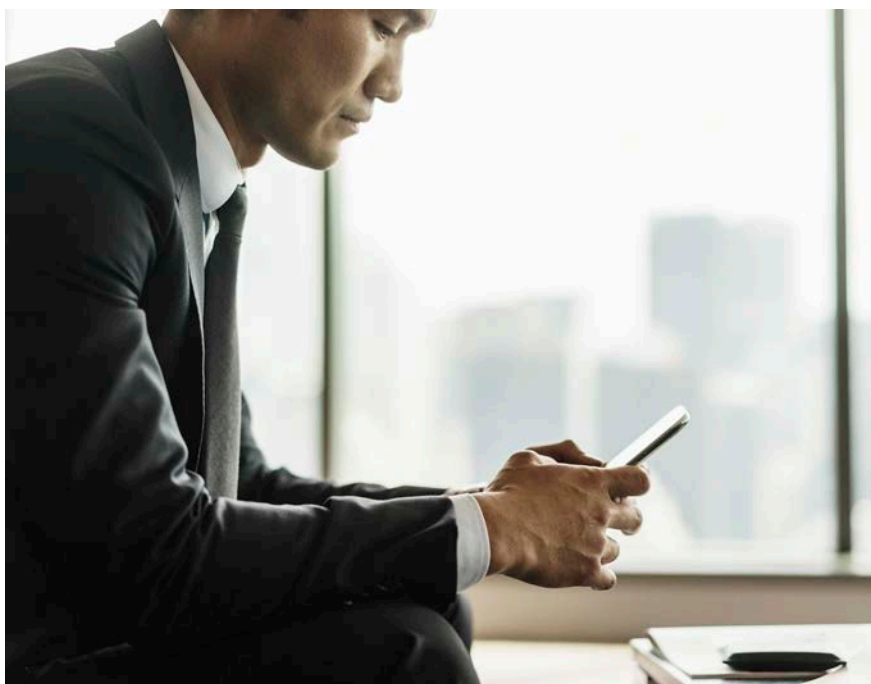
A third of CEOs (34%), whether in the Philippines or across APEC, see demand in their organisations growing “to a great extent” for technology design and integration services. Yet 16% of Philippine CEOs see the demand for scientific research and development to grow to a great extent, compared with 24% of all respondents.

Another difference we have observed is that only 6% of Philippine CEOs see the demand for advertising to grow to a great extent, compared to 20% of all respondents.

Risk reduction services ranked second for Philippine CEOs. This is an area demand where is growing quickly and within The Philippines that may signify a more heightened awareness among business leaders on the need for disaster risk reduction and preparedness after the country experienced the effects of Typhoon Haiyan.

In your opinion, if the following scenarios happened in the next 12 months, to what extent would your organisation be adversely affected?





Major disruption of the Internet and natural disaster are top threats

On a related note, 41% of Philippine CEOs say their organisations would be adversely affected “to a great extent” by a major disruption of the Internet, or a cyber-attack on critical infrastructure in their principal APEC economy. According to the 2015 U.S. State of Cybercrime Survey², cyber-attacks can result in substantial financial losses and damage brand reputation by disrupting an organisation’s strategic objectives, such as a planned merger or acquisition, the launch of a new product, or a business deal with a potential customer.

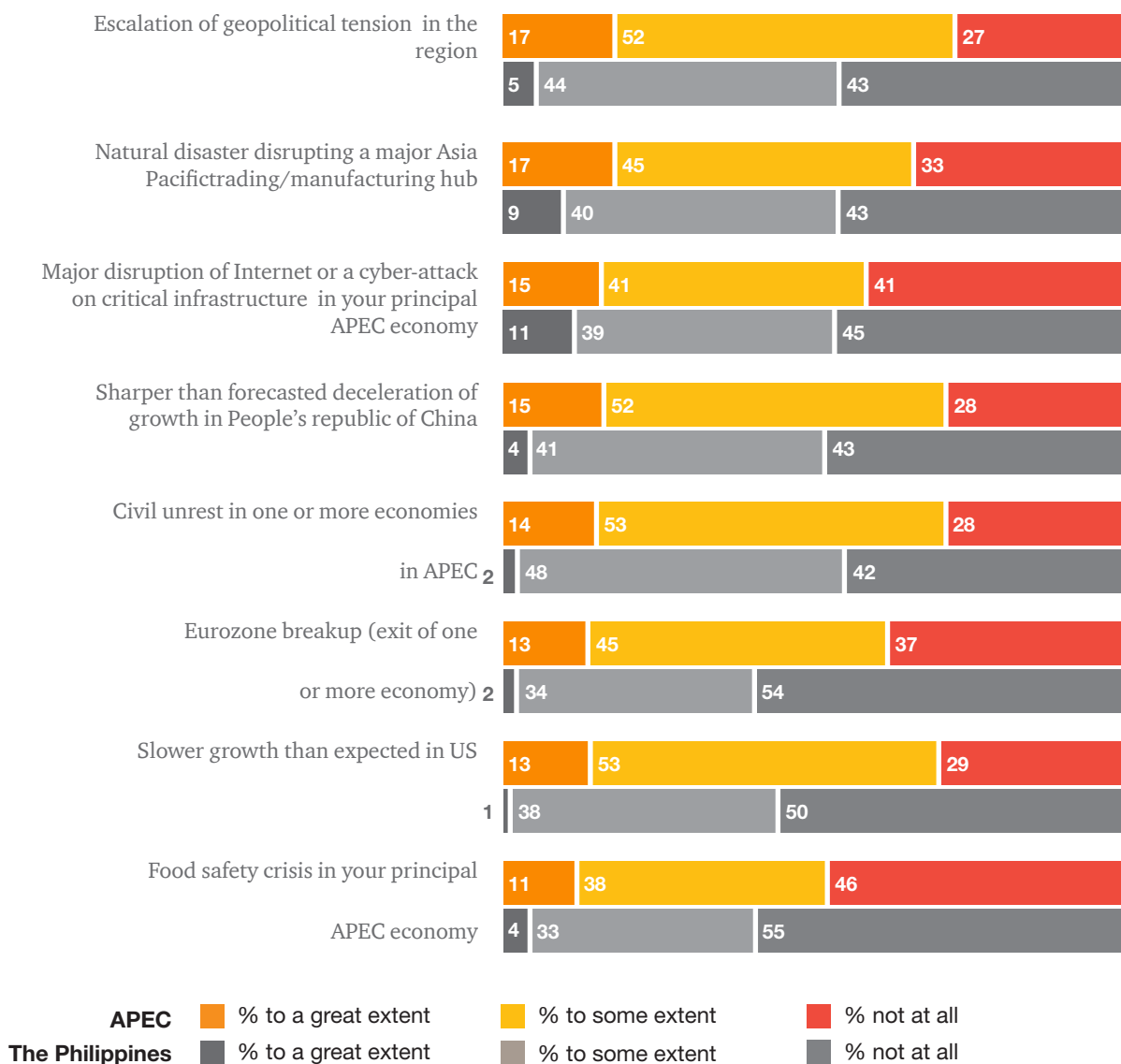
The threat of natural disaster disrupting a major trading or manufacturing hub is a second prominent concern for Philippine CEOs as well as APEC CEOs. From 1970 to 2010, Asia accounted for more than half of all natural disasters, leading to 1.7 million deaths and an average annual cost of \$53.8 billion.³

² PwC and IDG’s CSO, “2015 U.S. State of Cybercrime Survey,” 2015. (<http://www.pwc.com/us/en/press-releases/2015/cybersecurity-takes-center-stage.html>)

³ PwC, “Rebuilding for resilience,” 2013. (<http://www.pwc.com/gx/en/industries/capital-projects-infrastructure/disaster-resilience.html>)

To what extent is your organisation holding back investment in APEC economies as a result?

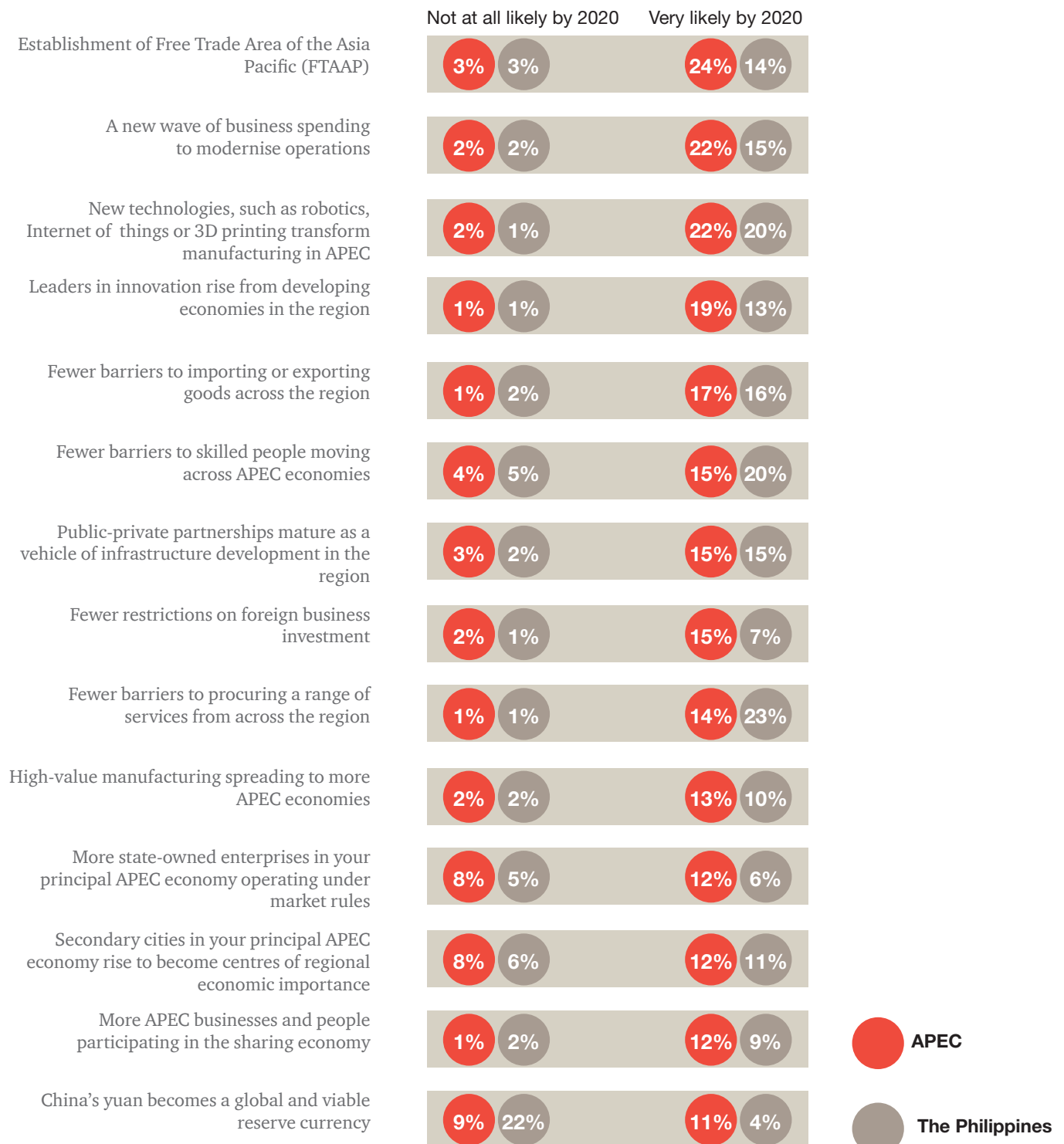
Showing only respondents who believe the scenario shown on the previous page would adversely affect their organisation.



Investment appetite appears correlated to the scenario that CEOs feel would affect them the most, with 11% of Philippine CEOs saying they would curb investment in the region to a “great extent” as a result of major Internet disruption or a cyber-attack on critical infrastructure in their economy. Ranking second is the threat posed by natural disaster affecting a major Asia Pacific trading or manufacturing hub – 9% of local executives would hold back investment to a “great extent”, should this happen.

Outlook for business growth in Asia Pacific

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



Asia Pacific in 2020: Fewer barriers to procuring services and movement of skilled people across the region; manufacturing transformed

Projected demand for goods and services are impelling businesses to look beyond local shores for new growth. Intra-APEC trade is forecast to outpace world trade in 2016 due in part to an improving outlook in key economies.

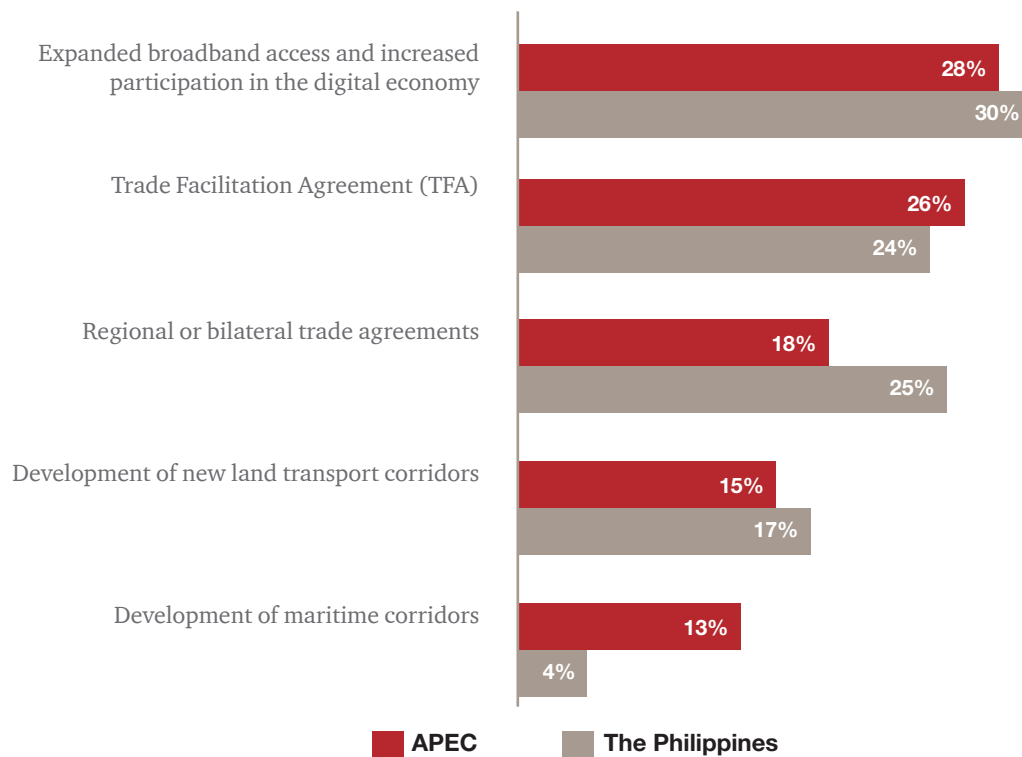
By 2020, a quarter of Philippine CEOs (23%) believe that it is “very likely” there will be fewer barriers to procuring a range of services from across the region.

Philippine respondents also foresee new technologies like robotics, Internet of Things and 3D printing transforming manufacturing in APEC. 3D printing 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. 3D printing has arrived on the factory floor and into R&D. According to a recent PwC survey of US manufacturers, two out of three companies are already adopting 3D printing in some way – from experimenting with the technology to making final products.

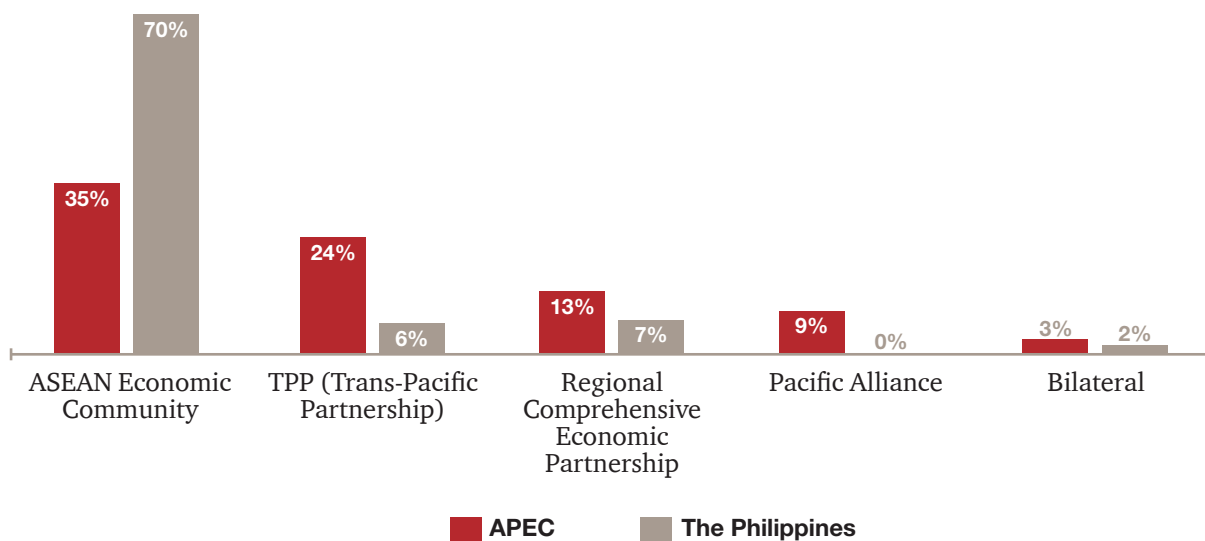
One in every five Philippine CEOs sees fewer barriers to skilled people moving across APEC economies in five years’ time. CEOs value a regional mindset and capabilities. When asked what advice they would give today to a promising young executive in their organisation, respondents emphasized again and again the vital importance of travelling throughout the region, saying there is no substitute for the experience of seeing for oneself different cultures and markets in action.

Growing your business in APEC

Please rank the following initiatives to foster regional connectivity in order of most promise/greatest opportunity for your organisation. Showing percentage ranking each factor as number one for APEC and The Philippines.



Which, if any, of the following regional or bilateral trade agreements could provide the greatest opportunity to your organisation, if fully implemented?

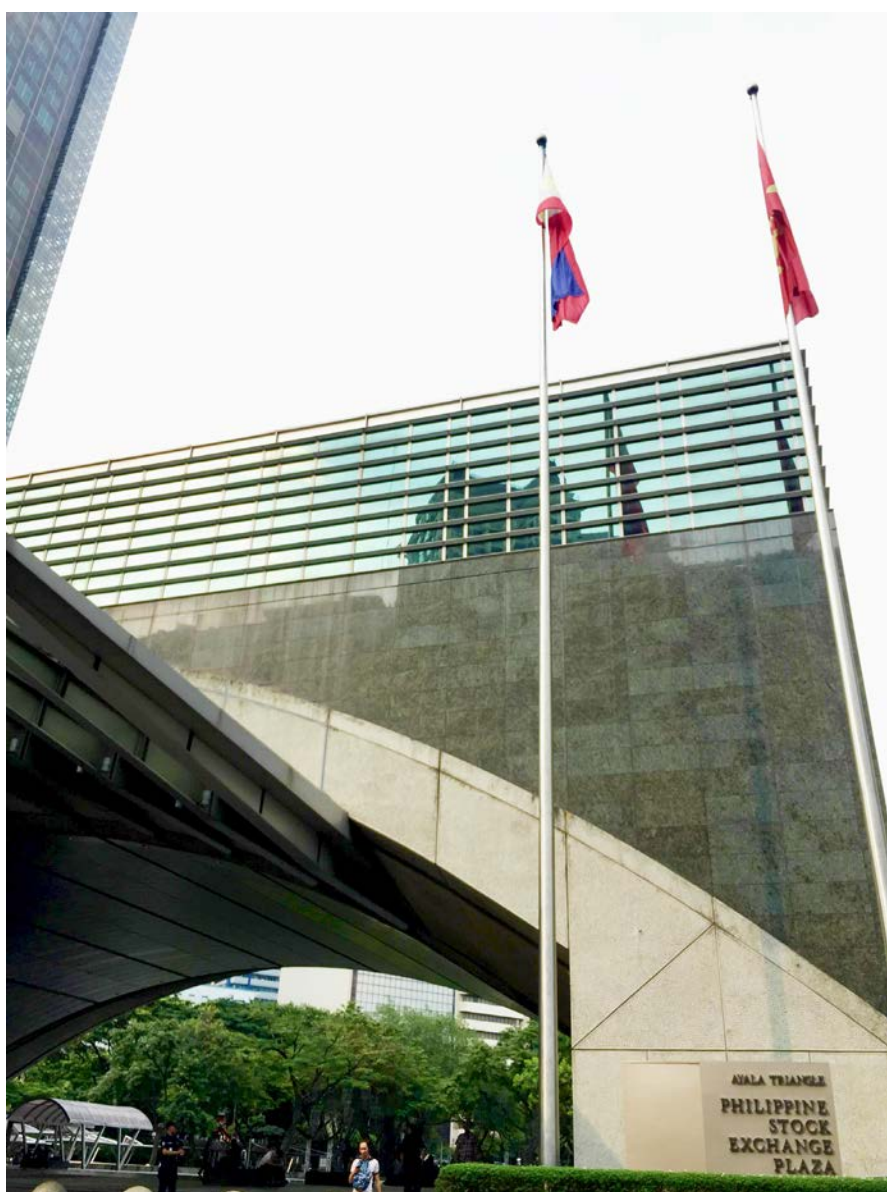


Regional connectivity for Philippine CEOs means expanded broadband access and AEC

Like the CEOs across the APEC economies, CEOs in the Philippines see many paths to growth for their organisations from regional connectivity, whether it's driven by broadband networks or trade agreements.

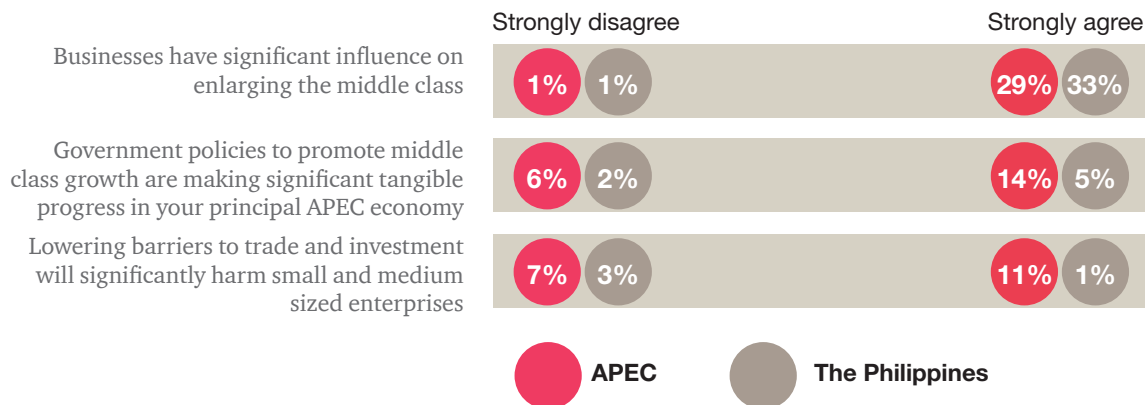
Expanded broadband access and increased participation in the digital economy hold the most promise among 30% of respondents from the Philippines.

One in every four Philippine CEOs sees regional or bilateral trade agreements as another way to grow. They have by far the most confidence in the ASEAN Economic Community (AEC) to provide the greatest opportunity to their organisation, with 70% going for AEC, while the APEC average is 35%. And where 24% of the APEC CEOs go for Trans-Pacific Partnership (TPP), in the Philippines only 6% thinks TPP holds the most promise.



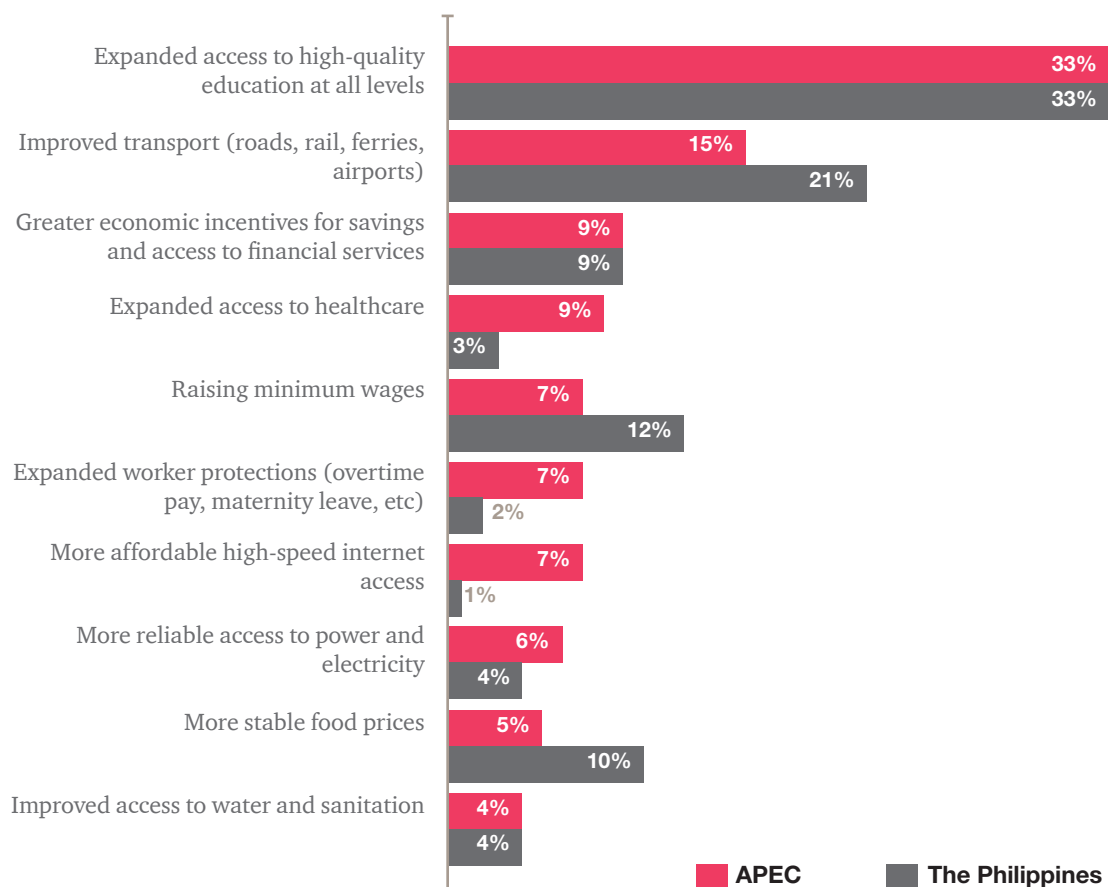
Inclusive Growth: Developing a robust middle class

Regarding inclusive growth in APEC economies, please indicate to what extent you agree or disagree with each of the following statements.



Which factors would enable people currently on the margins of the economy to participate in and benefit from growth and trade in the APEC economies in which you are active?

Showing percentage ranking each factor as number one for APEC and The Philippines.



Businesses have significant influence on enlarging the middle class

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

Most CEOs acknowledge that they have a stake in building the middle class in regions where they do business. Lifting the poor into the middle class is an essential part of closing the economic inequality gap.

Key to inclusive Asia Pacific: upgrade education and transport systems

Business leaders across APEC 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. Thirty-three percent (33%) of Philippine CEOs see expanded access to high-quality education at all levels as the means to expand economic opportunity. The second high-ranking lever among Philippine CEOs is improved transport links (21%).

Apart from access to high-quality education and transport systems, it's interesting to see on average that more Philippine CEOs seem to go for factors that improve the purchasing power of citizens than the rest of the CEOs. For instance, 12% say they would raise minimum wages, compared with 7% of all APEC CEOs.

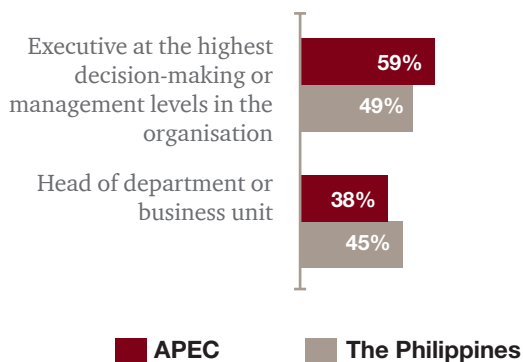
“Typically energy companies are mega-sized organizations. They are huge, they are state-owned, they are monopolies. But when you start promoting renewable project, a small renewable company can build a small solar farm or mini hydro plant on its own. A lot of alternative energy players are SMEs. I believe 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

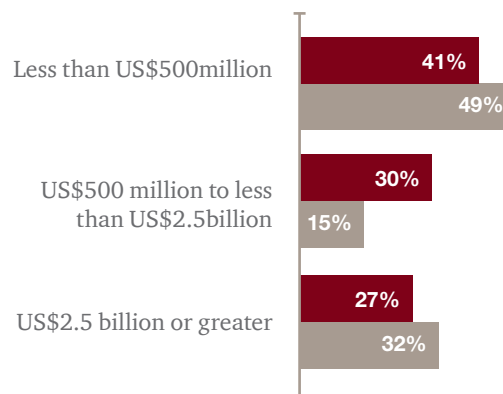


Demographics

Role



Revenue in the last fiscal year



Industries among APEC economies



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