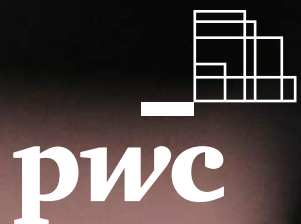


Thriving in the age of the digital economy

2018 APEC CEO Survey – Thailand Report



Foreword

There's no denying that volatile global economic conditions, the continuing trade war between the US and China, and rising oil prices will impact many of the 21 economies that make up the Asia-Pacific Economic Cooperation (APEC).

But at least for now, Thai business leaders continue to be optimistic about their growth prospects and that of the broader economy over the next 12 months, according to PwC's APEC CEO Survey 2018: Thailand Report.

While financial market volatility risks and the unpredictability of intensifying trade disputes are forecast to disrupt long-term growth, Thai executives are more confident of revenue growth than their counterparts in APEC.

The findings support market expectations that Thailand's economic growth should continue to grow despite slowing exports and tourism.

Our first Thailand Report shows that most Thai CEOs were confident about growing their revenues and preparing for a digital disruption. Against this backdrop, they are increasingly enhancing digital capabilities while prioritising investment to guard against cybersecurity risks.

However, Thai CEOs still need to do more to implement the right digital technologies strategies. They also need to add more digital talent to build a workforce skilled with reasoning and problem solving using science, maths, engineering, or technology (STEM).

More than ever, a majority of CEOs need greater support from the government in equipping our children with STEM skills at an early age. And the government should do more to train STEM professionals.

This year's APEC CEO Survey polled a total of 1,189 APEC business leaders and industry leaders, including 54 Thai CEOs, between 10 May and 16 July 2018. The Survey, in its ninth year, serves as an indicator of international business sentiment and strategies in one of the world's most powerful regions.

The report's results show the major challenges facing Thai CEOs and how they are responding to them. I hope that this report will provide you with useful insights that you can adapt to your business strategy.



Sira Intarakumthornchai
Territory Senior Partner and
Chief Executive Officer
PwC Thailand

Preface

For the last nine years, the APEC CEO Survey has shed light on the views of business leaders across the 21 economies that make up the Asia-Pacific Economic Cooperation (APEC). The report identified key trends and patterns in the global economy that affect their business decision-making, as well as their confidence in delivering growth in a rapidly changing global environment.

Now, for the first time ever, we're launching PwC's APEC CEO Survey 2018: Thailand Report. Dubbed 'Thriving in the age of the digital economy,' the theme resonates well with the broader CEO responses.

Most organisations in Thailand reported strong optimism for business growth and a growing sense of preparedness for a digital transformation. Despite escalating trade tensions between the US and China, more than half of Thai executives surveyed expressed confidence in their revenue growth over the next 12 months. Government agencies and analysts also forecast the Thai economy will continue to grow, buoyed by exports, tourism and greater spending by the public and private sectors.

Like others in APEC, Thai CEOs prioritise investments in digital customer interactions, employee skill development, and improving digital products and services. It's clear that enhancing digital capabilities has become a key strategy for many executives to achieve success.

This investment focus is also aligned with 'Thailand 4.0', the Thai government's initiative to transform the domestic economy from heavy industry to a value-based economy powered by digital technology.

To prepare for a sustainable digital economy, Thai executives say they have to pay particular attention to digital infrastructure development, workforce expansion, data and privacy protection, and cultivation of in-house digital talent.

Against this backdrop, CEOs need to prioritise becoming more digitally competitive and nurturing the next generation of digital natives. According to the Survey, having the right talent is one of the biggest challenges for organisations.

Competencies such as problem solving, adaptability, collaboration, leadership and emotional intelligence are some of the most coveted skills in today's workforce. This is also where skills of reasoning and problem solving using science, maths, engineering, or technology (STEM) come into play.

To help Thailand overcome this digital skills shortage, the government needs to play a leading role in promoting STEM education across all level of school so children have the skills needed to cope with challenges that the digital era will bring. It's not surprising that a majority of both Thai and APEC executives say that governments still need to do more to cultivate STEM professionals to create greater economic resilience in the face of a changing work and social environment.

I encourage you to read this report. It offers CEO perspectives on the most pressing topics, including their top priorities, opportunities and challenges in a changing business landscape. I trust that the report will give you a clear picture of the state of digital transformation in Thailand, the digital agenda and strategies for success.



Boonlert Kamolchanokkul
Partner, Clients and Markets Leader
PwC Thailand



Introduction

Asia is falling into line with global economic trends, specifically in the Association of Southeast Asian Nations (ASEAN) market where the average GDP is 5-8%. ASEAN countries, such as Singapore, Indonesia, Malaysia, Brunei and the Philippines, have significant population with considerable purchasing power, making the region a major economic powerhouse. Over the next year, Thailand is expected to be one of the top five economies in the Asia-Pacific Economic Cooperation (APEC) for outbound investment.

Thanks to its prime geographic location at the centre of four high-growth emerging markets, namely Cambodia, Laos, Myanmar and Vietnam (CLMV), Thailand—Southeast Asia's second-largest economy—is reinforcing its position as a regional business hub.

Introduction (cont'd)

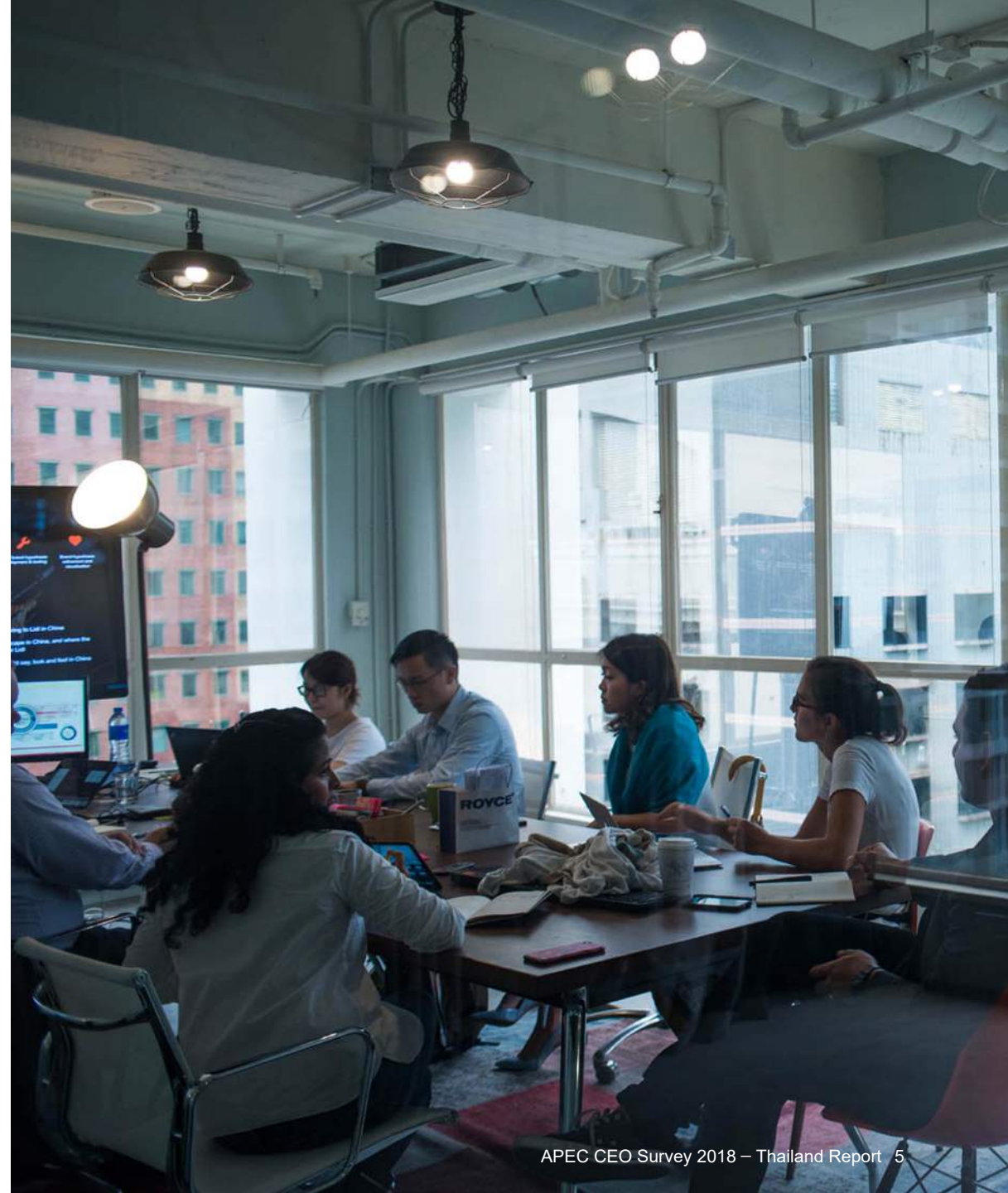
The nation has strengthened its readiness in terms of technology and the digital business sector by implementing the Thailand 4.0 policy. This policy focuses on the development of digital platforms and ecosystems as well as the skills needed in the digital economy. Thailand has seen tremendous growth in its IT sector in recent years and is regarded as one of the industry leaders in the region.

The country plans to establish smart cities nationwide and transition from 4G to 5G technology.

Thailand is well-positioned to reap the full benefit of its current strengths and capture the opportunities that lie ahead on the road to the digital era. Amid a changing business environment and a continuous trade conflict between the US and China, many Thai companies have shown strong confidence in their ability to cope with challenges.

This is reflected in their optimism about revenue and investment opportunities as well as their readiness to adopt new digital technologies.

As part of PwC's 2018 APEC CEO Survey, this Thailand report will provide an overview of business confidence and investment orientation in the country, including the prospects for cross-border activities. It will clarify how organisations assess their digital and technology transformation such as digital customer interactions, operations, and development of digital products, as well as which areas businesses believe they need to focus on to stay competitive.



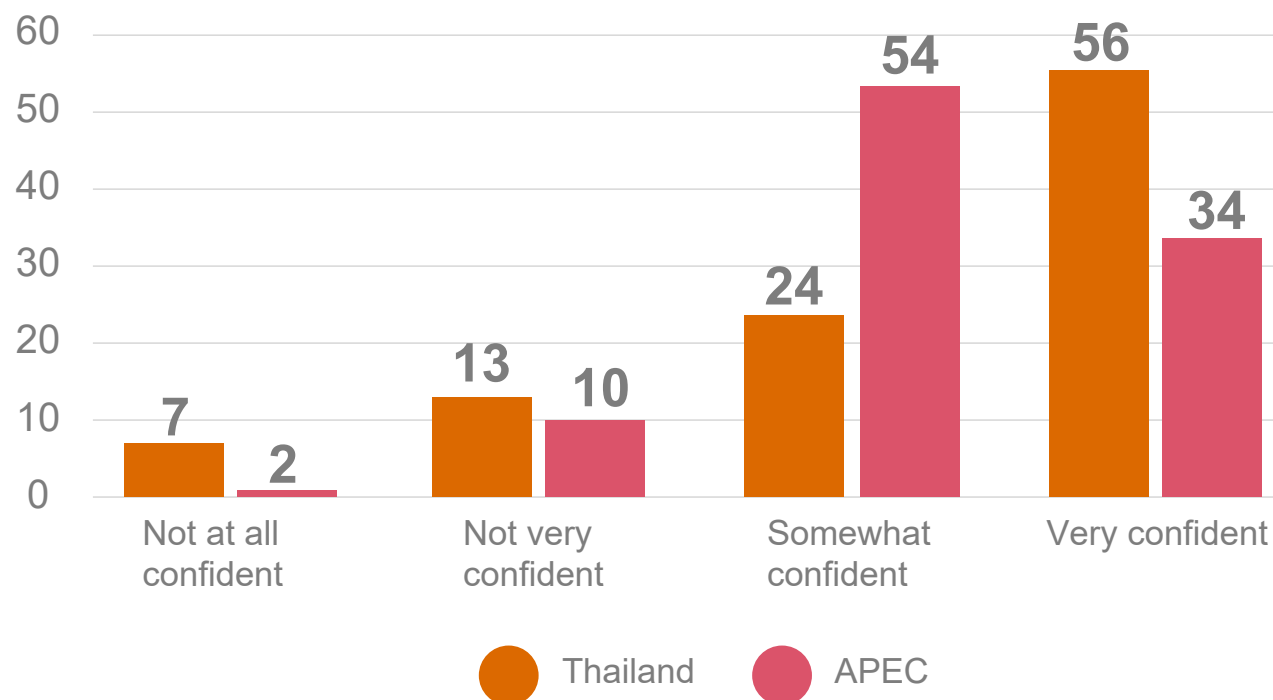
Business confidence stimulated by domestic drivers

Thai executives are optimistic about business growth. More than half (56%) of CEOs in Thailand were very confident about revenue growth in the next 12 months, compared with 34% of their APEC counterparts – signalling an increase in business expansion and global investment.

Meanwhile, 24% of Thai firms were somewhat confident about revenue growth, compared to more than half of APEC CEOs (54%), and 13% of Thai CEOs weren't very confident about growth, compared to 10% across APEC.



Key measures of Thai executive optimism sharing responses for “very confident” on future revenue growth



Q7 How confident are you about your organisation's prospects for revenue growth in your principal economy over the next 12 months?
Source: PwC's APEC CEO Survey 2018

Various research institutions have forecast a slight decline in Thailand's economic growth in 2019. The expected slowdown stems from cooling Chinese import demand due to the trade war between the US and China, higher oil prices, rising interest rates and weaker global economic prospects.

So far, the dispute between the US and China has had only a mild impact on Thailand and may even benefit several sectors, such as agriculture, automotive and electronics. The tourism sector, which has played a key role in the country's economic success, is expected to expand.

The tourism industry's total revenue in 2017 was recorded at THB2.75 trillion¹ and was expected to increase to THB3.1 trillion in 2018. The Tourism Authority of Thailand (TAT) anticipated that the industry would remain strong through 2019. Revenue next year is projected to rise at least 10% from 2018 to THB3.4 trillion.

Thailand is also seeing domestic demand become a larger growth driver. Analysts and government agencies predict that growth in 2019 will be mainly driven by private consumption, government expenditure and private investment. Private demand will rise with solid consumer spending and business investment, while the government will accelerate infrastructure projects, many of which are already under way.

Based on these factors, Thai CEOs expect Thailand's economic growth will continue throughout 2019, resulting in confidence in revenue growth in the next 12 months.

¹The Tourism and Sports Ministry, Thailand



Growth from outbound investment and cross-border trades

Investors and large corporations in Thailand have expanded overseas investments in recent years, and this trend is expected to continue. One major reason is to diversify portfolios, spreading risk. Another is that they have reached the limit of growth in the domestic market and see huge business opportunities in foreign markets.

Thailand's export of products and services, including food and agriculture, textiles and garments, cement, and banking, have been constantly rising.

According to the Bank of Thailand (BoT), in the second quarter of 2018, Thai direct investment overseas reached THB872 billion. The top five countries where Thai firms poured money into were Singapore (THB228 billion), Japan (THB108 billion), the US (THB65 billion), the UK (THB49 billion) and China (THB35 billion).

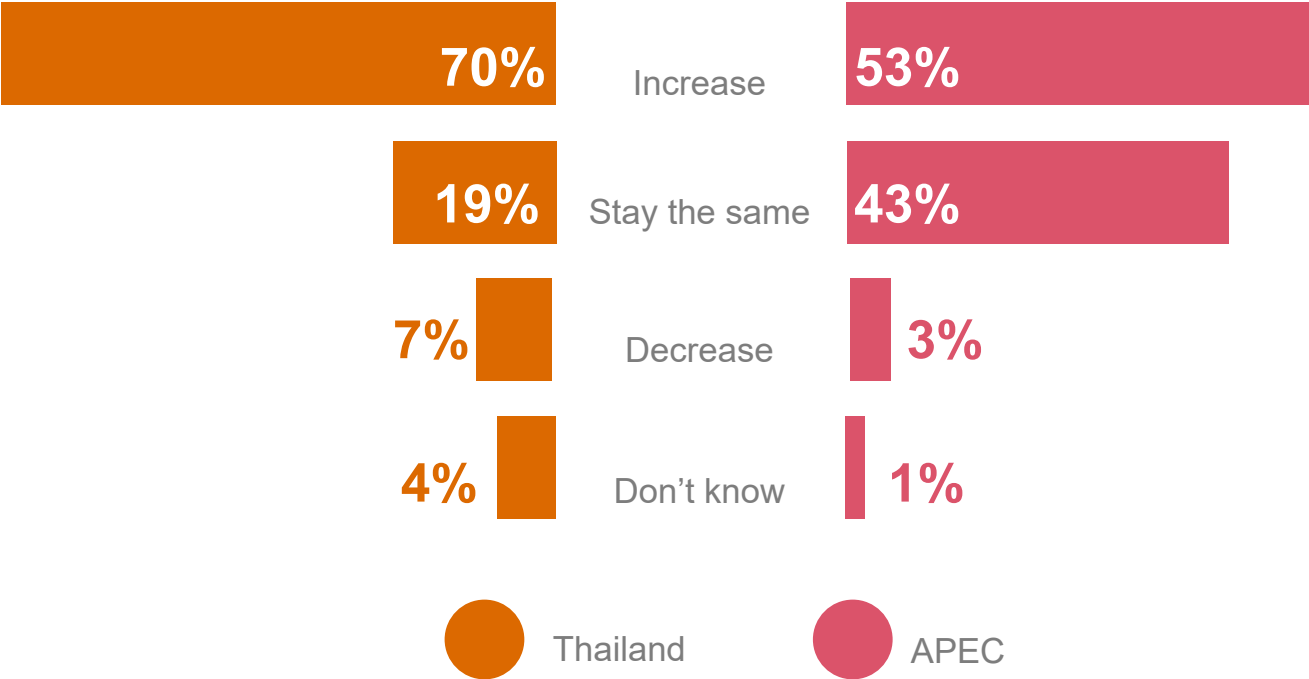


The findings from the survey reflect this trend as most Thai executives (70%) said that they will increase their business investments globally in the next 12 months, compared to only 53% across the rest of APEC.

Recently, APEC has committed to advance free and open trade and investment among its members by agreeing to accelerate efforts to address the World Trade Organisations’ (WTO) inconsistent barriers to trade and investment and take concrete action on this issue. The sentiment towards this issue showed in the survey findings.



Thai firms will increase business investments globally in the next 12 months



Q8 Thinking of your business investments globally, will your investments increase, stay the same or decrease in the next 12 months?
Source: PwC’s APEC CEO Survey 2018

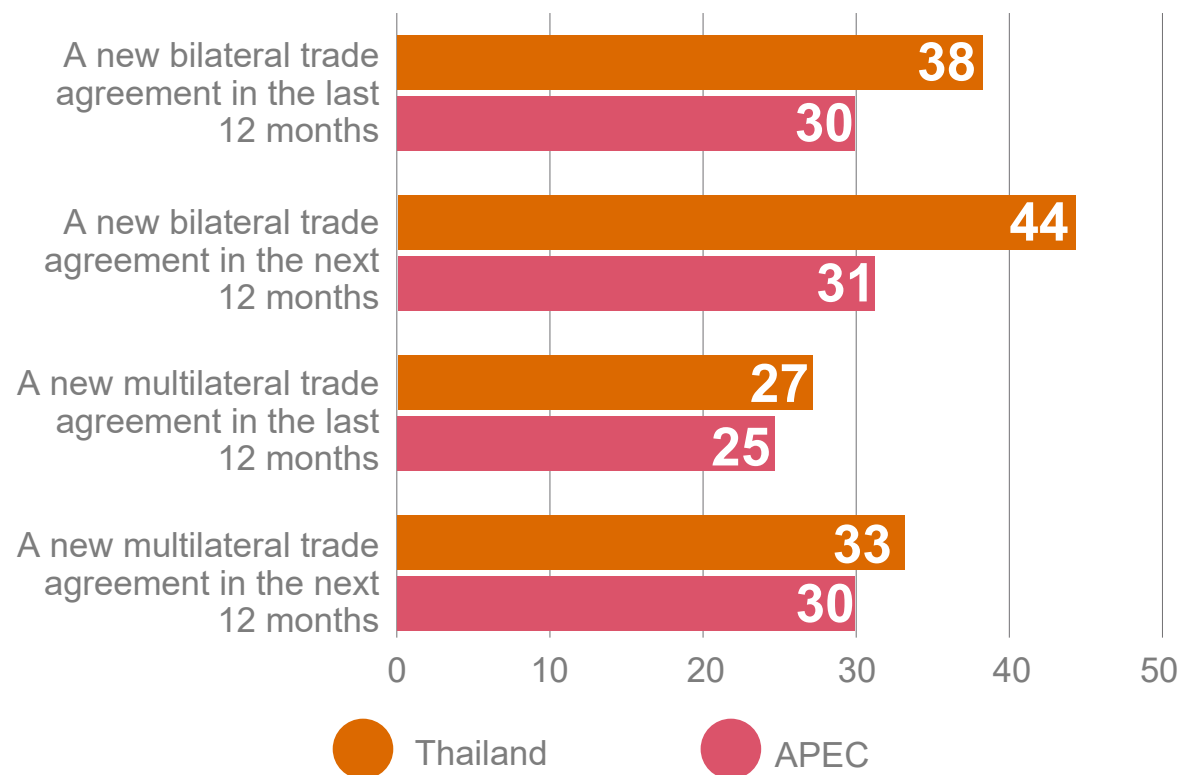
Across the border opportunities

When considering cross-border activities over the last 12 months, 38% of Thai CEOs and 30% of APEC CEOs said that they had experienced an increase in revenue opportunities due to a new bilateral trade arrangement. But they are more optimistic about next year: 44% of Thai CEOs and 31% of APEC CEOs believe that a new bilateral trade arrangement will result in an increase in revenue opportunities over the next 12 months.

In terms of the new multilateral trade arrangement, 27% of Thai executives and 25% of APEC executives believed that their firms experienced an increase in revenue opportunities in the past year due to the new arrangement, while 33% of Thai executives and 30% of APEC executives anticipate increased revenue from the new multilateral trade arrangement next year.



Cross-border activities to increase revenue opportunities



Q12a/12b Considering your organisation's cross-border activities only, which of the following changes have you experienced in the last / next 12 months?

Source: PwC's APEC CEO Survey 2018

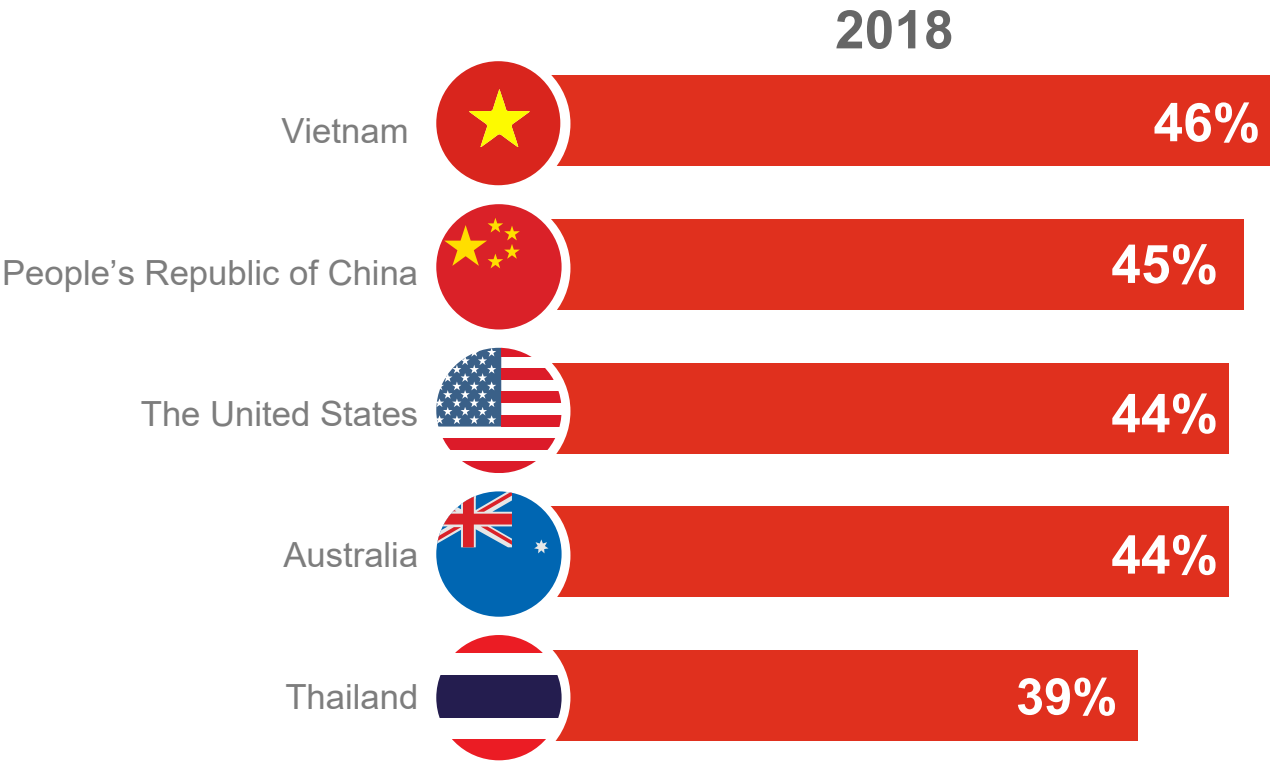
Since the establishment of the ASEAN Economic Community (AEC) in 2015, Thailand has benefitted from the bloc, aiming to create a free flow of goods, services, investment, capital and skilled labour within the 10-nation region. This has in part resulted in a rise in the country's trade and services in recent years.

The expectations of Thai executives are in line with the national economy's progress and expansion.

According to PwC's 2018 APEC CEO Survey, Thailand also ranks among top APEC economies expected to receive increased cross-border investment over the next 12 months after Vietnam (46%), China (45%), the US (44%) and Australia (44%).



Top APEC economies to receive increased cross-border investment over the next 12 months (net increase)



Q10 Thinking of your footprint in APEC economies, will your business investments increase, stay the same or decrease over the next 12 months?

Base: APEC CEOs Cross-border investment 2018 310-493, 2017 379-552. '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 CEO Survey 2018

Digital technology on-boarding

To attract foreign investment, the Thai government has recently launched and implemented a series of new policies targeting technology-driven industrial development. The policies include the Thailand 4.0 strategy and the Eastern Economic Corridor (EEC) plan, aiming to support rapid advancement in and distribution of new technologies and to move beyond labour-intensive manufacturing.

During this period of transformation, few top-ranking Thai management believed their firms were highly competitive in terms of digital customer interactions, operations, skills and development of workforce, data infrastructure, development of digital products, and managing data risk.



These results aligned with the results across APEC; only 21% of executives in Thailand and 29% of executives in APEC said that the digital customer interactions of their firms were highly competitive.

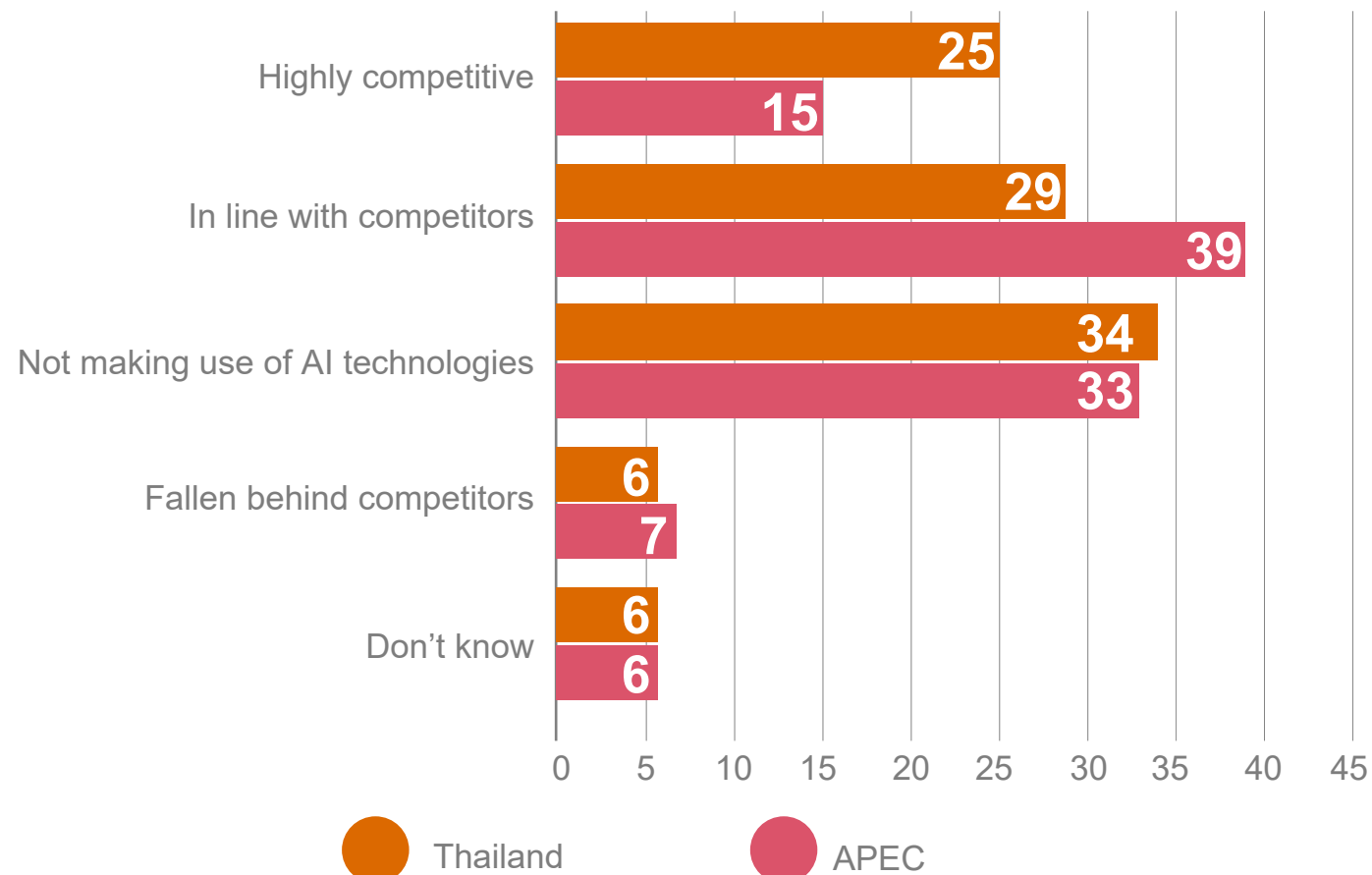
Half of CEOs both in Thailand and across APEC said that their adoption of digital technology was in line with their competitors. In terms of skills and development of workforce, 19% of Thai CEOs and 33% of APEC CEOs said that their firms had a competitive advantage, while over half (56% in Thailand and 52% across APEC) said that they were in line with their competitors.

In terms of managing data risks, 23% of Thai and 30% of APEC executives believed they were highly competitive, while more than half (Thai: 58%, APEC: 56%) said that they were on par with their competitors.

When asked about building artificial intelligence (AI) into products over the last two years, about a third of Thai and APEC executives responded that their firms were not yet making use of AI technologies. However, it's interesting to note that 25% of Thai CEOs believed that their companies were highly competitive in implementing AI into products and services, compared to only 15% of their APEC counterparts.



34% of Thai CEOs are not making use of AI technologies



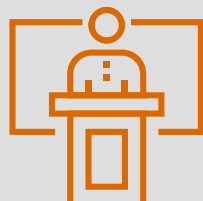
Q16 How would you assess your organisation's performance over the last 2 years in building artificial intelligence (AI) into products?
Source: PwC's APEC CEO Survey 2018



Thai CEOs are prioritising investments over the next two years in customer interactions

When asked what the top three priorities were in the digital economy over the next two years, both Thai and other APEC executives listed investment in digital customer interactions such as mobile payment, online marketing and remote services, and skills and development of workforce to thrive in the digital economy.

Thai executives also intend to put money into the development of digital products, while the rest of APEC would rather invest in operations, such as leveraging data from design to delivery.



Thai CEOs

52%

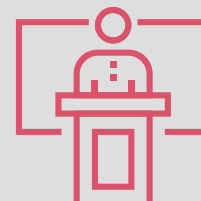
Digital customer interactions (including mobile payments, online marketing, and remote services)

50%

Skills and development of workforce

42%

Development of digital products



APEC CEOs

46%

Digital customer interactions (including mobile payments, online marketing, and remote services)

46%

Skills and development of workforce

41%

Operations (including leveraging data from design to delivery)

Q17 Looking ahead, in which areas will your organisation prioritise investment over the next 2 years to succeed in shaping the digital future in Asia Pacific? (Rank the top 3)

Source: PwC's APEC CEO Survey 2018

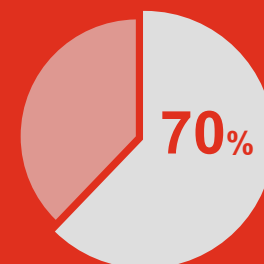
Regarding the impact of technology on jobs, around a third of both Thai (30%) and APEC (35%) executives agreed that their firms were creating more jobs but are struggling to fill the roles with people with the needed skills.

When discussing the three most important areas to improve to respond to the digital economy, it is significant that 70% of Thai CEOs believed that improvements to the principal economy's digital infrastructure are necessary, while 45% mentioned increasing the workforce in the principal economy and raising standards in the principal economy for data and privacy protection, and 38% mentioned improving the availability of digital ready talent in the principal economy.

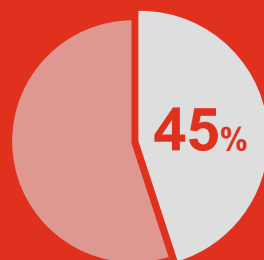
Half of APEC CEOs (52%) agreed that the most important area was improving the principal economy's digital infrastructure. However, 43% of APEC CEOs mentioned developing the digital business sector and improving the availability of digital ready talent, and 36% mentioned increasing the workforce in the principal economy.



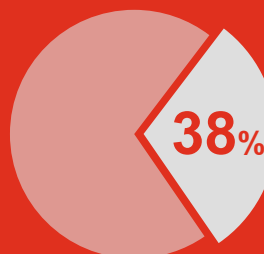
Priority areas to improve for Thailand to further advance in the digital economy



Improvement to digital infrastructure



Raising standards for data and privacy protections



Availability of digital ready talent

Q19 What are the most important areas to improve for your principal economy to further advance in the digital economy? (Rank the top 3)

Source: PwC's APEC CEO Survey 2018

Cultivating talent through STEM

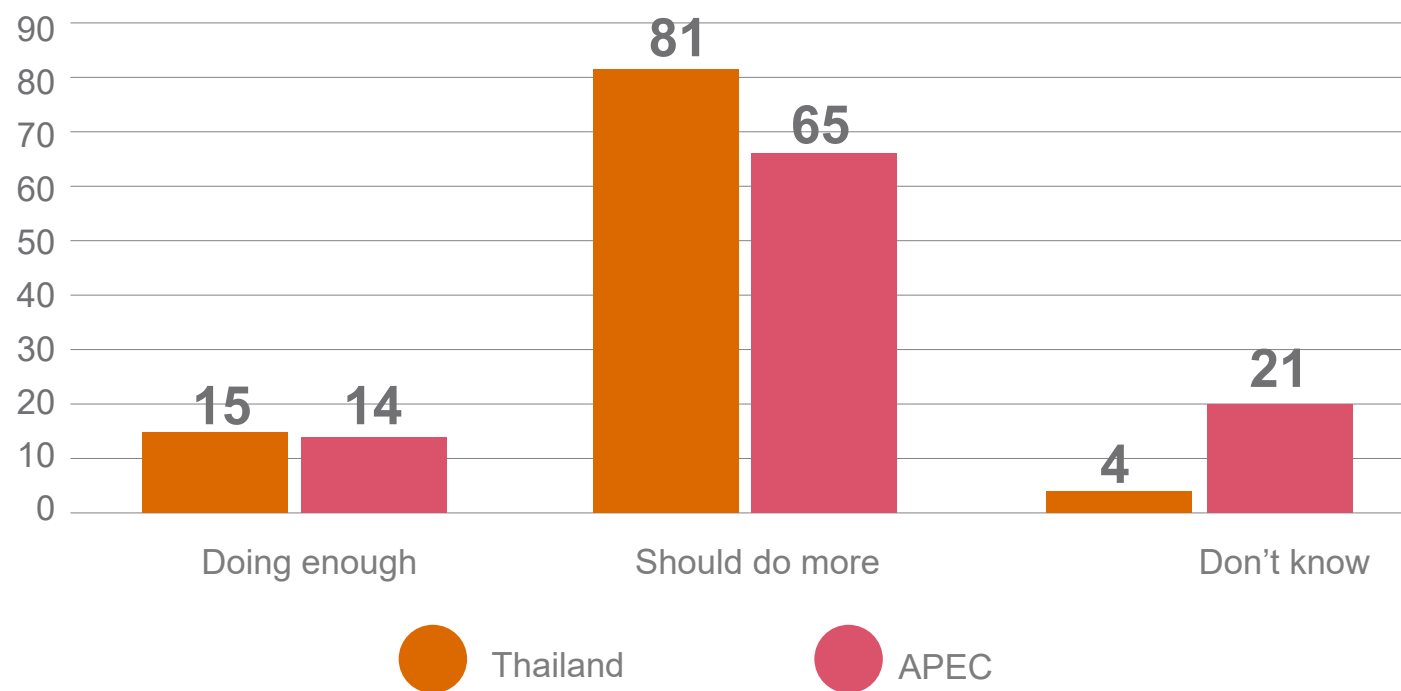
The report looks at how executives think the government is performing in terms of supporting STEM skills (skills to reason and solve problems using math, science, or technology knowledge). Most Thai executives (81%) believed that the government should do more to support or train STEM professionals, and two-thirds of APEC executives agreed.

Thailand's objectives for the digital economy are based on the Thailand 4.0 model, which incorporates interlinked initiatives such as EEC projects, establishing 100 smart cities nationwide and the transition from 4G to 5G technology.

These initiatives present tremendous opportunities for local companies. As Thailand doesn't have a competitive advantage in terms of access to cheap labour or materials, companies that focus on innovation, AI technology, big data, Internet of Things (IoT), and agility tend to be more competitive, capture bigger business opportunities and be more dominant in the market.



Majority of Thai CEOs believe the government should do more to train on STEM



Q20 Do you think the government is doing enough to train STEM professionals in your principal economy?

Source: PwC's APEC CEO Survey 2018

Challenges in the digital landscape

During this era of digital transformation, companies have had to develop and transform to respond to the changing business climate. Over the next two years, to stay competitive, Thai business leaders will focus on restructuring to save costs or improve efficiency (60%, compared to only 36% of other APEC leaders), strengthening their resilience to adapt to change (51%), and expanding or relocating existing business to new cities/regions (32%).

On the other hand, APEC business leaders see accelerating the digitisation of business processes (44%) as the priority over the next two years, followed by restructuring to save costs or improve efficiency (36%) and strengthening their resilience to adapt to change (35%).



Thai CEOs

60% Restructuring to save costs or improve efficiency

51% Strengthening resilience to adapt to change

32% Expanding or relocating existing business to new cities/regions



APEC CEOs

44% Accelerating the digitisation of business processes

36% Restructuring to save costs or improve efficiency

35% Strengthening resilience to adapt to change

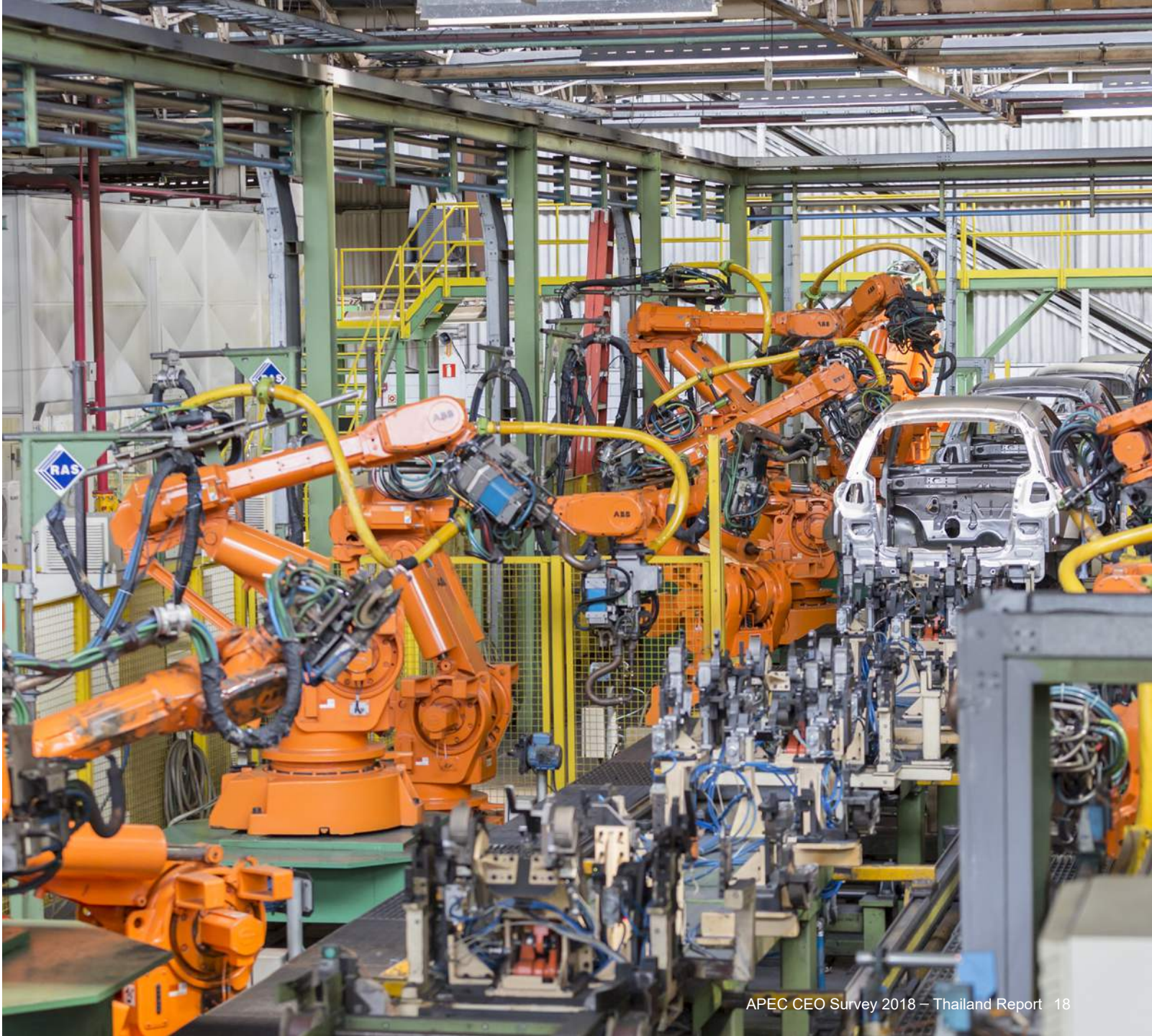
Q23 What are the most important areas your organisation needs to improve upon over the next 2 years to stay competitive? (Rank the top 3)

Source: PwC's APEC CEO Survey 2018

With Industry 4.0 picking up pace locally and globally, traditional business models will be disrupted and the race to transition to digital enterprises will intensify. This will redefine the workforce and business processes.

Technology will play an increasingly important role in becoming efficient and effective. Enabled by the digital revolution, markets have become more interconnected. Local businesses will face intense competition from multinational companies in developed markets both on their own turf and regionally.

To keep pace, Thai companies will need to consider their own digital transformation journey by carefully analysing the conditions on entry, committing to upgrading the skills of their employees by structuring a realistic plan for development, and tapping into the advantages of human-machine collaboration efficiently to stay ahead of their competitors.



Conclusion

In today's business environment, so much about digital transformation has been discussed, suggested and implemented. Companies are using digital technology to engage and serve customers, and customers are embracing this. Adopting digital technology and innovations has lately become ubiquitous for many companies, but companies are asking how to best take their organisations through the often painful process of becoming digital-based organisations. Firms whose leaders embrace digital technology and endorse the nation's digital agenda will be in good shape in this new business environment.

Implications for policy makers

1

Thailand will likely host a general election in 2019. Several major projects initiated under the military government will need the support of civilian leaders if they are to drive long-term growth. Priority areas for the next government include supporting and expediting many industrial sectors such as telecommunication, education, health services, public services, science, technology and innovation as well as the digital economy.

2

Government support is key to driving forward a digital agenda for the private sector. So in coming years, civilian leaders will have a lot to do in terms of building the required infrastructure for the digital business environment, setting adequate laws and regulations for e-business and e-commerce platforms, as well as improving the digital talent pipeline through training STEM professionals.

The private sector is very advanced in terms of technology, and the digital industry is very dynamic. Policy makers, on the other hand, need to keep pace with the private sector. They'll also need to raise awareness among international investors that Thailand is moving to a high-tech, innovative and digital society.

3

Thailand's medium- and long-term economic outlook remains bright. But external unpredictability and a protracted US-China trade dispute could slow Thailand's exports and increase inflation as supply chains are disrupted, which could impact the nation's growth.

It's time for Thailand to expedite its domestic consumption, reinforce infrastructure projects by establishing a set of attractive investor incentives and strategies, and revamp the education system to ensure a steady supply of skilled labour.

Implications for businesses

1

The trade war between the US and China may result in a positive impact on Thailand, as it may be considered an alternative to China for supply chains in sectors like robotics, aviation parts, automobiles, computer parts and electronics. Thai companies could benefit from a windfall from the imposition of tariffs between these two countries due to a rise in the demand for Thai products as substitutes.

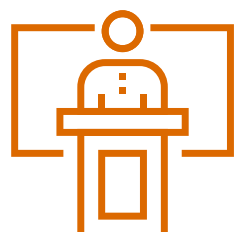
2

Digital transformation is vital to driving competitiveness in businesses. When it comes to successful digital transformation, people are a major factor. Businesses can harness the full benefit of technology adoption only by encouraging buy-in from all levels of the organisation, and from all people involved. A clear digitisation strategy is a key to a speedy and effective digital transformation.

3

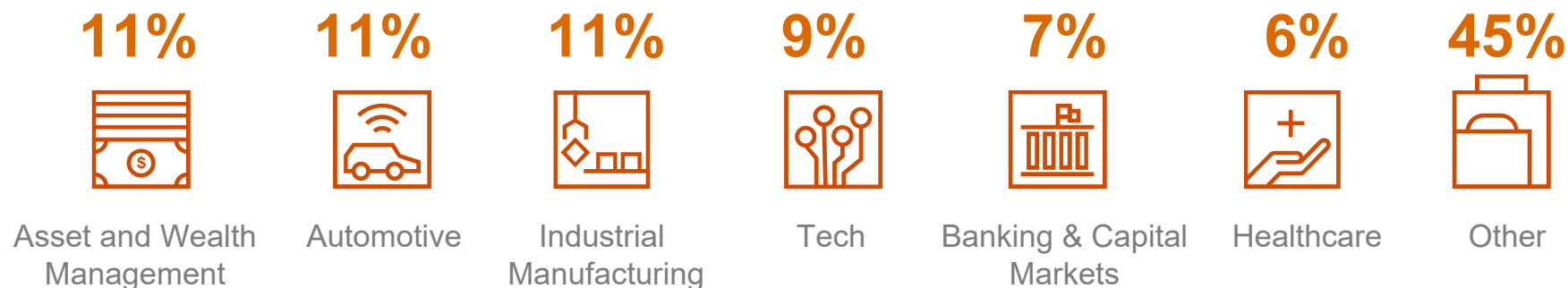
Thailand faces a shortage of graduates in technology-related subjects due to a limited pool of talent. Businesses must be alert to investing in employees who have expertise and knowledge in the digital sector. Skilled employees are more likely to be drawn to large organisations where incentives and benefits are typically higher. So, it's important that firms maintain the skills and technical expertise required for the digital 4.0 vision in which innovation will be the main driver of the organisation's growth.

Profile of survey respondents in Thailand

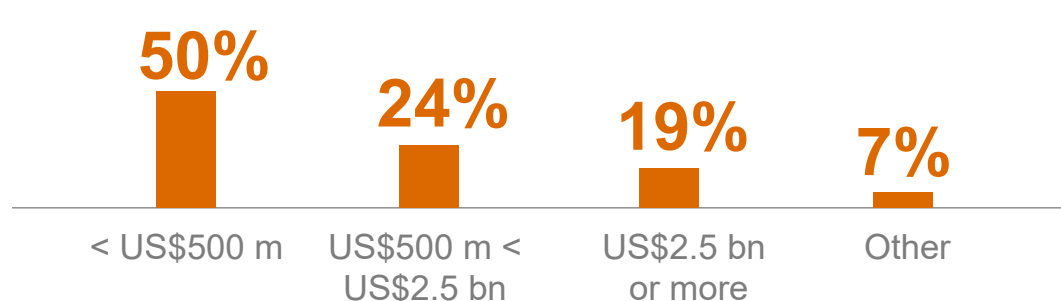


54
business
leaders

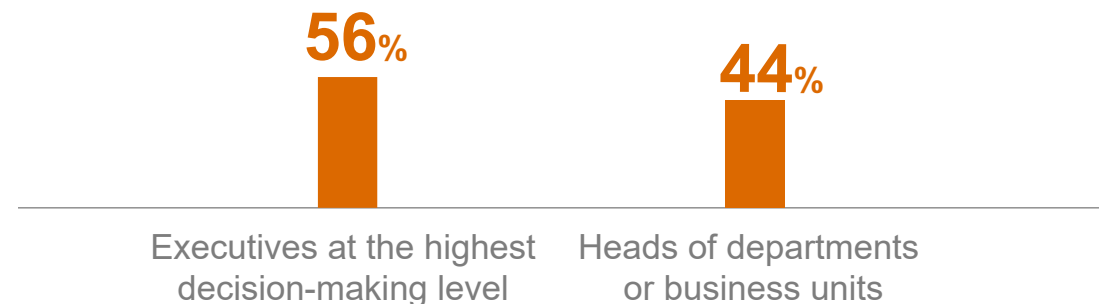
Sector



Revenue



Principal role



Methodology



We surveyed industry leaders from 10 May to 16 July 2018 for PwC's APEC CEO Survey 2018 - Thailand Report.

We used an online and paper methodology to achieve 54 valid responses from CEOs and industry leaders in Thailand across a range of important topics. The main sectors represented by respondents were asset and wealth management (11%), automotive (11%), industrial manufacturing (11%), technology (9%) and banking and capital markets (7%).

In terms of seniority, 56% of respondents are executives at the highest decision-making or management level in the organisation, while 44% are heads of departments or business units with supervisory and budget responsibilities.

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

Contact us

Boonlert Kamolchanokkul
Partner, Clients and Markets Leader
PwC Thailand
boonlert.kamolchanokkul@pwc.com

<https://www.pwc.com/th/en/ceosurvey/apec-2018>

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