How Asia-Pacific CEOs can grow in the AI era amid economic challenges

EY CEO Outlook Survey | Asia Pacific edition

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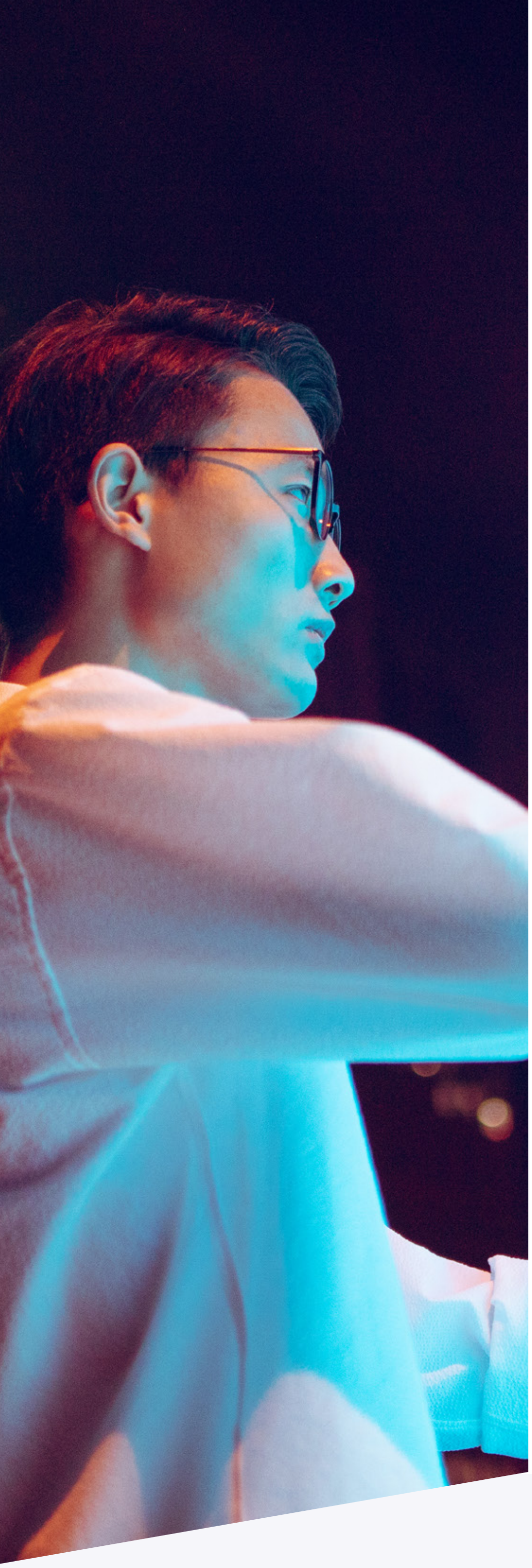


The October 2023 EY CEO Outlook Pulse finds APAC CEOs largely optimistic, with an eye to AI and transactions to steer growth.

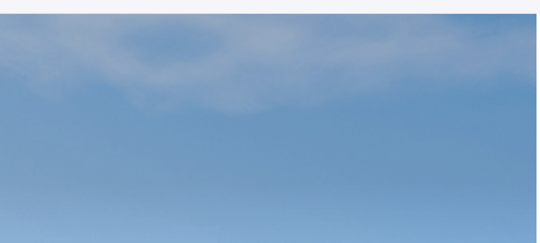
Instead of a consistent post-pandemic rebound that many CEOs had hoped for, 2023 so far has been anything but stable. However, despite uncertain macroeconomic conditions characterized by lingering inflation, weakening growth, and an economic slowdown in China, sentiment among Asia-Pacific CEOs is largely optimistic. Almost two-thirds (65%) of CEOs expect their organizations to register higher revenue growth in 2024 compared to 2023. Additionally, 60% of CEOs expect higher profitability.

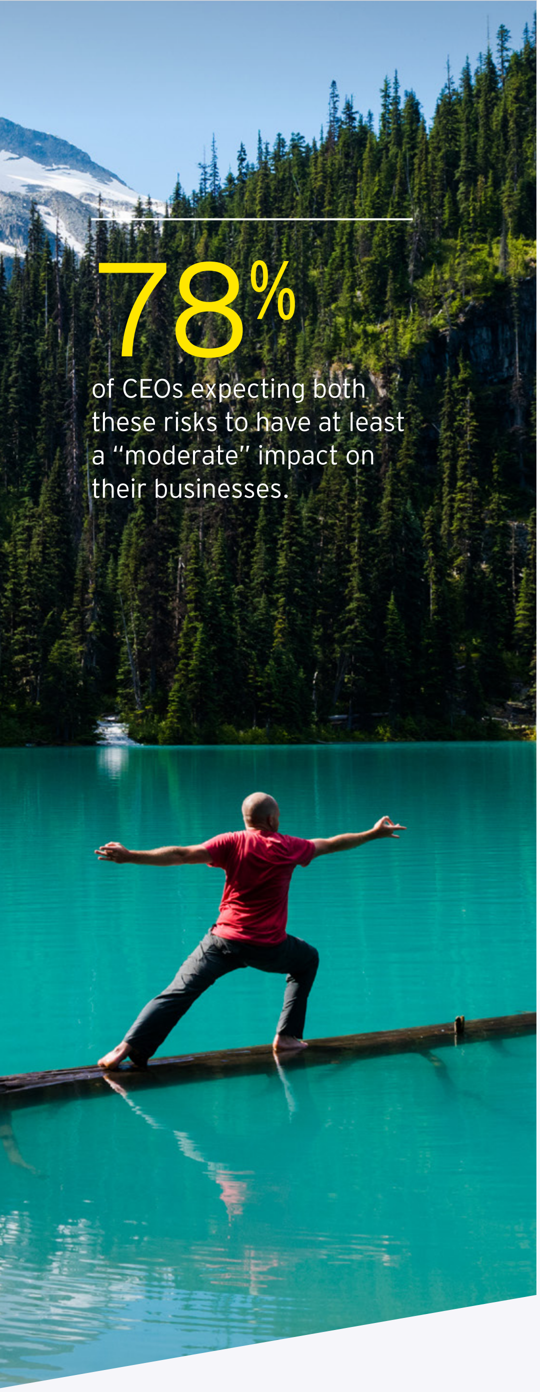
In brief

- Asia-Pacific Chief Executive Officers (CEOs) anticipate higher growth in 2024, despite potential barriers and ongoing risks
- Generative AI (GenAI) emerges as a crucial investment focus and is diverting capital from other investment budgets
- Appetite to transact remains robust, with CEOs preferring expansion opportunities within the Asia-Pacific region

65%
of CEOs expect higher revenue growth in 2024.

60%
of CEOs expect higher profitability in 2024.





78%

of CEOs expecting both these risks to have at least a "moderate" impact on their businesses.

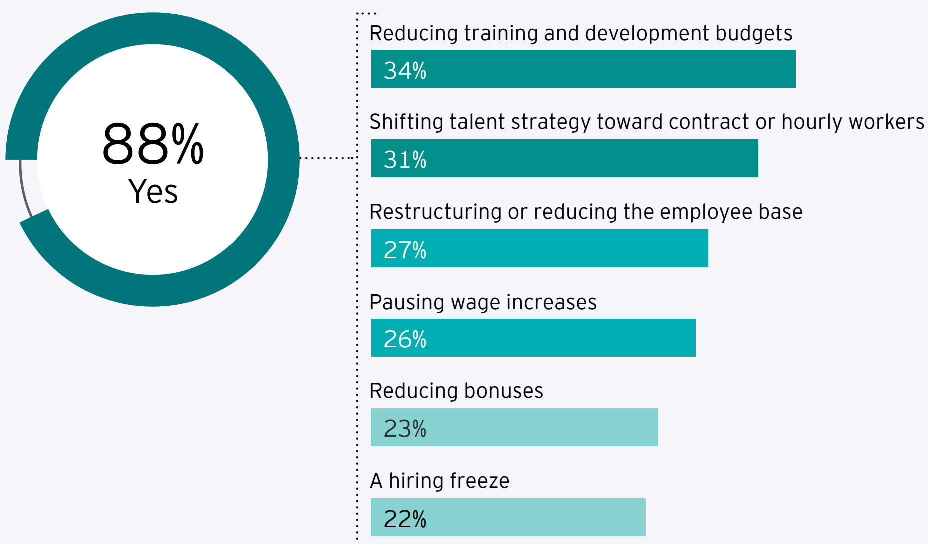
At the same time, CEOs are keenly aware of the ongoing risks that could impact their organizations' performance over the next 12 months. Top of mind are macroeconomic risks and technology disruption, with 78% of CEOs expecting both these risks to have at least a "moderate" impact on their businesses. Over three-quarters of CEOs also regard geopolitical conflicts as a substantial risk, a view that has been validated by recent events in the Middle East, the ongoing war in Ukraine, and a new area of friction — AI chips — in the contentious trade relationship between the US and China.

Rising costs and economic volatility certainly create a challenging environment for businesses. However, CEOs are not merely focusing on cost-cutting measures. Instead, they are exploring strategies to optimize their resources, delivering value to customers while maintaining profitability. Still contending with tight employment markets in many economies, CEOs are prioritizing agility and adaptability when it comes to managing labor costs.

The majority of Asia-Pacific CEOs (88%) are considering various talent strategies that will optimize business efficiency and increase savings, recognizing they must strike a fine balance between maintaining a motivated, high-performing workforce and protecting their bottom line. Initiatives include reducing training and development budgets and shifting their talent strategy toward contract or hourly workers. These strategies appear to be preferred over redundancies, pay cuts, or an outright hiring freeze.

Q **In response to economic headwinds, are you planning or considering any of the following steps in the near term?**

The respondents were allowed to select multiple responses.
(12% of respondents chose "No")



71%

of CEOs agree their organizations must act now on GenAI to avoid giving competitors a strategic advantage.

71%

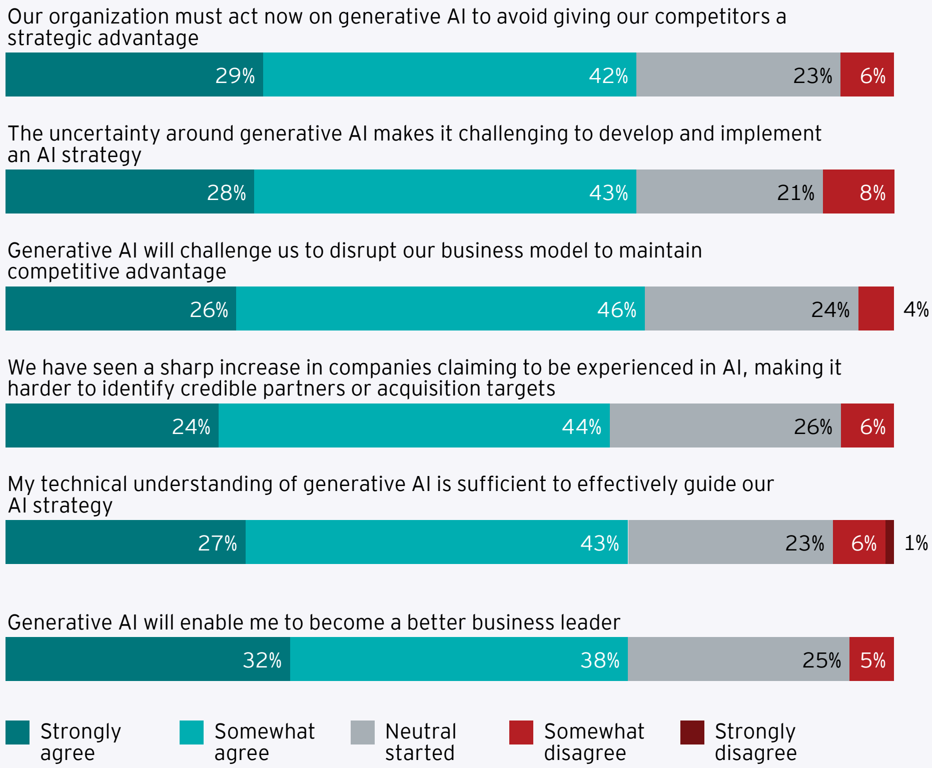
of CEOs say uncertainty around GenAI makes it challenging to develop and implement an AI strategy.

CEOs embrace AI as a game-changer, but funding approaches differ

AI is a transformative force that is reshaping the business landscape. While 71% of Asia-Pacific CEOs agree their organizations must act now on GenAI to avoid giving competitors a strategic advantage, an equal number (71%) say uncertainty around GenAI makes it challenging to develop and implement an AI strategy.

Q To what extent do you agree or disagree with the following statements related to artificial intelligence (AI)?

The respondents were allowed to select one option only.



The difficulty in establishing a strategy is reflected by where organizations sit on the AI maturity curve. Only 7% of CEOs think that their organizations are leading in this space. However, nearly half (43%) believe that they are successfully leveraging GenAI and are on par with competitors. Meanwhile, 39% are "optimizing," such that they are making progress in GenAI capabilities but not yet realizing significant value from their investments.

Although CEOs are at different stages of integrating AI into their business operations and strategies, the overall trend towards greater adoption and leveraging of AI capabilities is clear. This is reflected in their investment plans, with almost all CEOs (98%) planning significant investments in GenAI. While this is in alignment with the sentiments of their global counterparts, Asia-Pacific CEOs expect to adopt a slightly different approach when it comes to funding those AI investments.

23%

of CEOs plan M&A over the next 12 months (compared to 56% in July 2023).

While almost a quarter (23%) of global CEOs prefer raising new capital for their AI investments, only 15% of CEOs in the Asia-Pacific region share this approach. Instead, 42% of Asia-Pacific CEOs indicate they will reallocate capital from other investment budgets, and another 32% prefer drawing from their existing technology budgets.

The differing approaches to funding could be due to the more mature capital markets globally, where venture capital is more readily available. In fact, a higher percentage of global CEOs (70%) plan to increase spending on corporate venture capital in 2024 compared to Asia-Pacific CEOs (63%).

CEOs approach M&A with caution, but Asia-Pacific stands out for attracting global capital

As adoption of GenAI and other technologies moves at a rapid pace, CEOs globally are strategically channeling their investments into areas that can fuel their organizations' expansion and innovation. Asia-Pacific CEOs are planning for increased spending in 2024 in areas such as research and development, capex, acquisitions, and corporate venture capital.

However, stagnant global growth and a higher cost of capital is weighing on deal sentiment. Overall, the appetite to transact remains robust, with 84% of Asia-Pacific CEOs looking to M&A, divestments, or joint ventures to gain or focus on the capabilities required to fast-track their growth ambitions. While the US has led a rebound in mergers and acquisitions (M&A) this year, the tailwind for Asia-Pacific is yet to arrive, as is reflected in our survey: 23% of Asia-Pacific CEOs plan M&A over the next 12 months (compared to 56% in July 2023), substantially lower than the 52% of US CEOs.

Economic drivers and the broader risk environment see CEOs taking a more nuanced approach to where they might invest. Asia-Pacific CEOs show a strong preference for expansion within their own region, with all their top five preferred investment destinations being Asia-Pacific countries. The same holds true for CEOs globally, with their top five expansion destinations also in the Asia-Pacific region. This underlines the attractiveness of the region, with its strong growth prospects, critical role in global supply chains, technological developments, and a young and skilled workforce. It also reflects the regional focus of Asia-Pacific CEOs, who are looking to capitalize on opportunities and synergies in this diverse and dynamic region.

CEOs need to understand the new environment and act now

To achieve their maximum potential over the near- to mid-term, CEOs need to consider and act on five critical issues:

1

Invest strategically in AI – View AI not just as another technology, but as a strategic investment that can redefine business operations, customer experiences, and competitive dynamics.

2

Develop an AI-ready workforce – Prioritize upskilling existing talent, attracting AI-specialized talent, and fostering a culture that supports continuous learning and adaptation to new technologies.

3

Distinguish between AI hype and reality – Stay informed and educated about the latest developments in AI, make fact-based decisions, and avoid getting swept up in trends that don't align with business goals or provide tangible value.

4

Optimize or exit – Given anticipated stagnant economic trends over the next three to five years, there's no room to retain lagging assets or operate in unprofitable markets.

5

Pursue growth through strategic transactions – Consider strategic M&A and joing ventures to acquire new capabilities, access new markets, or enhance AI prowess.

Summary

The transformative benefits of AI, combined with opportunities more broadly across the Asia-Pacific region, underscore the sense of optimism among Asia-Pacific CEOs. Although optimistic, CEOs recognize the risk landscape is fast moving and continuously evolving. Given the anticipated stagnant economic trends, CEOs need to strike a delicate balance between operational resilience and strategic foresight by investing strategically in new markets, technology, assets, capabilities, and talent. Distinguishing between hype and reality will be critical to carving a sustainable and competitive path forward.

About the survey

On behalf of the EY organization, in September and October 2023 FT Longitude, the specialist research and content marketing division of the Financial Times Group, conducted a survey of 1,200 CEOs from large companies around the world. This anonymous online survey aims to provide valuable insights on the main trends and developments impacting the world's leading companies as well as business leaders' expectations for future growth and long-term value creation. Respondents represented 21 countries (Brazil, Canada, Mexico, the United States, Belgium, Luxembourg, the Netherlands, France, Germany, Italy, Denmark, Finland, Norway, Sweden, the United Kingdom, Australia, China, India, Japan, Singapore and South Korea) and five industries (consumer and health, financial services, industrials and energy, infrastructure, technology, media and telecoms). Surveyed companies' annual global revenues were as follows: less than US$500m (20%), US$500m–US$999.9m (20%), US$1b–US$4.9b (30%) and greater than US$5b (30%).

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