The CEO Imperative Series

How confident are Asia-Pacific CEOs to navigate what's next?

EY CEO Outlook Pulse Survey
Asia-Pacific edition

September 2024

Strategy realized

The better the question. The better the answer.
The better the world works.

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Building a better working world

The September 2024 EY CEO Outlook Pulse finds Asia-Pacific CEOs confident about the outlook for the region and are leveraging technology and transactions to drive growth.

CEO Confidence Index

Q CEO Confidence Index: How confident do you feel about the outlook for the following areas over the next 12 months?

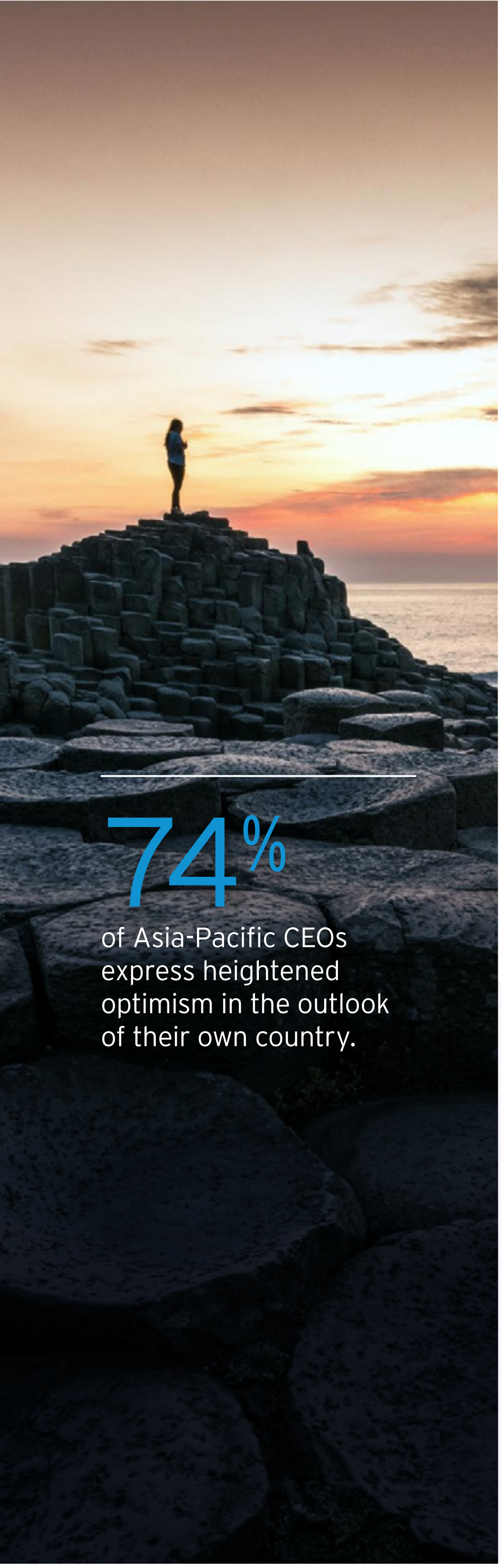
The respondents were allowed to select between very optimistic, somewhat optimistic, neutral, somewhat pessimistic and very pessimistic for each area.

	Global	South Korea	Australia	Singapore	Japan	China	India
Overall confidence	70.5	70.5	71	72	74.5	75	79
Global growth	70.5	68	66	72	71.5	79	77
Country growth	70	73	68	71	75	77	85
Company growth	71	70.5	70.5	71	75	74.5	81.5
Prices and inflation	69.5	67	69	74.5	75	73.5	76.5
Talent	70	70	71.5	68.5	74	76.5	78
Investment and technology	70.5	72	71.5	75	74.5	73	79

Neutral → Optimistic

In brief

- Asia-Pacific CEOs have greater confidence in the outlook for their local markets compared to their European and American counterparts.
- More confident CEOs are leveraging technology and transactions to forge ahead in innovation and competitive advantage.
- To stay competitive and drive growth, companies need to frequently review their portfolios and deploy advanced scenario planning to navigate uncertainties with agility.



74%

of Asia-Pacific CEOs express heightened optimism in the outlook of their own country.

A bold stand in uncertain times

2024 marks the biggest election year in history, with voters in countries accounting for about half of the global population having gone or heading to the polls. The outcomes of these elections will largely impact the future trajectory and market outlook of those countries and beyond.

Data presented in the EY-Parthenon 2024 Geostrategic Outlook shows a sustained level of heightened geopolitical risk in recent years. From industrial policies and trade protectionism to wars and social unrest, the business impacts of political risk have been felt in many C-suites around the world.

In an election super cycle year, Asia-Pacific's top executives are not merely navigating storms; they are also seeking out opportunities. The September 2024 EY CEO Outlook Pulse survey captures a cohort of leaders who, confronted with continuous challenges, are seizing opportunities to innovate and expand.

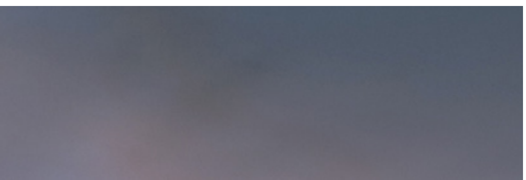
With global inflation subsiding and US interest rates expected to temper, the EY CEO Confidence Index reveals nearly three-quarters (74%) of Asia-Pacific CEOs express heightened optimism in the outlook of their own country, noticeably higher than their counterparts in Europe and the Americas.

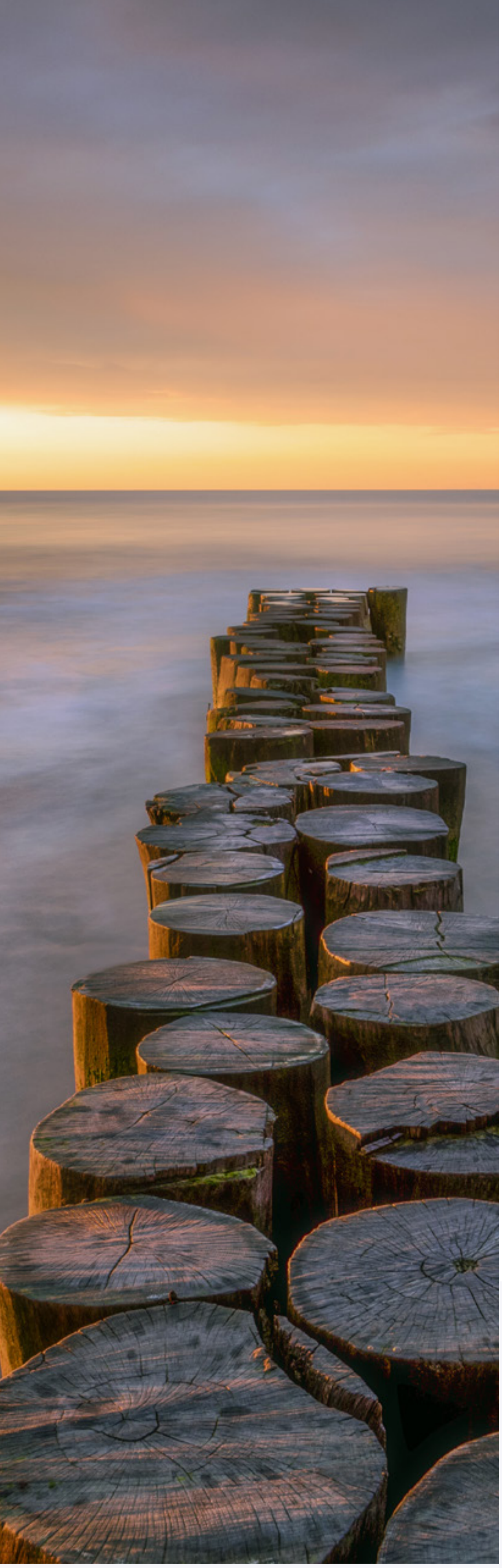
Q CEO Confidence Index: How confident do you feel about the outlook for the following areas over the next 12 months?

The respondents were allowed to select between one option for each area.

	Very optimistic	Somewhat optimistic	Neutral	Somewhat pessimistic	Very pessimistic
Global	39%	30%	15%	10%	6%
Local	41%	33%	16%	6%	4%
Sector	41%	32%	16%	5%	6%

While geopolitical risks remain a global concern, Asia-Pacific CEOs appear more optimistic compared to their American and European counterparts. This is especially true when they are making decisions about market entry, expansion or exit. The long experience of navigating the US-China tensions has enabled many Asia-Pacific leaders to thoughtfully evaluate their options, sometimes with a considerable degree of confidence.





The latest CEO Outlook Pulse survey sheds light on this perspective:

1 Visibility and preparedness:

Only one-quarter (25%) of CEOs in the Asia-Pacific region report having full visibility into their company's exposure to political risk, complete with scenario planning. This figure is notably lower than that of their global counterparts, with 36% of American CEOs and 29% of European CEOs reporting full visibility into their companies' political risk exposures. This pattern is not an isolated occurrence but rather a consistent trend observed over multiple periods. For instance, in the April 2024 EY CEO Outlook Pulse, only 17% of Asia-Pacific CEOs prioritized enhancing their firms' capability to manage geopolitical risks over the next three years. This was largely overshadowed by more immediate challenges, such as the urgent need to invest in AI technology and protect revenue streams amid sluggish growth in major Asia-Pacific economies and high interest rates.

2 Incorporating political risk into strategic decisions:

In terms of strategic decision-making, Asia-Pacific leaders often show a less structured approach to incorporating political risks into their strategic decisions compared to their American peers. For instance, when it comes to making decisions about transactions such as mergers, acquisitions, or joint ventures, just 73% of Asia-Pacific CEOs routinely factor in political risks, which is notably less than the 81% in the Americas.

Q How much visibility do you have on your company's exposure to political risk across your operations, markets and suppliers?

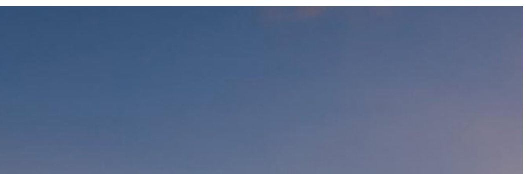
The respondents were allowed to select one option only.

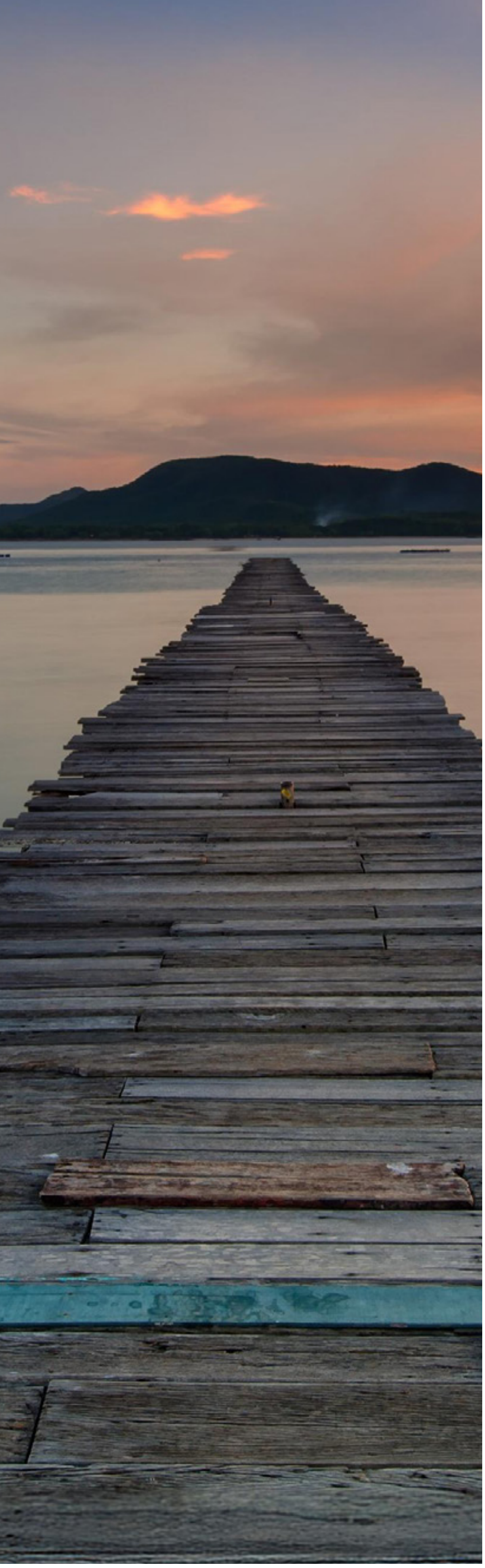
Full visibility – we have scenario planned for numerous eventualities: 25%

Significant visibility – we have a strong grasp of potential risks and have mitigation strategies in place: 44%

Moderate visibility – we need to do more to understand risks and plan accordingly: 30%

Low visibility – we need to significantly increase visibility of risks: 1%





While this approach reflects a broader theme of strategic agility among Asia-Pacific leaders, relying on their extensive experience of navigating regional geopolitical nuances without undertaking regular and comprehensive geopolitical risk assessments and scenario planning could leave them inadequately prepared to respond to sudden, yet plausible, geopolitical events.

Lessons from semiconductors

The Asia-Pacific semiconductor industry, an arena of technological supremacy and geopolitical leverage, exemplifies the broader strategic shifts that the Asia-Pacific region has been experiencing. Facing US sanctions aimed at curtailing high-end chip supply to China, Asia-Pacific jurisdictions are not merely reacting but recalibrating their industrial policies. Mainland China, Japan, South Korea, and Taiwan are each fortifying their local tech capabilities to ensure autonomy and competitive edge, with billions in investment dollars mirroring these strategic priorities.

Meanwhile, several US and European firms within the semiconductor supply chain are redirecting their investments toward Southeast Asia, with notable growth in Singapore and Malaysia. This strategic redirection not only reduces risk exposure but also taps into the inherent regional capabilities of these countries to attract advanced technology sectors. Additionally, Chinese firms are increasingly setting up operations in this region as a strategic move to avoid US tariffs and export restrictions, thereby making Malaysia a critical player in the global semiconductor market, which is projected to be worth well over US$1 trillion in the next decade.

This shift is not limited to semiconductors; it is stimulating the development and upgrading of whole ecosystems and supply chains in response to these geopolitical and economic strategies. CEOs are adapting swiftly, positioning their firms to benefit from, rather than being disrupted by these ‘friend-shoring’ and ‘near-shoring’ initiatives.

Navigating the disruptive opportunity of emerging technologies

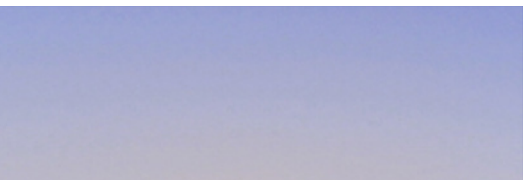
As governments pour billions into strategic tech industries, companies across Asia-Pacific are also making strategic investments in emerging technology. The survey indicates that nearly three-quarters (74%) of Asia-Pacific CEOs consider their organizations “extremely proficient” or “very proficient” in leveraging emerging technologies to build an innovation edge and drive new ways of working.

Q How proficient is your organization when it comes to delivering against the top strategic aims you identified around emerging technologies?

The respondents were asked to select multiple responses.

	Extremely proficient	Very proficient	Moderately proficient	Slightly proficient	Not proficient
Rapidly and systematically adopting disruptive technologies to create viable business models	28%	44%	23%	5%	1%
Leveraging emerging technologies to build an innovation edge and drive new ways of working	27%	47%	18%	8%	0%
Shifting global economic environment, geopolitical disruption, including trade tensions and conflicts	25%	43%	25%	6%	1%
Consistently making bold, strategic investments in disruptive technology opportunities	32%	38%	18%	11%	1%
Reimagining our operating model by integrating disruptive technologies and novel knowledge	25%	46%	22%	5%	2%
Building digital ecosystems in our industry and moving from competition to "coopetition"	34%	39%	23%	4%	0%

While AI is shaping up to become one of the most disruptive issues for many industries, many more are doubling down on it, believing that being on the same side as disruptive technology will yield opportunities and advantages over competitors who resist it. Approximately three-quarters (72%) of Asia-Pacific CEOs consider themselves more than capable of rapidly and systematically adopting disruptive technologies to create viable business models.

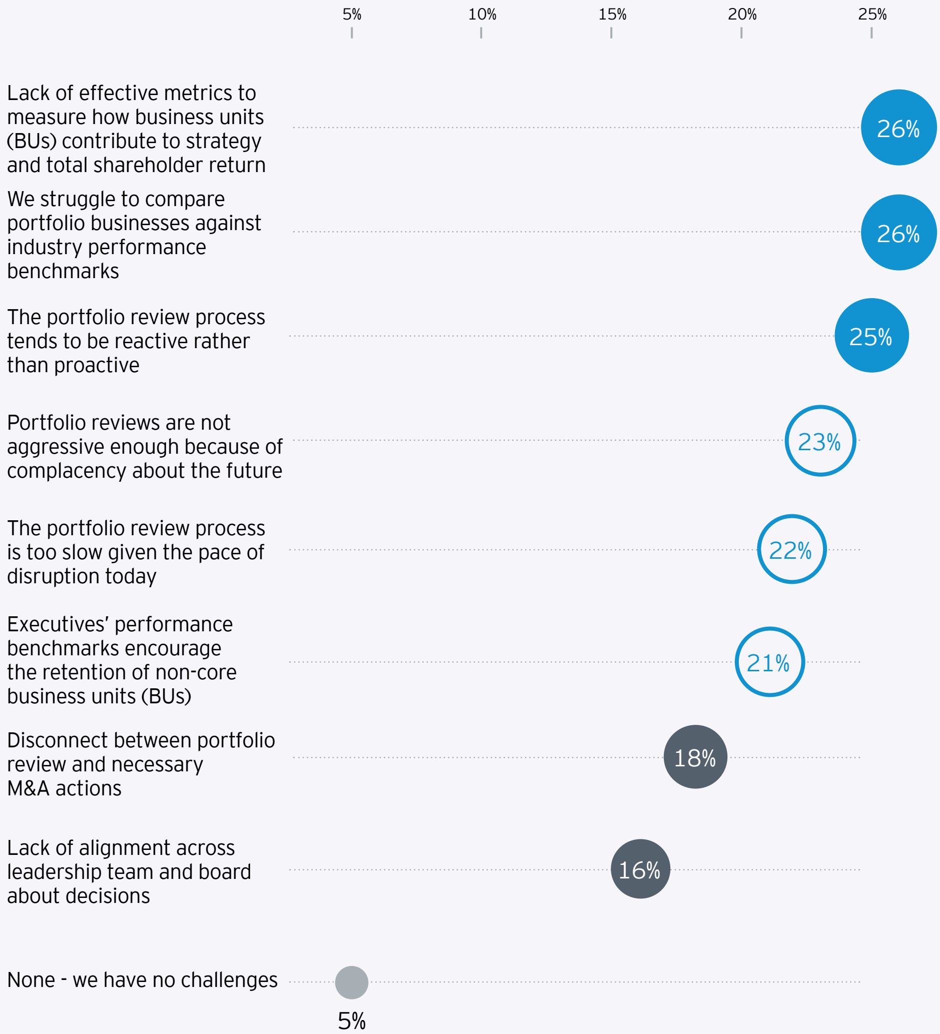


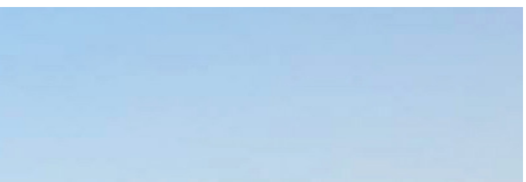
Optimizing portfolios to capture opportunities

Unsurprisingly, CEOs who are successful in converting disruption to opportunity are also those who are confident in their portfolios' alignment to their organizations' core strategies. This confidence is underpinned by a rigorous review schedule, with almost half (47%) of Asia-Pacific CEOs conducting quarterly assessments and 16% reviewing as frequently as monthly, ensuring their strategies remain responsive and aligned with market dynamics. Nevertheless, they face challenges such as inadequate metrics for assessing contributions to strategy and difficulties in matching industry benchmarks.

Q What are the main challenges for your company when it comes to running an effective portfolio review?

The respondents were asked to select up to two responses.

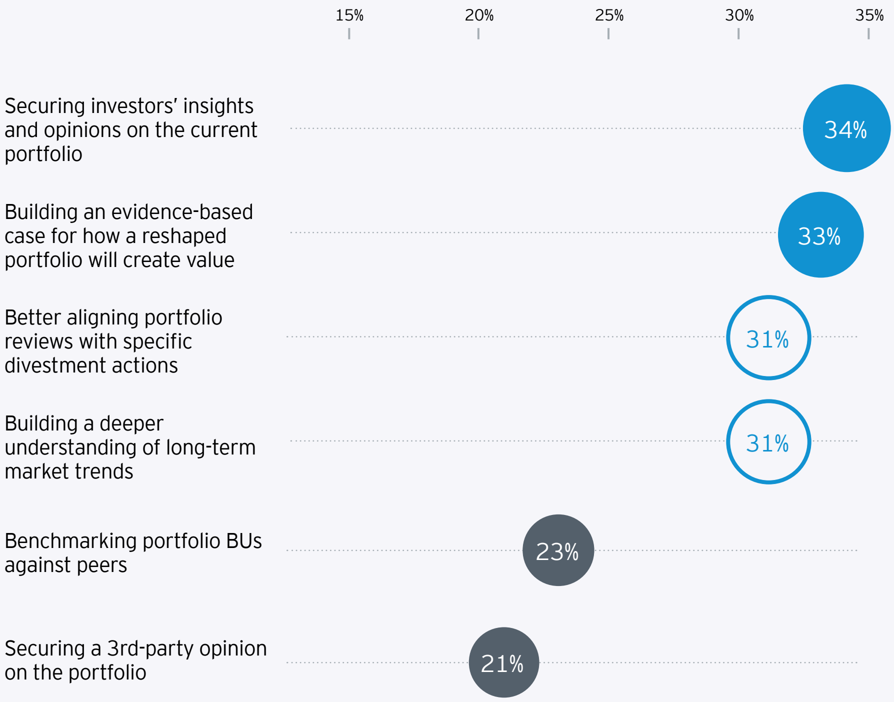




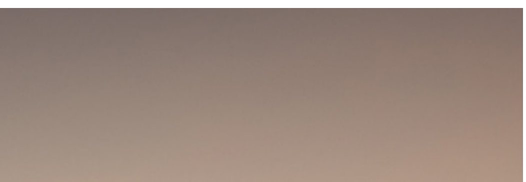
Addressing these challenges, a significant number of CEOs seek to enhance their portfolio strategies by integrating investor insights, while others are focusing on developing evidence-based restructuring plans.

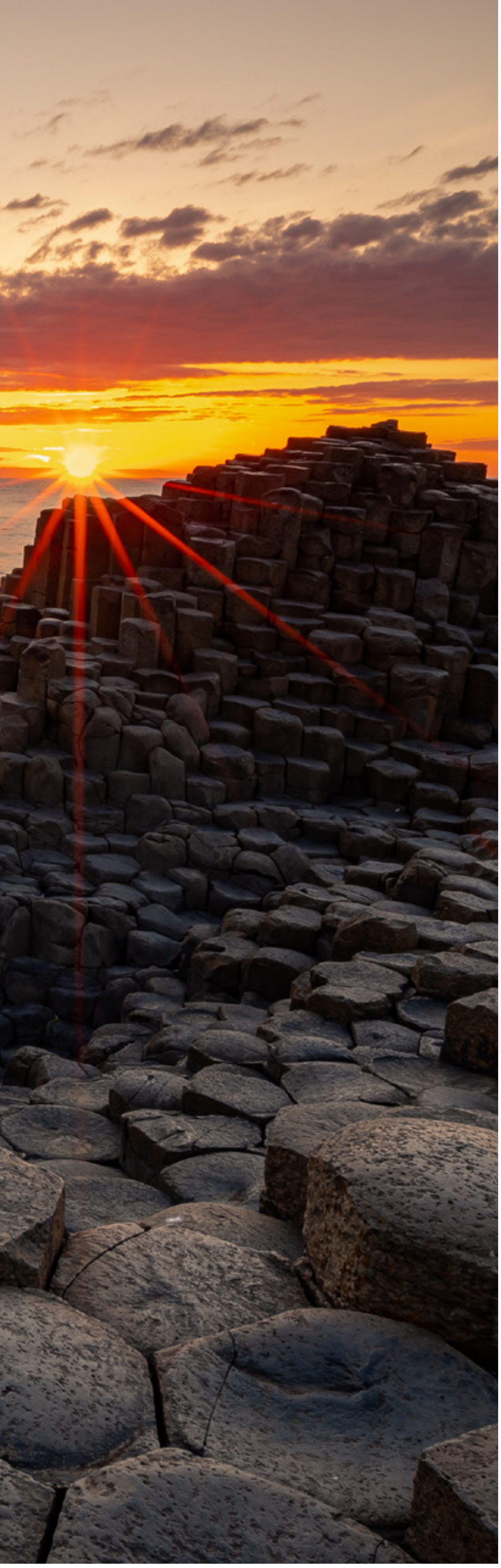
Q **What steps would have the most positive impact on the quality of portfolio reviews that you undertake?**

The respondents were asked to select up to two responses.



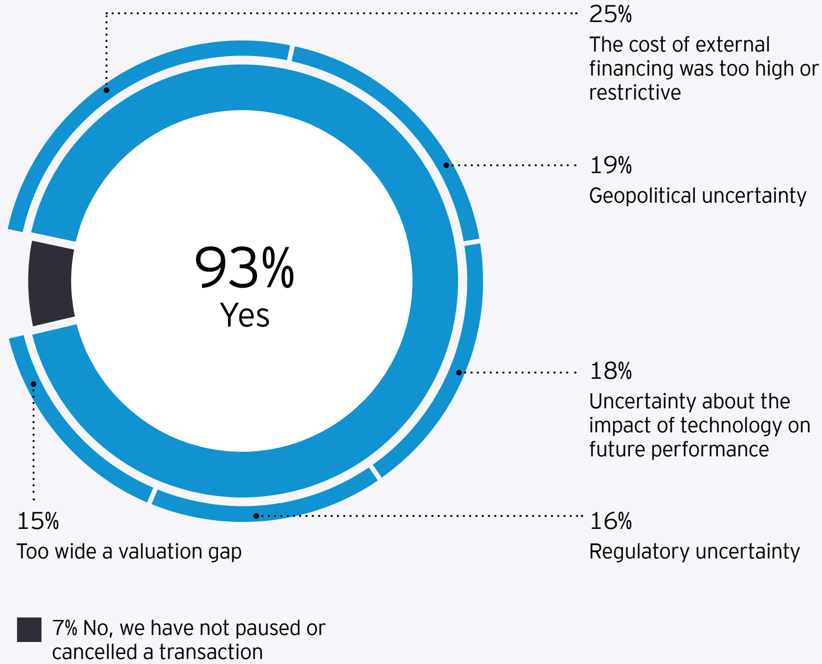
Simultaneously, Asia-Pacific leaders are actively looking to transactions to fuel growth and expand their market reach. Over the next year, 39% plan to engage in mergers and acquisitions, 42% in divestments or IPOs, and 52% in forming joint ventures or strategic alliances. However, the transaction landscape has been more challenging for Asia-Pacific CEOs, with 93% having paused or canceled deals due to factors such as high financing costs and geopolitical uncertainty over the past 12 months. This might explain their preference to stay closer to home, with the top five capital investment destinations for Asia-Pacific companies all within the Asia-Pacific region.





Q Have you paused or canceled a transaction during the past 12 months? If yes, please specify the primary reasons.

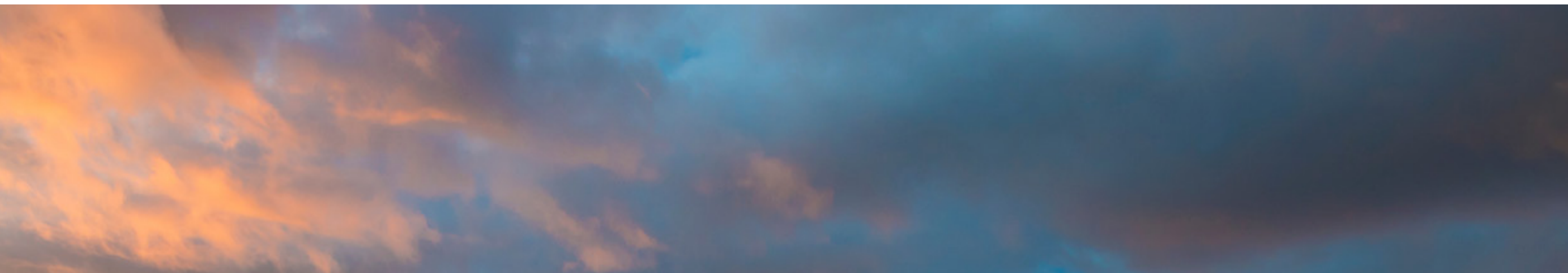
The respondents were asked to select one option only.



Gearing up for the final stretch of 2024 and beyond

The uncertainty of the US presidential election and its implications for Asia-Pacific across geopolitics, trade and security will continue to weigh on corporate decisions in the short-term. However, as US interest rates have now decreased for the first time in more than four years, new opportunities for growth and investment are beginning to surface.

Meanwhile, amid strong wage growth and rising prices, Japan is finally emerging from nearly three decades of deflation. The recent wave of foreign takeover bids for Japanese firms is likely to accelerate, driven by higher growth expectations, improved corporate governance, and the allure of a still-weak yen. Global corporations, private equity firms, and sovereign wealth funds are actively exploring the Japanese corporate landscape, seeking promising businesses that can be spun out from larger, traditional conglomerate structures. This trend presents significant opportunities for businesses to leverage their core strengths and drive global growth in the Asia-Pacific market.



Positioned at the forefront, Asia-Pacific CEOs should review their portfolios to capitalize on future value creation opportunities, by taking the following actions:

1 Rethink strategic assumptions:

The business environment is changing at an accelerating pace, and so should the assumptions that underpin portfolio strategies. CEOs should establish a process for regularly revisiting and updating the strategic assumptions that guide portfolio reviews. This could involve monitoring key indicators, staying abreast of geopolitical and industry developments, and reassessing customer needs. By constantly assessing these assumptions, CEOs can ensure that their portfolio strategy remains relevant and aligned with the external environment.

2 Scenario-based decision-making:

Scenario planning provides a framework for CEOs to test the robustness of their corporate strategies against various futures. It helps in making strategic decisions that are resilient to a range of possible market conditions. By preparing for multiple outcomes, CEOs can make more confident investment and divestment decisions, knowing they have considered a broad set of possibilities and developed strategies to address them.

3 Implement portfolio changes:

Following regular portfolio reviews, it is essential to take decisive action to drive value. This may include exiting non-core businesses, elevating organic investments, and pursuing targeted acquisitions in areas identified for priority growth. M&A activities, in particular, offer substantial opportunities for organizational transformation, allowing companies to realign their resources, capabilities, and market positions strategically. By actively engaging in M&A, CEOs can effectively address gaps in their current portfolio and propel future growth.

4 Incorporate flexibility in deal structures:

CEOs should structure transactions with greater flexibility to accommodate different outcomes. This might involve adjustable pricing mechanisms, earn-outs or clauses that allow for renegotiation based on future events. Such flexibility can protect the company from adverse developments while allowing it to capitalize on favorable ones.

Summary

CEO confidence is a pivotal factor influencing business strategies and outcomes. As the external environment evolves, particularly in terms of geopolitical risks, economic uncertainties, and technological advancements, CEOs with a profound understanding of these changes can make swift and strategic decisions. This is especially crucial in Asia-Pacific, a region characterized by rapid economic development, diverse markets, and complex geopolitical dynamics. Higher levels of confidence, based on a deeper understanding of how the external environment is changing, will enable Asia-Pacific CEOs and boards to make faster strategic decisions in an increasingly volatile world.

About the research

On behalf of the global EY organization, in July and August 2024, FT Longitude, the specialist research and content marketing division of the Financial Times Group, conducted an anonymous online survey of 1,200 CEOs from large companies around the world that 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 20 countries (Brazil, Canada, Mexico, the United States, Belgium, Luxembourg, the Netherlands, France, Germany, Italy, Denmark, 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%).

The CEO Confidence Index was constructed by quantifying CEO sentiment across various economic and business dimensions. CEOs rated their outlook on 15 statements using a 5-point scale ranging from "very pessimistic" (0) to "very optimistic" (100). These responses were aggregated into five thematic groups: sector growth, prices and inflation, company growth, talent, and investment and technology.

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