BUSINESS LEADERS IN APAC: ADOPTING AI TO PROSPER

HLB SURVEY OF BUSINESS LEADERS 2024

CONTENTS

RESILIENT GROWTH AMIDST VARIED CONFIDENCE

The APAC region has delivered a strong recovery post-pandemic, with rapid economic expansion of domestic products and services consumption after lifting COVID restrictions. 82% of APAC leaders feel confident in their own ability to grow their revenues this year. However, confidence levels have gone down by 7% from last year. The sentiment is also more muted compared to North American (91%) and LATAM leaders (92%).

APAC has been one of the fastest-growing global regions for several years and is forecasted to account for 60% of global GDP growth by the end of 2024[1]. India's economy continues to demonstrate strong performance, with an 8.4% real GDP growth in Q4 2023, ahead of expectations[2]. In the medium term, Bangladesh, Vietnam, Malaysia, and, to some extent, the Philippines are predicted to grow quickly, approaching the GDP per head level of developed Asian economies like Japan, Singapore, and South Korea[3].
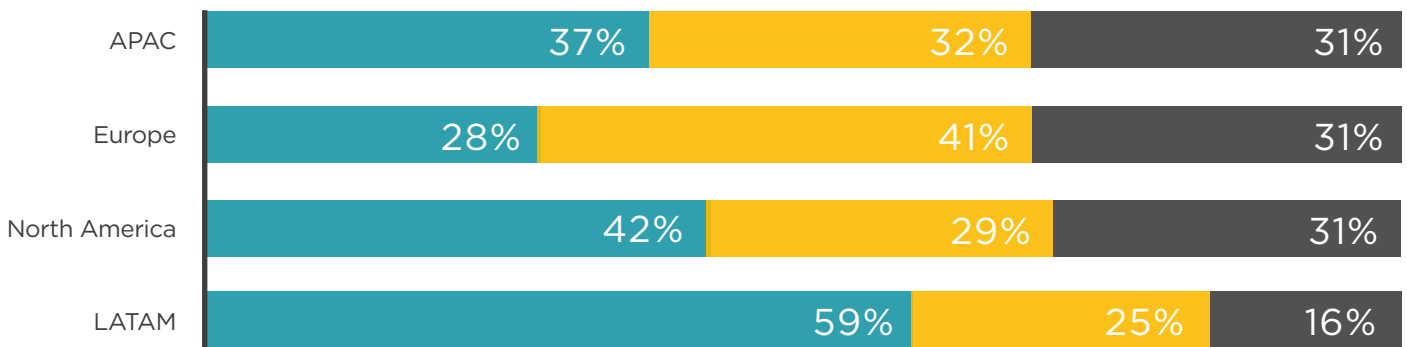
Over half of the regional growth will come from China, despite a slight deceleration in economic growth from 5.2% in 2023 to an estimated 4.5%-5% in 2024[4]. This is substantial, especially compared to other regions. For comparison, the real GDP growth in the eurozone will be around 0.8%[5] this year, and the US is looking at 2.1%[6].

Perhaps this explains the leaders' sentiment towards the global state of affairs. Only 37% are confident in global economic growth bouncing back in 2024 vs 42% of North American leaders and 59% of LATAM. Like Europeans, 31% of APAC leaders expect a decline.

Equally, there are risks to growth that concern leaders in the region. Inflation (71%), economic uncertainty (65%), exchange rate volatility (62%), and geopolitical risks (62%) are the main stressors.

APAC LEADERS LACK CONFIDENCE IN GLOBAL GROWTH

Q Do you believe the rate of global economic growth will change in the next 12 months?

Region	Growth will increase	Growth will stay the same	Growth will decline
APAC	37%	32%	31%
Europe	28%	41%	31%
North America	42%	29%	31%
LATAM	59%	25%	16%

■ Growth will increase ■ Growth will stay the same ■ Growth will decline

Concerns about inflation and rising interest rates are higher compared to last year. A downturn in the property market has undermined China's growth streak. Policymakers have issued fiscal support and policy rate cuts to ease the impact, with additional stimulus planned for 2024. Growing inflation has weakened Japan's economic recovery. The Bank of Japan is looking to revise its negative interest rate policy to tackle headline inflation for the first time in twenty years.

Interest rates diverge across countries depending on domestic growth and inflation conditions. China, India, and Indonesia may loosen fiscal policies to support economic growth. New Zealand and South Korea may hold rates until the first quarter of 2024 to reach the 2% target. The State Bank of Vietnam cut rates in 2023 and plans to maintain them at historic lows this year to support economic growth[7].
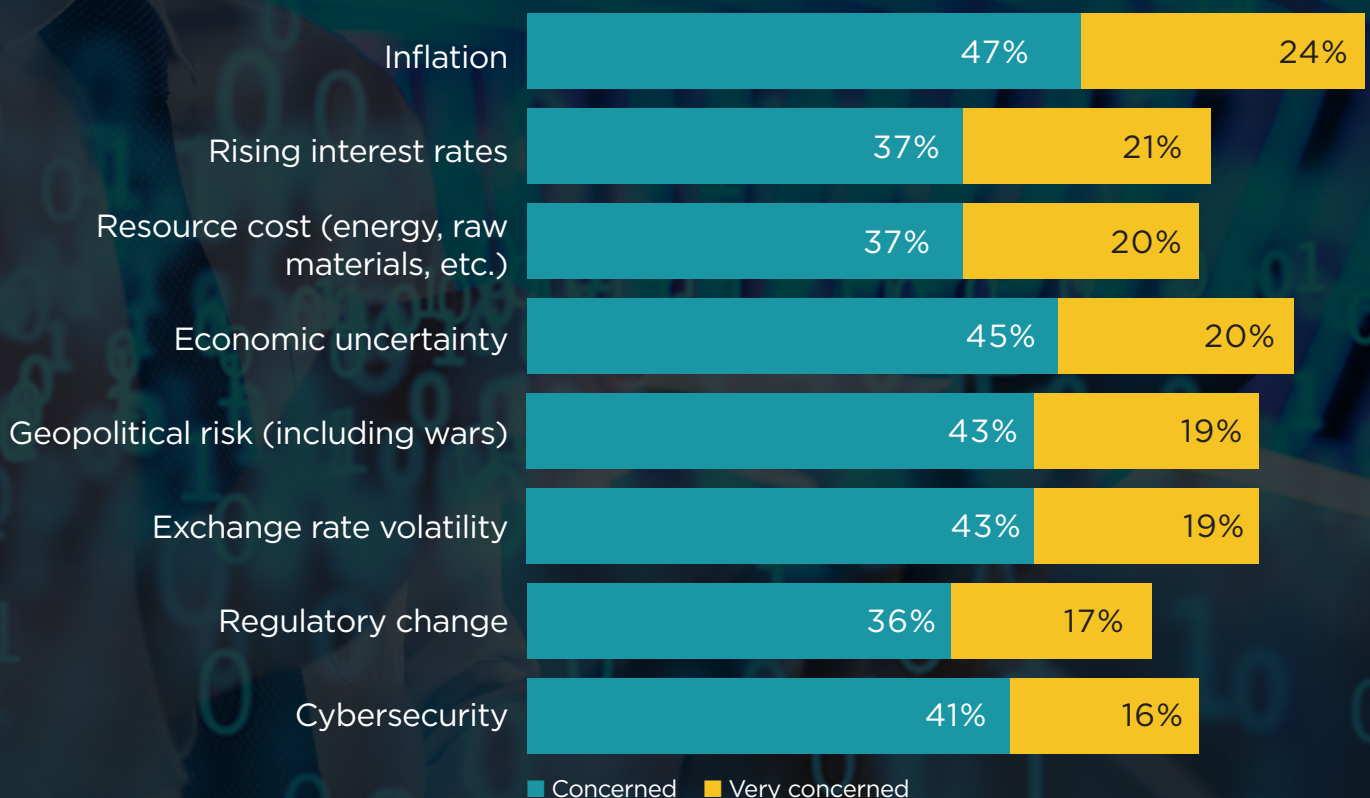
Australia's consumer price inflation remains at 5%. The central bank expects a return to a 2-3% target by late 2025[8]. The Monetary Authority of Singapore expects core inflation to reach the optimal range of below 2% later in 2024[9].

However, local currencies may show uneven performance due to different trade sensitivity. JP Morgan expects Indonesian (IDR) and Thai (THB) currencies to maintain strong performance due to increased commodity exports and tourism recovery. The Chinese Yuan (CNH) may be slightly at a disadvantage due to falling export prices[10].

Trade flow disruption concerns 57% of APAC leaders, but shifts in global trade create new opportunities. South Korea has increased semiconductor exports, posting a 21.8% year-on-year growth by December 2023. China and Japan expanded manufacturing facilities across ASEAN, especially in the automotive sector. In 2023, China overtook Japan in car export volumes, becoming the top global exporter due to its success with electric vehicle (EV) sales. 53% of APAC leaders believe trade agreement changes will create new opportunities for businesses. Three-quarters of leaders also believe technology advancements will help overcome cross-border challenges.

APAC LEADERS ARE CHALLENGED BY A BROAD SPECTRUM OF RISKS
Q To what extent do the following risks to your business concern you?

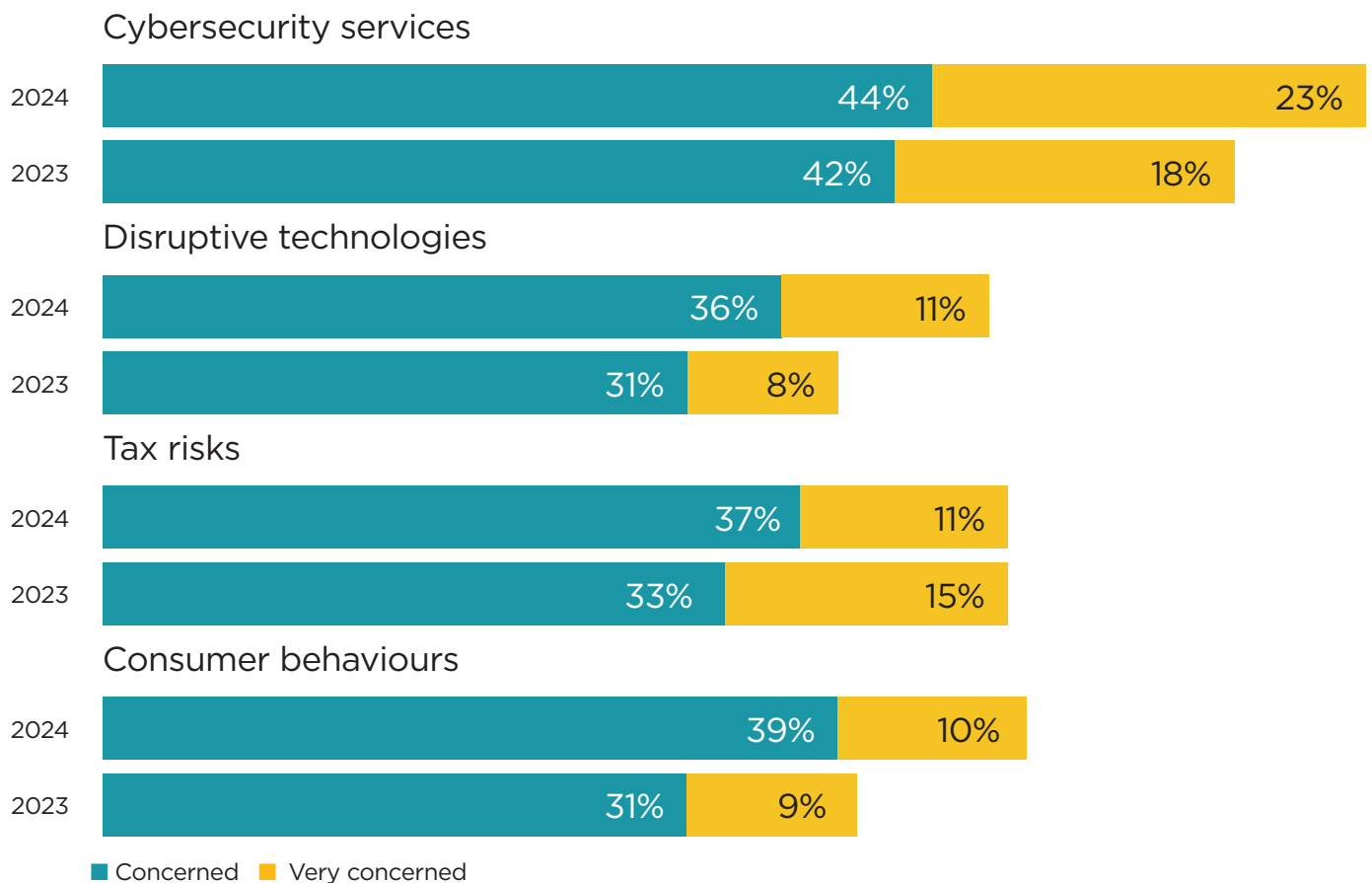| Risk	Concerned	Very concerned
Inflation	47%	24%
Rising interest rates	37%	21%
Resource cost (energy, raw materials, etc.)	37%	20%
Economic uncertainty	45%	20%
Geopolitical risk (including wars)	43%	19%
Exchange rate volatility	43%	19%
Regulatory change	36%	17%
Cybersecurity	41%	16%

■ Concerned ■ Very concerned

Cybersecurity concerns have increased by 1.5 times compared to 2023. Ransomware attack volumes surged by 39% in the region, with manufacturing and real estate being prime targets. Two hacker groups, Dark Pink and Lotus Bane, are targeting local companies with Advanced Persistent Threats (APTs). Australia and India faced the most pressure hanger Ransomware-as-a-Service (RaaS) affiliates.

Accelerated digital transformations expand cyber-radar. The rapid adoption of new technologies exposes organisations to vulnerabilities. Latest HLB Cybersecurity Survey found that 89% of global leaders are concerned about the current pace of technological innovation, particularly in generative AI, and the potential increase in cyber-related risk, with 34% very concerned.

Speaking of technologies, their importance is increasing. 48% of APAC leaders are concerned about disruptive technologies, compared to only 31% in 2022. The percentage of business leaders who don't feel pressured by this at all is down by 15% compared to 2023. "Change can be unsettling, especially when the depth of knowledge in disruptive technologies is not commensurate with years of experience running a business," says Jude Lau, Partner at HLB Mann Judd, Australia. "Additionally, concerns arise when news of the consequences of cyber attacks and data leaks, often associated with disruptive technology, is combined with the absence of clear regulations governing the use".

NEW STRESSORS EMERGE IN 2024

Q To what extent do the following risks to your business concern you? (2023 vs 2024 comparison)

Cybersecurity services

	Concerned	Very concerned
2024	44%	23%
2023	42%	18%

Disruptive technologies

	Concerned	Very concerned
2024	36%	11%
2023	31%	8%

Tax risks

	Concerned	Very concerned
2024	37%	11%
2023	33%	15%

Consumer behaviours

	Concerned	Very concerned
2024	39%	10%
2023	31%	9%

■ Concerned   ■ Very concerned

KEY FOCUS AREAS: EFFICIENCY, TECHNOLOGY, AND COST MINIMISATION

To grow this year, the majority of APAC leaders plan to improve operational efficiencies (67%), adopt new technologies (57%), and reduce costs (51%). Furthermore, 'operational effectiveness' is the top weakness business leaders plan to address this year (cited by 32% of leaders in the region), closely followed by risk and cost management at 30%.

APAC LEADERS SEEK GROWTH IN NEW AREAS

Q Which of the following actions are you planning to take in the next 12 months, in order to grow?

Action	2024	2023
Improving operational efficiency	67%	70%
Adopting new technology	57%	46%
Reducing costs	51%	54%
Launching new products or services	47%	45%
Reviewing our strategy	47%	32%
Building organic growth	36%	28%
Investing in human capital	36%	24%

■ 2024 ■ 2023

It appears APAC leaders are aiming to bolster their resilience in these challenging times. Ongoing disruption, first caused by the pandemic and then magnified by persisting supply chain disruptions and peak interest rates, forces leaders to rethink their priorities. To grow in 2024, more APAC leaders plan to adopt new technology this year (up by 13%) and invest in human capital (up by 12%), likely to accelerate further transformations. Also, more APAC leaders seek to address weaknesses in digital capabilities, innovation, and cybersecurity (all up by 5% from 2023).

APAC has one of the largest and fastest-growing digital economies. Despite global macroeconomic challenges, digital sectors like ecommerce, on-demand transportation and food, online travel, financial services, and online media maintained strong growth. In 2023, Southeast Asia's digital economy generated over $100 billion in revenue, growing at 27% CAGR since 2021[11].

After the last pandemic restrictions were lifted, consumer spending increased in essential and discretionary categories. In India, real consumer spending is expected to grow by 6.7% YoY and 4.5% YoY in China[12]. Spending will shift back to goods as out-and-about demand is met, impacting Asian manufacturers positively. Despite tailwinds, leaders are less likely to launch new products or services this year (down by 10%) and more inclined to focus on organic growth (up by 8%). Perhaps this is because half of leaders are concerned about changes in consumer behaviour, up by 16 percentage points compared to last year.

Surabhi Bansal, Partner at HLB India, believes that by pursuing "organic growth strategies, emphasising customer experience and responsible resource management, APAC leaders can stay competitive in the evolving digital landscape. A strong alignment between product development and ESG goals can also help businesses secure more support from investors, consumers, and regulators alike".

Almost half (47%) plan to initiate strategy reviews this year, up from 32%. APAC leaders appear to be charting a new course to navigate the higher tides — geopolitical risks, a slowdown in exports, and lingering economic uncertainty. They are also feeling greater pressure to continue digital transformation, especially as artificial intelligence (AI) solutions and generative AI tools, in particular, have become widely accessible. "Leaders need to continuously follow the development of artificial intelligence to stay ahead of the ever-changing advancements", noted a CISO from the manufacturing sector.

AI: THE TOP TECHNOLOGY OVER THE NEXT 5 YEARS

Generally, 68% agree that emerging technologies like AI are key to driving business innovation, creativity and productivity. So it's not surprising that AI tops the list of technologies most important for businesses in APAC over the next 5 years (up by 9% from 2022), followed by cloud computing and robotic process automation (RPA).

In addition to keen investment in AI, APAC leaders are more interested in RPA adoption and Internet of things (IoT) technologies compared to global peers. IoT has already proven to be a viable technology in the manufacturing sector, enabling advanced equipment monitoring, predictive maintenance, and real-time asset tracking. Combined with advanced analytics systems and artificial intelligence, IoT devices enabled advanced industrial automation scenarios.

The newest 'lighthouse factory' by LG in South Korea uses VR to visualize production processes with data from IoT devices and computer vision systems. It provides real-time status of logistics operations and identifies issues within the next 10 minutes. Factory workers can also detect production issues early on using deep learning sensors.

Curiously, fewer APAC leaders (29%) view 'renewable energy' as the most important technology for the next five years compared to global leaders (39%). This could be because many countries are already leading in this area.

China is emerging as a leader in renewable energy production, expecting to contribute 56% of global renewable energy capacity additions between 2023 and 2028[13]. The country's solar photovoltaic manufacturing capabilities have almost doubled over the last year. EV manufacturing has also been established as a key component of China's transformation policy, aimed to establish a strong domestic market and become a leader in the global EV market.

Rising consumer demand and diversification in sourcing strategies are encouraging transformations in other ASEAN economies. Asian automakers like Toyota and Hyundai are establishing new EV manufacturing facilities in Indonesia. EV battery production made up a significant share of foreign direct investment in Malaysia and Thailand. In fact, 46% of leaders are now focusing on sourcing closer to home.

Since the start of the decade, APAC leaders have rapidly orchestrated digital transformation — and AI seems to be the next frontier. In the context of emerging technologies and AI, 52% are prepared to take on more risk for potential benefits.

"Review and identify the consistent obstacles that continue to exist in your business and the costs incurred in tackling them in recent

years," recommends Wendy Ler, Director at HLB Malaysia. "In terms of cost efficiency, these might be the sweet spots to look out for now and explore with digital transformation and AI adoption. Now is the right time as we observed regulatory reforms in the region, and some adoption risks can be better managed".

APAC LEADERS FOCUS ON AI

Q Which of these technologies will be the most important to your business over the next 5 years?

Technology	%
Artificial intelligence	64%
Cloud computing	43%
Robotics process automation	40%
IoT	37%
Renewable energy	29%
Machine learning	29%
Virtual reality/ Augmented reality	19%
Blockchain	18%
Bio metrics	12%
Battery storage & electrification	12%
Space science	7%
New materials such as graphene and aerogels	7%
Genomics	5%
Hydrogen fuels	4%
Drones	2%

PREPARING FOR AN AI-LED GROWTH CYCLE

APAC has a substantial cohort of AI Innovators: 30% of businesses are actively exploring how AI could give their business a competitive edge, and 9% already widely use AI technologies. Another 41% are willing to try AI for the right use case. Yet almost 20% of APAC leaders are AI Conservatives — they're either cautious or downright averse to using AI.

"The global pandemic was a catalyst for digital transformation in many sectors", says Paul Ashburn, Managing Partner at HLB Thailand. "Now we have AI demanding our attention and action. Businesses adopting AI now will gain an early mover advantage over competitors, which, if successfully integrated into the business, will translate into improvements in the long term in business efficiency, productivity, and customer experience, which are some of the major cornerstones for successful business growth".

APAC leaders are mostly at the start of their AI journey adoption journey, with only 3% claiming to be leading in all areas of adoption, compared to 7% globally. Unlike European peers, APAC leaders are more likely to have made progress on AI adoption, with 20% stating they haven't started yet compared to 30% of European leaders.

42% of APAC leaders are at the Learning stage and focus most of their efforts on identifying appropriate use cases, conducting technology readiness reviews, and conducting data cleansing and quality reviews.

Although AI Innovators are sprinting ahead in most areas. A larger fraction of businesses are already optimising and leading in areas like data quality reviews, use case identification, adoption of specific AI tools, and AI-related staff training.

Over a third of APAC leaders have yet to investigate the IP, legal, licensing, ethical, bias, and compliance impacts of AI adoption, compared to just over a quarter of business leaders based in North America.

The AI regulatory landscape in APAC is dynamic. Singapore has recently updated their ambitious AI strategy to reflect substantial progress, shifting its focus to maximising AI value and pursuing social initiatives in areas like population health and climate change. Another key pillar of Singapore's Second National AI Strategy is the development of a fair, trusted, and responsible AI ecosystem.

In late 2023, the Indonesian government issued a letter detailing the new code of ethics for companies involved in AI-based activities, specifically targeting the financial technology industry. The provision mandates that all AI implementation must be based on principles of humanity, security, accessibility, transparency, credibility, and accountability[14].

China has yet to announce its 'AI laws' despite being quick to regulate emerging technologies and introducing legislation on generative AI soon after the ChatGPT launch. By August 2023, Baidu introduced a local version of a generative AI assistant, ERNIE, after obtaining a compliance clearance from the government. "China is in the process of setting AI regulatory landscape", says Christine Cai, Partner at ThinkBridge, HLB China. "Mostly, there are supportive policies with some restrictive regulations to avoid abusing the technology".

Malaysia also plans to release AI governance regulations this year, which are expected to cover data privacy, transparency, accountability, and cybersecurity. "As with all things related to disruptive technology, history has shown that regulations have often lagged behind compared to the pace of adoption", noted Jude Lau. "Rapid adoption rates are perhaps a timely reminder for all governments around the world to ensure that their legislative settings, such as compliance, monitoring, and taxation of these, are reflective of the new world paradigms, as opposed to the old sets of rules".

Half of APAC leaders are integrating, optimising, or leading the adoption of AI in their business models—almost twice that of Europe. 12% of North American leaders and 4% of APAC leaders report leading in the area of AI adoption into their business model. "Compared to the US, APAC is quite behind. For example, China still needs time to develop algorithms and also lacks high-performance chips to reach the required computing power, which constrains the development of AI technology in China", notes Christine Cai. "Thus, how to utilize AI technology and how to cope with the opportunities and risks in their own industries becomes a bigger concern for APAC leaders."

Still, the progress has been substantial. Process automation is the main use case of AI, selected by 33% of leaders, followed by document processing (26%), customer analytics (26%), and text and data mining (26%). It appears APAC leaders want to use AI to reach other overarching goals — improvements in operating efficiencies, cost optimisation, and new product development, as also reflected by use cases in sales, marketing, and content generation.

Curiously, almost half of AI Innovators have already implemented AI for process automation versus just 12% of AI Conservatives, who are the cohort most likely to use AI for content creation (24%), quality control (24%), text and data mining (24%) — simpler use cases which can be fulfilled with 'plug and play' AI tools.

AI Conservatives seem held back by fear of the unknown. Compared to other groups, they prioritise improving risk management this year. In the context of AI adoption, conservative leaders said that they'd like to "have more data points in the relevant industry to provide confidence in output such as wider adoption by peers", as well as a "reliable IT team, stable business environment, a legal framework to avoid abuse."

"While the concerns remain valid, we should recognise that some of them will not go away so soon. With the various supportive national measures for AI adoption and rapid AI strategies rolled out by countries, it is anticipated that the development of a legal framework around it to be accelerated as well," notes Wendy Ler.

"Business leaders who are hesitant to adopt AI due to perceived risks should start with small-scale pilot projects to sharpen the business case, evaluate different use cases, and demonstrate early wins to secure buy-in", recommends Surabhi Bansal."Establishing robust data governance frameworks is also essential to minimise data privacy risks and potential algorithm bias".
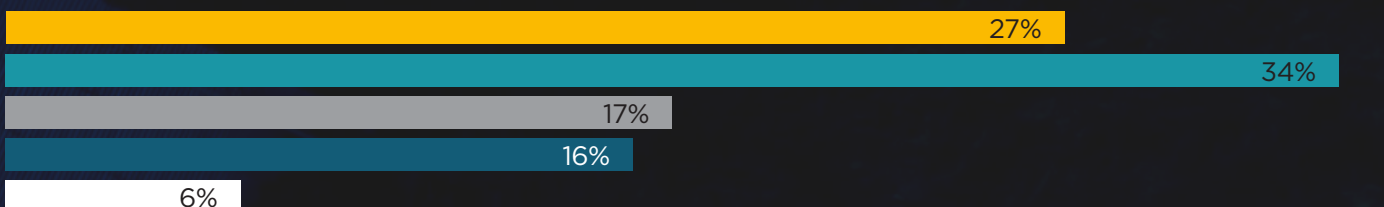
APAC LEADERS MOVE THROUGH THE MATURITY CURVE

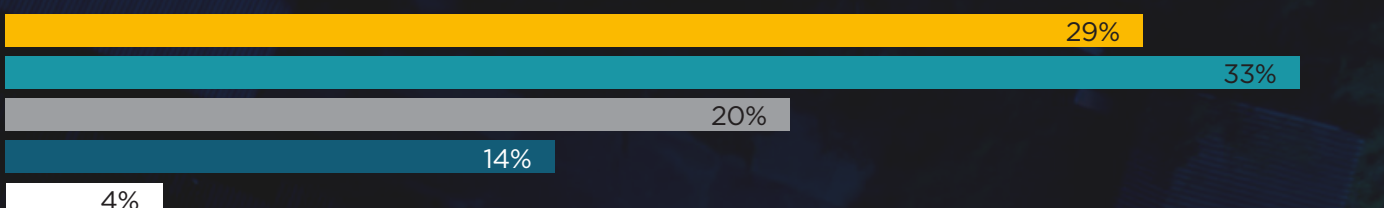Q Where do you rate your own business today on the following aspects of AI adoption?

Identifying appropriate 'use cases'
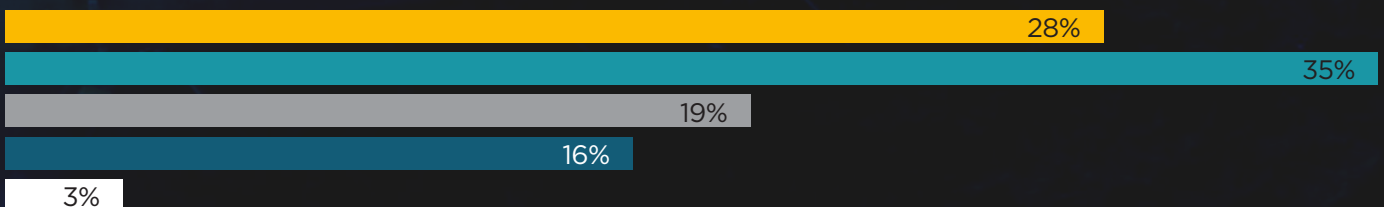
- 28%
- 35%
- 19%
- 16%
- 3%

Conducting technology readiness reviews

- 27%
- 34%
- 17%
- 16%
- 6%

Conducting data cleansing and quality reviews

- 29%
- 33%
- 20%
- 14%
- 4%

■ Not started ■ Learning ■ Integrating ■ Optimising ■ Leading

ACCESS TO THE RIGHT SKILLS HOLDS BACK AI ADOPTION

APAC leaders appear to know how they want to use AI but struggle with implementation. The main barrier to adoption is the 'lack of digital skills', followed closely by data security and privacy concerns.

AI Innovators feel more pressured by insufficient data quality and quantity (47% vs 36%) and data security and privacy concerns (46% vs 40%). AI Conservatives are more likely to be held back by a lack of use cases/unclear ROI (38% vs 34%), and business model obstacles (33% vs 31%).

Talent shortages appear to be more pronounced in APAC. Over half of the leaders named 'access to talent' a persistent risk. An equal number of 31% of AI innovators and AI Conservatives also recognise weaknesses in talent acquisition that they want to improve this year.

Although general unemployment rates are relatively low in the region, APAC leaders are facing digital skills shortages. Three-quarters of APAC employers, government officials, and academics consider a 'significant digital skill gap' in their county.[15] An estimated 86 million workers, including those needing training, will need to be upskilled or reskilled to keep up with technological change.[16]

APAC employers lack professionals with specialised skill sets to drive ambitious transformations. "AI is still a new technology in China and more talent is needed to further develop this industry and enhance the technology application," says Christine Cai. "Leaders need to find the right business partners to collaborate on AI adoption, as well as improve talent recruitment practices to address shortages."

AI, machine learning, data analytics, and software engineering are constantly named as competencies in short supply. In response, businesses are experimenting with new recruiting schemes. "There has been a substantial boost in investments to encourage the uptake of STEM, AI, and data analytics-related studies in Australia", says Jude Lau. He also encourages business leaders to invest in recruiting and training new graduates internally to ensure a strong fit and prevent talent shortages in the future. For instance, Microsoft plans to train almost 2 million young Indian workers in tech skills by 2025. Amazon launched a global AWS re/start programme to provide cloud training to 29 million people by 2025.

Greater adoption of emerging technologies increases the importance of cybersecurity awareness. Over 60% are concerned by cybersecurity issues, of which 25% are highly concerned. AI adoption creates new attack vectors that threat actors could exploit to tamper with the system, distribute malware, or steal sensitive user data.
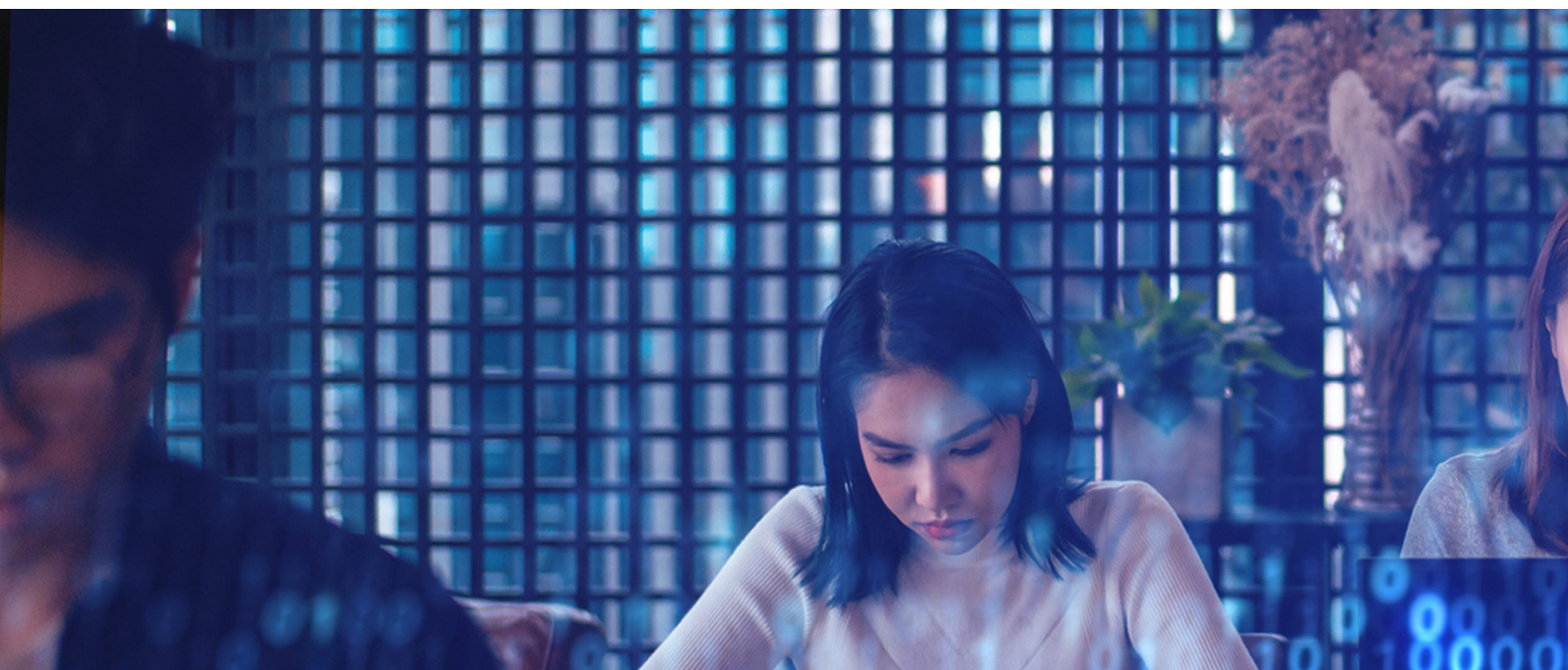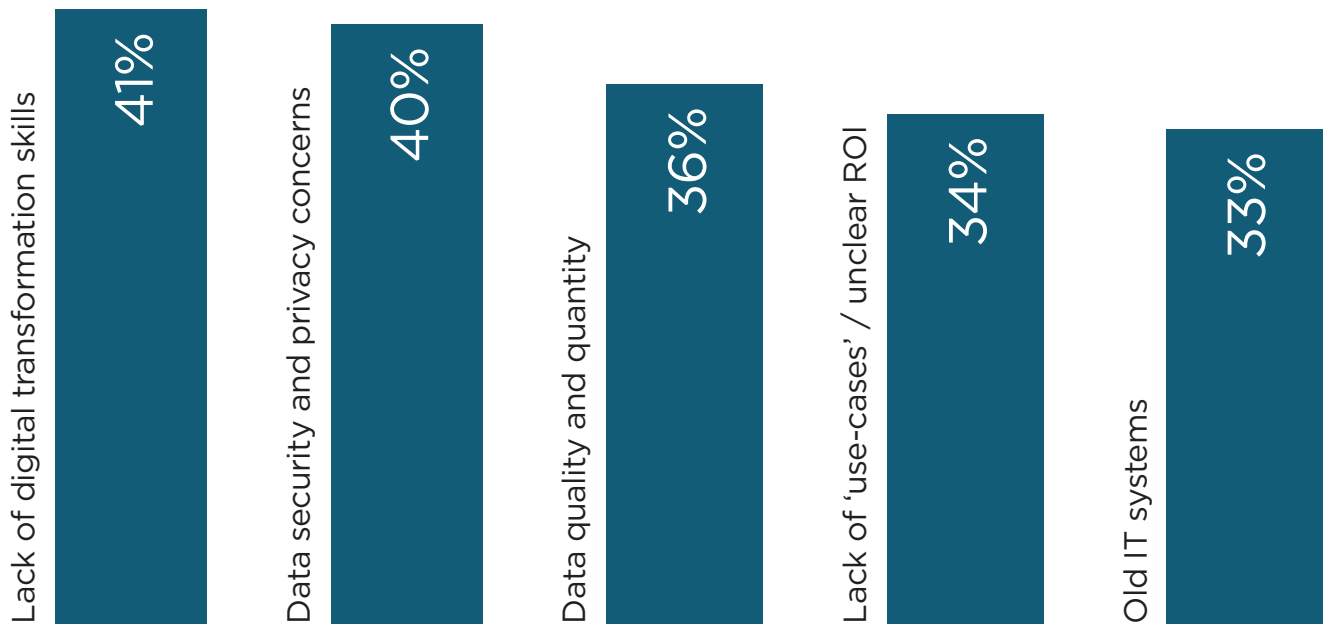
Appropriate cybersecurity measures become increasingly important as organisations adopt AI. Implementing specialised privacy-preserving techniques for AI systems like homomorphic encryption, differential privacy, or secure multiparty computation can help business leaders protect new digital products and ensure compliance with emerging data privacy and security regulations. Sony, for example, developed a specialised privacy framework for securely training AI systems. Data

scientists can auto-redact sensitive elements from training datasets or use privacy-preserving training algorithms. The system also tests model security against common threats like model inversion or membership inference attacks.

DIGITAL SKILLS AND DATA SECURITY ARE TOP BARRIERS TO AI ADOPTION

Q What are the top 5 barriers to adopting and integrating AI technologies into your business?

Lack of digital transformation skills	Data security and privacy concerns	Data quality and quantity	Lack of 'use-cases' / unclear ROI	Old IT systems
41%	40%	36%	34%	33%

EXPEDITING AI READINESS

High AI maturity has proved to correlate positively with organisational competitiveness, innovation, and business dynamism. Economies with a strong AI ecosystem produce higher GDP per capita, as AI leaders in the sector have already demonstrated.

AI tools, strategically integrated into business operations, act as workforce multipliers, helping your teams accomplish more work and obtain actionable insights. However, AI adoption also assumes a good degree of 'grunt work' evaluating use cases, assessing technology, and implementing staff training. AI isn't plug-and-play with immediate returns — it requires multi-lateral transformations in organisational structures, operating models, and culture.

1

ADDRESS THE SKILL GAPS IN YOUR ORGANISATION

Successful AI adoption requires multi-disciplinary skills. APAC has the advantage of a large, young, and digitally savvy workforce.

Seek out people with strong data literacy and technical competency to provide them with opportunities to develop technical skills in software engineering, machine learning, or data analytics.

Infosys, for instance, retrained over 2,000 cybersecurity experts with adjacent skills to address skills gaps.

Technical skills are in short supply. As skills become outdated, organisations need to invest in employee upskilling and reskilling for future competitiveness.

Seek external training providers and consultants to identify critical skills gaps and launch programmes to address them.

2

CREATE A STRUCTURED MATRIX FOR EVALUATING AI ADOPTION RISKS

Like other emerging technologies, AI lacks normative stability. AI regulations vary across markets, with some countries taking a more conservative stance on data usage for model training and the level of 'explainability' needed for public acceptance.

Evaluate current regulations and baseline requirements for security, privacy, and ethics. Involve technical leaders to identify business exposure areas and optimal safeguards. Synthetic data can help industries with data privacy regulations.

Automatic data quality checks can prevent sensitive, incomplete, or inaccurate data in model training. Ongoing model observability is critical for early performance or security issue detection and mitigation.

3

APPROACH AI ADOPTION THROUGH THE LENS OF OPERATIONAL EFFECTIVENESS

Almost all organisations face pressure to deliver results quickly. Leaders view emerging technologies as a lever to greater agility; however, technology is just a means to an end.

AI adoption must be accompanied by wider workflow transformations to achieve measurable impacts. Instead of 'right-sizing' AI algorithms to an existing process, rebuild it with new AI capabilities.

Involve end-users in new system design to understand constraints and how to address them with emerging technologies. By treating AI as a tool rather than a solution to your problem, you're more likely to identify the optimal use cases and achieve ROI from implementation.

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HOW HLB CAN HELP

With technological advancements evolving at an ever-accelerating speed, businesses are looking to understand the competitive advantage new digital technologies such as AI can offer them. Our findings suggest significant differences in potential business outcomes between businesses embracing AI technologies and those more cautious about adoption. A structured approach is needed to effectively reduce risk and gain ROI from digital transformation efforts.

If you would like to explore the findings in this report and how they inform your next phase of transformation and growth, we would welcome the opportunity to discuss these with you.

www.hlb.global/surveyofbusinessleaders

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