

FROM THREATS TO IMPACT

Evolving Risk Concerns in Asia-Pacific | Volume 3



TABLE OF CONTENTS

1	INTRODUCTION
2	AN OVERVIEW OF THE ASIA-PACIFIC RISK LANDSCAPE
	The Global Risk Landscape: Key Messages from the Global Risk Report 2018
	Top Concerns in Asia-Pacific: Perspectives from Local Businesses
	Preparing for a Complex, Interconnected, and Emergent Risk Landscape
16	SAFEGUARDING DEVELOPMENT IN ASIA-PACIFIC: KEY RISKS TO THE PHYSICAL AND HUMAN INFRASTRUCTURE
17	Critical Infrastructure Failure or Shortfall
	Future Complications: How Ongoing Trends Exacerbate Infrastructure Failure or Shortfall
	Business Implication
28	Talent Shortage
	Future Complications: How Talent Shortage Will Continue to be a Top Concern
	Business Implication
43	CONCLUSION
44	APPENDIX: THE WORLD ECONOMIC FORUM SURVEYS
46	BIBLIOGRAPHY

INTRODUCTION

Throughout 2018, we have witnessed several tumultuous developments around the world, spanning a wide array of technological, environmental, geopolitical and economic problems. From cyber-attacks in various parts of the world to major hurricanes and floods in the US and Asia-Pacific in 2017, and from the unexpected developments around North Korea to the United States (US)–China trade war in 2018, several key global risks have crystallized.

Many of these risks were captured in the annual *Global Risks Report* by the World Economic Forum, with whom Marsh & McLennan Companies is a strategic partner. The report brings together the viewpoints of thousands of business executives and risk experts around the world. The latest edition of the report adopted a cautionary tone as it laid out the prevalent geopolitical, economic, technological and environmental challenges the world is facing. Perhaps most importantly, the report documented the extraordinary pace of the multi-directional changes in the world, and how emerging uncertainties have put increasing pressure on institutions and systems to react in time.

We believe that the Asia-Pacific region has been at the center of these changes. Not only has the region become the global economic growth engine and is expected to remain so in the coming years, it is also fast becoming a center of innovation and home to many new technological advancements. With the ascent of China, as well as India and ASEAN as regional powers, the geopolitical importance of Asia-Pacific continues to increase. At the same time, these remarkable developments have heightened existing risks and created new vulnerabilities in the region, most clearly observed not only in evolving geopolitical tensions but also in the form of severe environmental disasters, a growing number of cyber-attacks, and worrying signs with regards to some key economic indicators.

In light of Asia-Pacific's growing importance in the global economic and political landscape, Marsh & McLennan Companies' Asia Pacific Risk Center (APRC) launched the Evolving Risk Concerns in Asia-Pacific series in 2016. The series expands upon our partnership with the World Economic Forum, using insights from the *Global Risks Report* to highlight a selection of the most important risks to businesses operating in the Asia-Pacific region. In the second edition of the report in 2017, we broadened the scope to delve deeper into the underlying disruptive trends from which key risks to businesses are identified, and set out the most important imperatives for businesses going forward.

This year, we start from a broad overview of key business-relevant risk hotspots in Asia-Pacific and focus on two particular risks that pose a great threat to doing business in the region, namely **(1) Critical infrastructure failure or shortfall**, and **(2) Talent shortages**. These are contextualized in the evolving risk landscape of Asia-Pacific and the megatrends that will likely shape them in the future. Through this analysis, we hope to show how these two risks are of exceptional importance to businesses in the region, and how risks and risk trends interact with and reinforce each other. These discussions will be followed by suggestions regarding how businesses can respond to these risks.

We believe the report will continue to be an informative read, and a rich reference guide to the Asia-Pacific risk landscape both for businesses, as well as for policymakers and interested observers of the region.



AN OVERVIEW OF THE ASIA-PACIFIC RISK LANDSCAPE

THE GLOBAL RISK LANDSCAPE: KEY MESSAGES FROM THE GLOBAL RISKS REPORT

The *Global Risks Report* stressed the **extraordinary pace and variety of change** in the world across a wide array of risks and risk trends, and prompted us to think about how institutions and systems may or may not be able to absorb and adapt to future shocks. While this year's report focused particularly on "**economic storm clouds**" and "**geopolitical power shifts**", **environmental risks** and **cyber risks** also dominated the discussion.¹ This is especially true in discussions of future shocks, in which a confluence of interconnected risks can lead to potentially catastrophic scenarios. The report revisited some of the risks that have been highlighted in the past, such as youth unemployment, and provided a brief discussion on risk management in the evolving risk landscape.

Environmental risks occupy a paramount position in the long-run according to global risk experts. Major hurricanes and floods across the world in 2017/18 and the devastation caused in affected areas prompted risk experts to place extreme weather events and natural catastrophes in the top five most important risks in terms of impact in 2018.^{2,3} Experts also considered failure to address climate change as one of the most likely risks to materialize, most likely owing to the US' withdrawal from the Paris agreement in June 2017, which once again raised concerns over the world's commitment to the 2 degree Celsius goal.⁴ Finally, water crisis continued to be among the top five most impactful risks. The recent conflict over the Nile dam project in the Horn of Africa, for instance, raised serious questions over whether water will become the next straining global geopolitical issue.⁵

Apart from environmental risks, technological and geopolitical concerns also came to the fore. In the realm of technological threats, much attention was paid to cyber-attacks and data fraud, as risk experts considered them to be among the top five most likely risks. This is understandable given the series of major cyber incidents, from the WannaCry ransomware in May 2017,⁶ to the most recent attack on SingHealth,⁷ the largest national group of healthcare institutions in Singapore, in July 2018, in which the personal information of 1.5 million patients was stolen. On a related point, the *Global*

Risks Report also discussed the vast amount of personal data being collected by large technology companies, raising serious questions on personal privacy and autonomy, as well as around national security and the outsized power that a few technology giants are holding.

Among geopolitical threats, weapons of mass destruction firmly retained its position as the most important risk in terms of impact according to experts, mainly due to the escalating situation in North Korea in August 2017. While the recent meeting between the two Koreas, and the summit with the US might yet prove to be a breakthrough step forward towards denuclearization and regional peace,⁸ the situation on the peninsula remains delicate. More widely, the *Global Risks Report* stressed on the rise of "strongman" leaders, and on how global and regional powers are redefining their commitments and the potentially destabilizing impacts of these processes.

A decade after the 2008 Global Financial Crisis (GFC), the absence of economic concerns in the *Global Risk Perception Survey* does not come as a surprise as the global economy has continued its slow but steady recovery, albeit against the backdrop of turbulent geopolitical developments, a flurry of cyber-attacks, and myriad extreme weather events. Recent global developments, however, have prompted the International Monetary Fund (IMF) to adjust risk outlook towards the downside for the short- and medium term, and cut to its forecast of global economic growth from 3.9 to 3.7 for 2018 and 2019.⁹ Notably, escalating trade tensions, particularly between China and the US, have meant that growth is no longer synchronized, with growth projections revised downwards for Japan, India, the European Union, and in countries with weaker fundamentals, such as South Africa and Argentina.

At the close of the G20 Meeting of Finance Ministers and Central Bank Governors in July 2018, Christine Lagarde, the managing director of the IMF, highlighted the short-term risks in the global economy and stressed the importance of safeguarding the international trade system and the importance of sound precautionary fiscal

policies to avoid a downward financial spiral.¹⁰ The address also touched upon challenges arising from digitalization, artificial intelligence (AI), automation and the need to prepare for the future of work. This resonates with her warnings at the beginning of 2018 at the World Economic Forum on persisting inequality and low productivity growth in an era of rapid population aging and the proliferation of automation.¹¹

The *Global Risks Report* adopted a cautious tone with regards to the global economic outlook, and it is important to continue monitoring the existing economic fault lines it highlighted. Apart from a sustained high level of inequality, other pertinent

economic concerns include the high global debt load (notably corporate debt) as a percentage of GDP, the increase in protectionist measures, and the overvaluation of assets in comparison with forward earnings estimates. The report particularly stresses the increasing complexity of the macro-level risk landscape, in which multiple sources of volatility and the incredibly fast-paced changes can lead to sudden and dramatic breakdowns.

In the following discussion, we will examine how the four key risk areas outlined in the *Global Risks Report* manifest themselves in Asia-Pacific, and recent developments in what we think are the most important vulnerabilities in the region.

TOP CONCERNS IN ASIA-PACIFIC: PERSPECTIVES FROM LOCAL BUSINESSES

Corroborating the results of the *Global Risk Perception Survey* and the findings in the *Global Risks Report*, the results of the Executive Opinion Survey show that businesses across Asia-Pacific economies continue to face a multitude of risks, with the four main risk areas in the *Global Risks Report* adequately represented (Exhibit 1). In the following discussion, we will review the Asia-Pacific risk landscape, focusing on these four risk areas, namely economic, geopolitical, technological and environmental.

ECONOMIC RISK: UNDERLYING FRAGILITIES































Despite continued strong growth, fragilities in Asia-Pacific economies are crystalizing. While the region continues to register strong near-term growth, projected at 5.6 percent for the next two years, worrying signs around high debt levels, soaring housing prices, ongoing protectionism and rising inequality have are being observed in recent years across the region.¹²

According to the Global Debt database published by the IMF, Asia-Pacific **debt** (both private and public) has been growing substantially since the

GFC. The region has overtaken North America as the biggest contributor to global debt in 2008, accounting for 35 percent of global debt in 2016.¹³ Analysts have been rightly worried about a default crisis if credit conditions tighten,¹⁴ such as in the event of an interest rate hike. Debt growth in the region has been fueled by rapid credit expansion in China, where credit to the non-financial sector (includes credit to the government, households and non-financial corporations) reached CNY211 trillion (\$32.4 trillion) or 255.7 percent of GDP in the fourth quarter of 2017, from 141.3 percent of GDP in 2008. High debt in the non-financial sector is also observable in other major economies in the region, notably Hong Kong, Japan, and Singapore (Exhibit 3A).

The nature of the debt problem differs across economies. For example, while credit to non-financial corporations and household debt have been increasingly serious in China,^{15,16} the main concern in Japan continues to be the extraordinarily high level of public debt, which threatens the nation's sovereign bond market.¹⁷

Exhibit 1: Top concerns for doing business in the next 10 years for selected economies in Asia-Pacific 2017/18

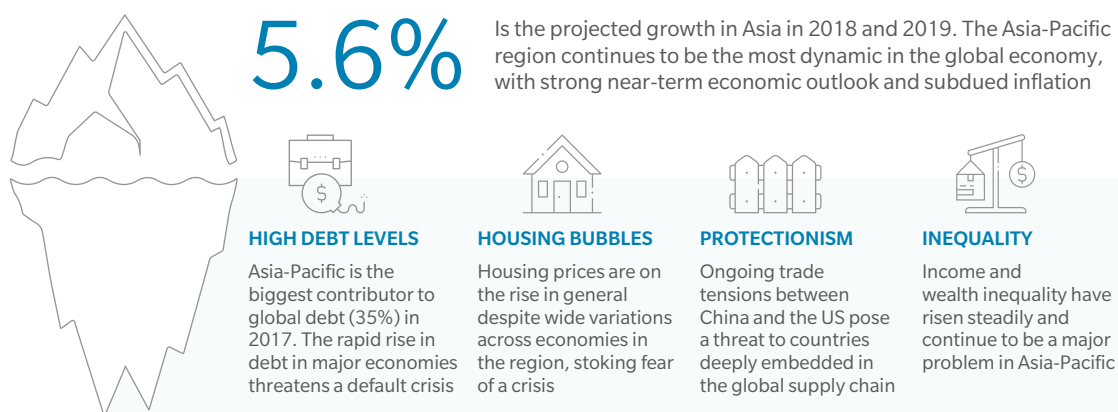
CHINA	JAPAN	INDIA	SOUTH KOREA	AUSTRALIA	INDONESIA	TAIWAN		
 Natural catastrophes	 Cyber attacks	 Cyber attacks	 High unemployment	 Energy price shock	 Cyber attacks	 Interstate conflict		
 Deflation	 Misuse of technologies	 Terrorist attacks	 Interstate conflict	 Cyber attacks	 Terrorist attacks	 Energy price shock		
 Data fraud/theft	 Regional/global governance failure	 Failure of financial mechanism	 Cyber attacks	 Asset bubble	 Data fraud/theft	 Asset bubble		
 Illicit trade	 Illicit trade	 Water crisis	 Asset bubble	 Regional/global governance failure	 Food crisis	 Extreme weather events		
 Cyber attacks	 Natural catastrophes	 High unemployment	 Fiscal crisis	 Critical infra. shortfall	 Fiscal crisis	 Misuse of technologies	 High unemployment	 Cyber attacks
THAILAND	MALAYSIA	SINGAPORE	PHILIPPINES	HONG KONG	VIETNAM	NEW ZEALAND		
 Man-made environmental crisis	 Data fraud/theft	 Cyber attacks	 Critical infra. shortfall	 Asset bubble	 Urban planning failure	 Extreme weather events		
 National governance failure	 Cyber attacks	 Terrorist attacks	 National governance failure	 Cyber attacks	 National governance failure	 Cyber attacks		
 Asset bubble	 High unemployment	 Data fraud/theft	 Inflation	 Social instability	 Regional/global governance failure	 Regional/global governance failure		
 Critical infra. shortfall	 Misuse of technologies	 Asset bubble	 Climate adaptation	 Regional/global governance failure	 Cyber attacks	 Critical infra. shortfall		
 Cyber attacks	 National governance failure	 Water crisis	 Infectious disease	 Regional/global governance failure	 Misuse of technologies	 Asset bubble	 Climate adaptation	

● Economic ● Environmental ● Geopolitical ● Societal ● Technological

Note: World Economic Forum Executive Opinion Survey (~12,500 responses worldwide). Results are based on 2,487 responses across the region. Respondents could choose up to five risks which they viewed as being most important for doing business in their country in the next 10 years. Top regional risks are calculated as the average across all countries of the proportion of respondents in each country identifying each risk as one of their five choices

Source: World Economic Forum Executive Opinion Survey 2018, APRC analysis

Exhibit 2: Economic risks in Asia-Pacific



Source: Data from IMF, APRC analysis

Elsewhere, while debt levels in India remain relatively manageable, the situation with regards to non-performing assets in the country can be considered precarious (Exhibit 3B). Weak governance and lax due diligence processes for underwriting following the GFC have resulted in a borrowing spree that has led to about US\$210 billion of non-performing assets in state banks after a slowdown in the economy made it difficult for many businesses to service their debt.¹⁸ The Indian government has attempted to reduce the debt through a recapitalization plan, but there are fears that their efforts have been insufficient.¹⁹

Another major economic vulnerability in Asia-Pacific stems from complex developments in the **housing sector**. According to data from the Bank of International Settlements (BIS), house prices have been growing faster than income in most economies in the region since 2010. Notably, annual growth of more than 8 percent has been recorded in housing prices in Hong Kong and India from 2010 to 2017 (Exhibit 3C). This growth is indicative of how housing is becoming increasingly unaffordable. More detailed analysis of specific housing markets showed that besides Hong Kong, Sydney, Melbourne, and Auckland are also among the most unaffordable housing markets.^{20,21} The house price-to-income ratio in New Zealand, for example, has increased by 40 percent since 2010,²² the largest increase globally. Other reports have also pointed to Mumbai as being second only to Hong Kong in terms of how unaffordable housing is; and while prices have cooled as a consequence of new regulations, urban home prices are still largely out of reach for many Indian families.²³

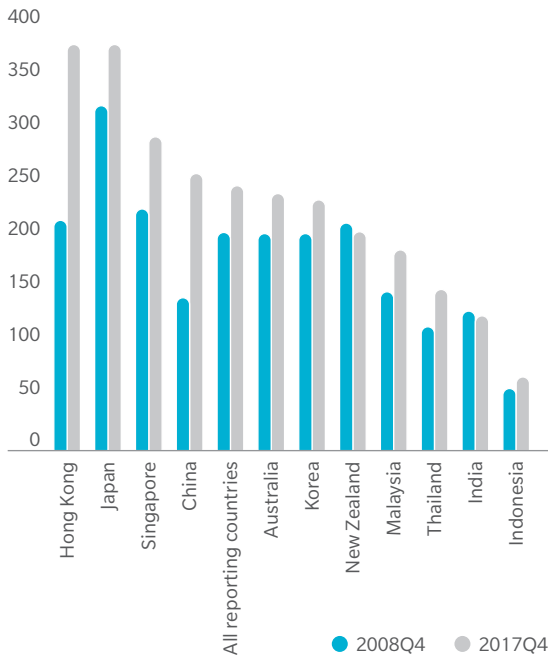
High housing prices in the region have stoked fears about possible asset bubbles ready to burst, particularly in markets where the property price boom has shown no sign of slowing, such as in Hong Kong.²⁴ Recent developments in the sector have seen prices drop in some key markets such as India, Australia and New Zealand.^{25,26} Whether this is the start of a substantive correction remains to be seen, but what is clear is that prices remain at historic peaks when seen as a ratio to household income.

One lesson from the 2008 US housing market failure is to closely follow how housing is being financed, whether private household debt has played a large role in financing these properties, and whether these debt levels are sustainable.²⁷ For example, there have been warnings that countries/cities with higher household debt loads in the housing sector such as Australia may be particularly vulnerable.²⁸

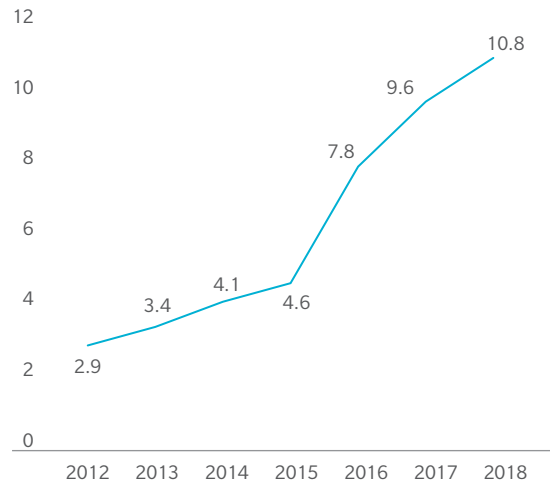
There are two other vulnerabilities in Asia-Pacific that may be harder to see amidst rapid economic growth in the region. First, Asia-Pacific continues to face the threat of **protectionism**, despite continued regional economic integration. While the ASEAN Economic Community (AEC) has abolished most trade tariffs among member countries, non-tariff barriers such as import- and export-permit related measures have nearly tripled from 2000 to 2015.²⁹ And despite the signing of a revised Trans-Pacific Partnership (TPP-11) that may benefit the region in the long run,³⁰ countries in Asia-Pacific will have to deal with the spill-over effects of an escalating US-China trade conflict in the short run (In Focus).

Exhibit 3: Signs of economic fragilities in Asia-Pacific

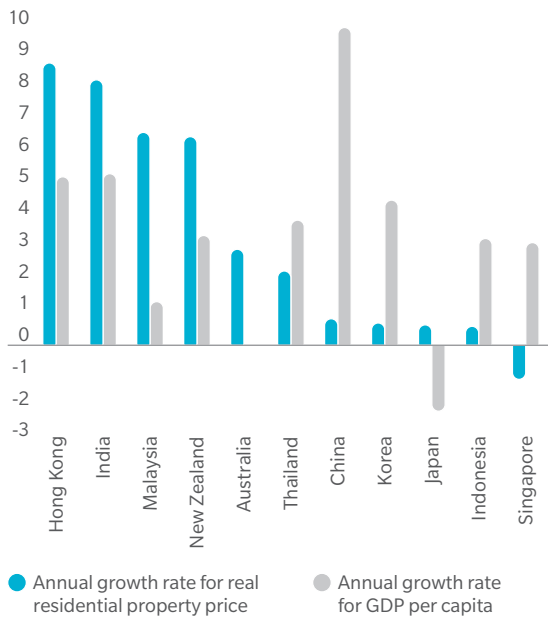
3A. NON-FINANCIAL SECTOR DEBT ACROSS ASIA-PACIFIC AS A PERCENTAGE OF GDP



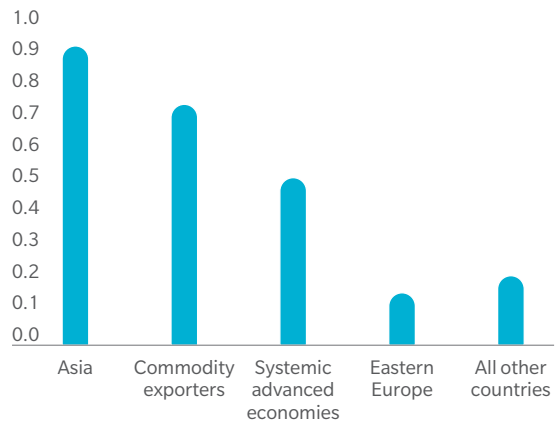
3B. NON-PERFORMING ASSETS IN INDIA (%)



3C. COMPOUND ANNUAL GROWTH RATE FOR REAL RESIDENTIAL PROPERTY PRICES AND GDP PER CAPITA FOR SELECTED ECONOMIES ACROSS ASIA-PACIFIC 2010-2017 (%)



3D. IMPACT ON EXPORTS OF A 1 PERCENT SHOCK TO CHINA'S DEMAND*1 GDP-WEIGHTED AVERAGE (%)



*1 Asia = HKG, IDN, KOR, PHL, SGP, THA
 Commodity exporters = AUS, BRA, CHL, COL, RUS, ZAF. Eastern Europe = CZE, EST, HUN, LTU, LVA, POL, SVK, SVN, TUR
 Systemic advanced economies = DEU, JPN, USA
 All other countries = ARG, AUT, BEL, CAN, CHE, DNK, ESP, FRA, FIN, GBR, GRC, ISR, IRL, ISL, ITA, LUX, MEX, NLD, NOR, NZL, PRT, SWE
 Data labels in the figure use International Organization for Standardization (ISO) country codes

Source: Data from BIS, the Reserve Bank of India, the Economist Intelligence Unit and IMF, APRC analysis

More broadly, the continued integration of Asia-Pacific's economies has also resulted in regional financial risks becoming increasingly concentrated in East Asia, and this poses a risk to the tightly knit economic networks in the region. For example, spill-over effects from China have increased over time, and a 1 percent shock to China's final demand is estimated to reduce Asia's exports by 0.9 percent after one year (Exhibit 3D).³¹ This is significantly higher compared to the impact on all other countries.

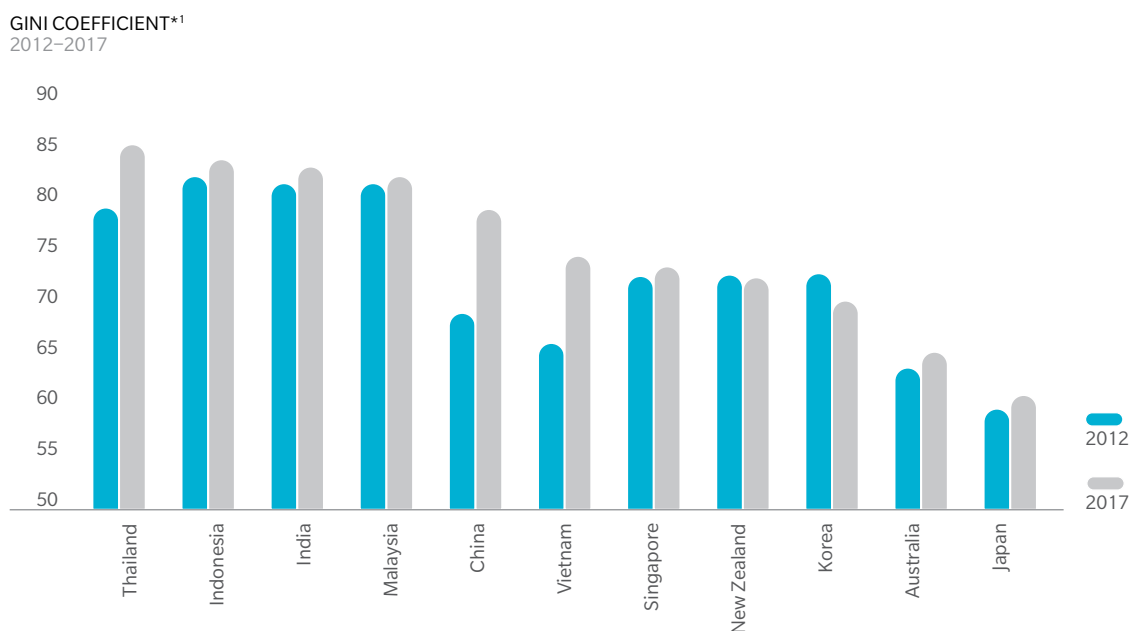
Finally, the steady increase in **economic inequality** in the region continues to be a cause for concern (Exhibit 4). Amidst strong economic growth in Asia-Pacific, inequality can be easily overlooked. However, dormant feelings of being marginalized can quickly cascade into social unrest and geopolitical turbulence when other catalysts such as an economic downturn materialize. Furthermore, as the last version of this report stressed on, inequality not only impedes economic growth but also hurt "the

rising Asian middle class" which is the main driver of demand and consumption growth, thus severely impacting businesses.

The dynamics of inequality are also changing quickly. For example, while the rural and urban divide has been a major issue in China,³⁷ the country's shift from heavy industrial manufacturing to higher value-added sectors has also led to economic decline in several provinces in the northeast, including Jilin, Liaoning and Heilongjiang. These areas have been dubbed "the Chinese rust belt".³⁸

This development adds a new dimension of inequality along geographical lines, where the divide is no longer only between the rural and the urban, but also between the metropolis and the peripheral cities. Spill-over effects are also visible, as this widening gap is threatening instability in the provinces mentioned above, which constitute a geopolitically important region near the China-Russia-North Korea border.

Exhibit 4: Wealth GINI Coefficient in selected countries in Asia-Pacific



*1 The **wealth GINI coefficient** shows the differences in the distribution of wealth. Higher GINI coefficients signify greater inequality in wealth distribution, with 0 implying perfect equality and 100 reflecting complete inequality

Source: Data from Credit Suisse's Global Wealth Data book 2012-2017, APRC analysis

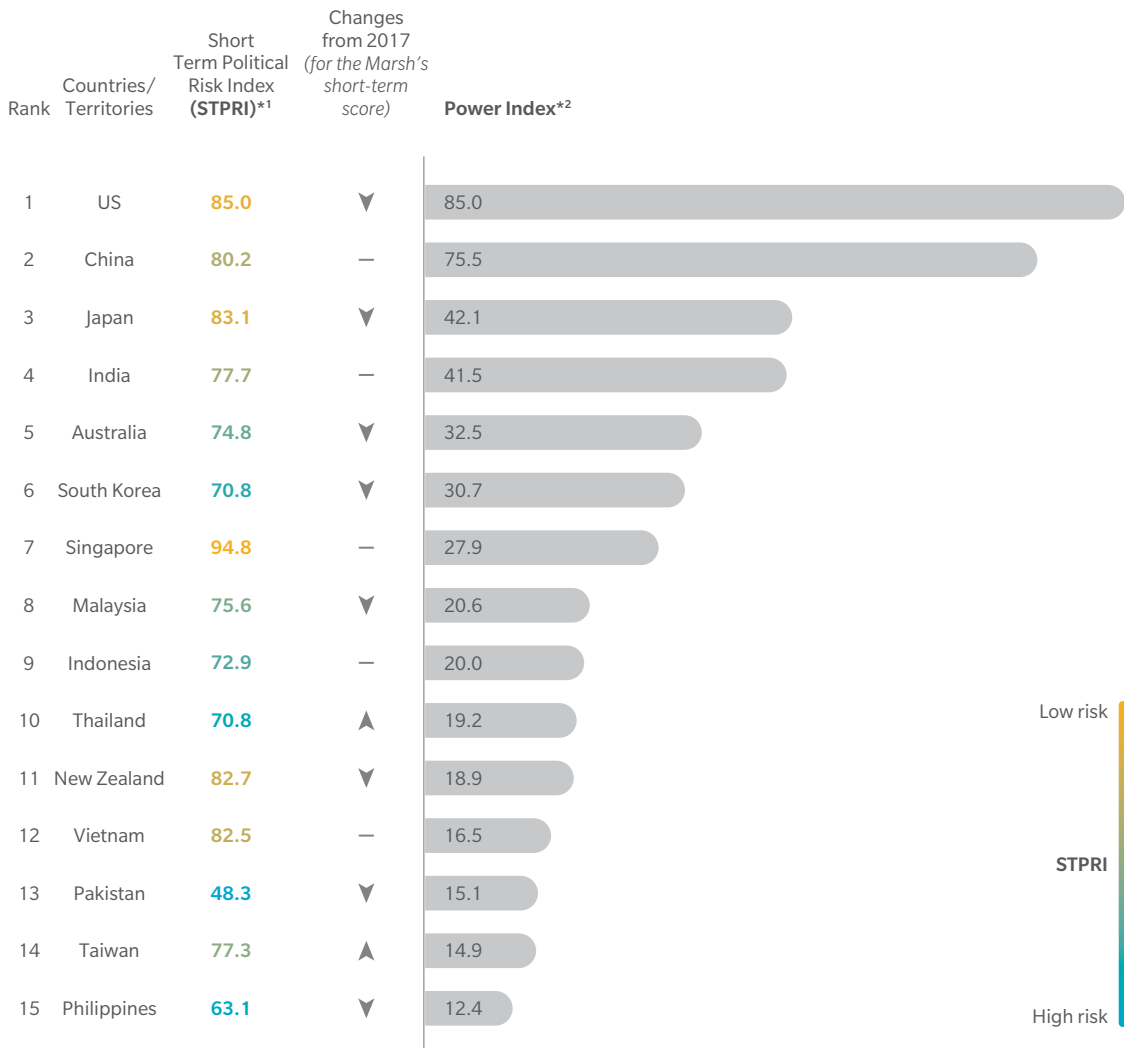
GEOPOLITICAL LANDSCAPE: MANEUVERING SHIFTING GEOPOLITICAL SANDS

Rapid geopolitical developments have created new uncertainties in the region. With global and regional powers redefining their priorities, smaller states are being forced to reconsider their foreign policies, making it harder for regional cooperation and integration.

Geopolitical complexity in Asia-Pacific is ongoing and continues to throw up challenges. Territorial tensions such as the island disputes in the South and East China Sea remain, even though there have been no new developments. The increasingly precarious state of international relations, however, has created new uncertainties.

The Marsh/BMI Political Risk Map,³⁹ which quantifies the risk of a political shock that will affect

Exhibit 5: Changes in short-term Political Risk 2017/2018 and Asia-Pacific



*1 The 2018 Marsh and BMI's Short-term Political Risk Index quantifies the risk of a sudden change in the political environment that would affect business conditions within a country/territory in the short-term. The key question is whether a government can deliver its chosen agenda, and is measured across 4 components: Policy making process, social stability, security/external environment, and policy continuity

*2 The 2018 Lowy Institute Asia Power Index ranks 25 countries and territories in the Asia-Pacific in terms of their ability to exercise power. Power is defined as the capacity of a state or territory to direct or influence the behavior of other states, non-state actors, and the course of international events. A country/territory's overall power index is its weighted average across the eight measures of power, which consists of: military capability and defense networks, economic resources and relationships, diplomatic and cultural influence, resilience and future trends

Source: Marsh and BMI's Political Risk Map 2018 and Lowy Institute's Asia Power Index 2018

a country's business environment, shows that short-term political risk in major countries, namely Australia, Korea, Japan, Malaysia and the Philippines, has increased over the past year (Exhibit 5). This reflects the various complicated recent geopolitical changes in the region, from the ongoing developments on the Korean Peninsula to the continuing presence of the Islamic State. Domestically, there have been not only surprising election results (such as that in Malaysia), but also an overall spread of populism, nationalism and strong-state politics – a continuing trend from 2015/16 – which further complicates geopolitical relations in Asia-Pacific.⁴⁰

At a higher level, the ascent of China onto the world stage as a global leader, together with the US' more protectionist stance on trade, has led to major power shifts.⁴¹ Countries in the region have found that they will need to recalibrate their relations with major powers, particularly with China and the US. Some states, such as Cambodia, seem to have realigned themselves with one of the major powers,⁴² while others such as Singapore

continue to navigate complex state relations and manage balanced ties. India, a regional major power, is also trying to maintain a delicate balance between cooperating and competing with China.

Geopolitical considerations have significantly complicated initiatives for deeper trade and investment ties. For example, China's Belt and Road Initiative (BRI), which aims to bolster regional connectivity and cooperation, has exacerbated tensions and prompted strong reactions due to its potential geopolitical underpinnings. For instance, Thailand plans to reduce its reliance on Chinese investment by creating a regional fund for infrastructure together with Laos, Vietnam, Cambodia and Myanmar.⁴³ Another example is the development of another major infrastructure project proposed by Australia, the US, Japan and India (dubbed "the Quad"), as a geopolitical response to the BRI.⁴⁴ The fear is that these geopolitically driven projects are not based on sound projections of economic returns and will end up resulting in wasteful expenditure.⁴⁵

| I N F O C U S |

FALL-OUT FROM THE US-CHINA TRADE DISPUTE

According to recent analyses,³² the US-China trade war will have far reaching impacts beyond direct effects to the US and China as it hits the global supply chain. In particular, economies that are deeply embedded in China's supply chain, based on added value to Chinese exports to the US, such as Taiwan, South Korea, Malaysia, and Singapore, will be most exposed.³³ The Bank of Japan Governor Haruhiko Kuroda has also sounded an alarm over the potential indirect impact of the trade war on Japan's economy.³⁴ Similarly, 16.7 percent of the Philippines' exports are part of China's value chain, making the country vulnerable to softened demand for Chinese exports in the US as a consequence of the tariffs imposed.³⁵

The trade war also poses a major threat to other economies that are dependent on exports for economic growth in general. The effects vary depending on the type of export goods. For example, manufacturing goods exporters such as Vietnam – whose shipped goods totaled 99.2 percent of national GDP during April 2017 – March 2018, and whose total value of exports has more than quadrupled from 2008 to 2018 – may be more adversely impacted by the trade war than Hong Kong, which mainly exports services to the US and China.³⁶ Separately, the appreciation of the US dollar as an effect of the trade war has also brought about potential currency and balance of payment risks. As their currencies depreciate, economies such as the Philippines and Indonesia, which are less export-oriented, may be faced with inflationary pressures and the risk of growing account deficits.

TECHNOLOGICAL RISKS: RAPID CHANGES

Advances in technology have become the focus of many governments and is featured heavily in national development strategies. However, emerging technologies are evolving faster than society’s ability to effectively regulate and manage them. Governments across Asia-Pacific will increasingly have to actively weigh between the benefits that technology can bring, while attempting to prepare for unknown operational, security and ethical problems arising from it.

Many Asia-Pacific countries have recognized the strategic importance of technological development and accelerated their push for a more technologically-savvy society, exemplified by Singapore’s launch of its “Smart Nation” initiative for digital transformation.⁴⁶ Countries are also looking to leverage technology as one of the avenues to address the aging dilemma in Asia-Pacific.⁴⁷ Notably, the application of new technologies in areas such as healthcare and job redesign are expected to partially alleviate demographic pressure on aging societies’ workforce productivity. In Japan, for example, automation has been deployed at a large scale to help address the tight labor market as more older employees exit the workforce.⁴⁸ Another notable area where new technology has contributed is in renewable energy, which help with climate change adaptation and mitigation.

Among the rapidly developing technologies, AI has become the focus of intensifying technology competition between major powers such as the US and France,⁴⁹ as well as Japan and China, which are also taking steps to better understand and advance AI. More recently, China’s “Made in China 2025” blueprint, which calls for “self-sufficiency” through technology substitution, has become a bone of contention in its trade dispute with the US.⁵⁰ Tellingly, China’s total equity funding to AI startups exceeded that of the US in 2017 (Exhibit 7).

As interest in advanced technologies has increased, the adverse effects of these emerging technologies have become more visible as well, demanding swift regulatory responses. In the last version of this report,⁵¹ for example, we stressed on the consequences of technological advances and automation – in particular the loss of manufacturing jobs, especially in emerging economies, and how this has impacted employees in lower-skilled jobs/industries the most.

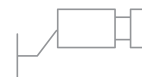
Over the past three years, cyber-attacks have also come to the fore,⁵² especially in Asia-Pacific countries where cyber security frameworks and preparedness are significantly weaker than in the West. Singapore, for example, recently experienced a massive cyber-attack on its national healthcare institutions, in which personal data of millions of patients were stolen, including that of the prime minister.⁷ Also on the rise are state-on-state cyber-attacks across the region,⁵³ with various regional

Exhibit 6: Weighing the benefits of technology and its various risks



BENEFITS OF TECHNOLOGICAL ADVANCEMENT

- Technology can be applied to boost productivity and help alleviate other social/environmental problems
- Key emerging technologies have become part of national strategies and key investment priorities, globally and in Asia-Pacific



OPERATIONAL, SECURITY AND ETHICAL RISKS

- Cyberattacks in Asia-Pacific have been increasing in both frequency and sophistication
- Societal consequences, such as how automation can lead to job loss, have been highlighted before
- Possible geopolitical implications such as state-on-state cyberattacks and cyber laws



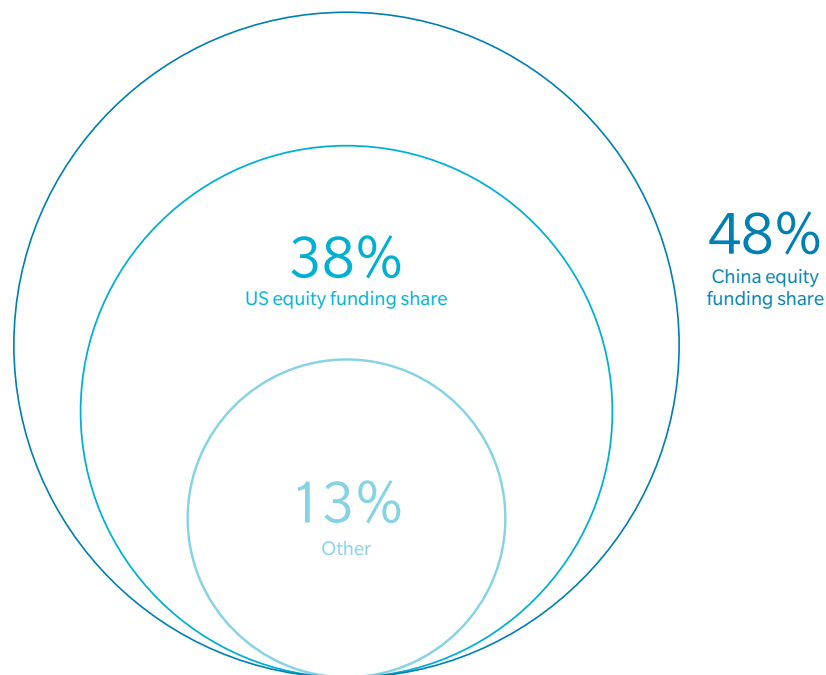
Source: APRC analysis

state-sponsored groups taking advantage of network vulnerabilities to collect personal information for political purposes. New Zealand, for example, reported that 122 out of the total 396 cyber-attacks it faced in 2017 were linked to state-sponsored computer network exploitation groups.⁵⁴ North Korea has also been accused of sponsoring cyber operations to attack and raise cash for the regime, emphasizing the prevalence of such acts in Asia-Pacific.⁵⁵

The need to tighten cyber security frameworks has led to the development and enactment of new cyber laws across Asia-Pacific. However, the possible geopolitical and economic implications of such processes are often left out. For instance, the wide and ambiguous mandate of recently passed cyber laws in China and Vietnam have

been criticized as enabling more state control over multinational companies' data, while putting these businesses at risk of regulatory troubles outside the bounds of cyber security.^{56,57} These laws also require multinational companies to store critical personal data collected locally, which will significantly increase business costs. Related to these developments, another worrying trend is the potential shift from the "Internet" to "splinter-net",⁵⁸ where protectionist policies could evolve into a tech-based trade war on the back of already tenuous relationships. Between China, the US and the European Union (EU), each region has been looking to develop its own policies regarding data and cyber security, which may not be compatible with those in others, resulting in a fragmented Internet.

Exhibit 7: US and China total equity funding to AI startups in 2017



Source: CB Insights

ENVIRONMENTAL RISKS: BALANCING DEVELOPMENT AND SUSTAINABILITY

The volatility of extreme weather events and natural disasters is increasing, making them harder than ever to manage. Countries in Asia-Pacific continue to grapple with the economic and social consequences of these events, while balancing between economic development plans, the climate change mitigation and adaptation agenda, and the potential geopolitical ramifications of climate change.

Asia-Pacific continues to be the most disaster-prone region in the world – human loss,⁵⁹ displacement and ensuing social disruption due to extreme events in the region have been well documented. According to the United Nations' Department of Economic and Social Affairs, half to two-thirds of Asia's cities with at least one million inhabitants are exposed to climate-related hazards.⁶⁰ Floods and tropical cyclones are the main drivers of economic losses and often hit coastal areas, where most people and assets are concentrated. Natural disasters have caused immediate economic loss through asset destruction, and through disruption of the complex networks of global supply chains when key economic centers (such as industrial zones or key ports) have been hit.⁶¹

While environmental risks are expected and relatively well understood, they have not been adequately addressed and can still surprise us. In fact, as the frequency and destructiveness of natural disasters in Asia-Pacific are projected to increase in the coming years,⁵⁹ efforts to shore up resilience will have to be intensified going forward.

However, a multitude of domestic and international factors have conspired to frustrate this process.

Domestically, governments continue to have to balance between economic development, energy security, and making progress towards climate change mitigation and adaptation. For instance, in October 2017, China abruptly closed thousands of factories as part of the government's crackdown on pollution.⁶² The move sparked fear that the resulting disruption may damage the country's economic growth,⁶³ even as the government argued that there are no longer-term economics.⁶⁴ Similarly, the Philippines government decided in late April 2018 to close the popular Boracay beach for six months in an attempt to rectify sewage and environment-related problems, at the cost of 56 billion pesos in tourism revenue if the closure lasts for a year.⁶⁵

Problems arising from this difficult balancing task can also be observed in Asia-Pacific countries' national efforts to meet renewable energy targets.⁶⁶ Globally as well as regionally, the renewable energy agenda has garnered support from not just governments but also the private sector, which has stepped away from coal-fired generation. For example, larger insurers such as Zurich, AXA, Allianz, Munich Re, Generali and Swiss Re have limited their coverage for coal-fired power generation assets.⁶⁷ However, in some cases, the push towards renewables has come into conflict with the need to meet national energy demand.

For instance, in Indonesia, which is the second biggest coal exporter globally, the government aims to increase renewable energy capacity to 23 percent of total energy mix by 2025, but this is

Exhibit 8: Projected vulnerability changes for Asia and the Pacific

As Asia-Pacific becomes more vulnerable to climate change, economies in the region continue to grapple with major challenges



Balancing between **climate change mitigation and adaptation agenda** and **economic development plans**



Seeking **international cooperation** to address environmental risks in a **geopolitically complicated region**

Sources: UNESCAP

made difficult partially by the continued dependence on coal to meet soaring energy demands. As such, the need to persist with subsidies for the coal industry has made renewable energy significantly less competitive despite the government's ambitious target.⁶⁸ Australia's transition to renewable energy elucidates this point further. In this case, some coal plants have been shut down before renewable sources have been able to reach the required capacity to replace them, thus contributing to a supply-demand mismatch and a serious energy price shock.⁶⁹ Debate at the federal level around this transition has been mired with political fracture and unclear directives, exacerbating the problem.⁷⁰

Finally, a significant component of environmental risk reduction is directly tied to climate change mitigation and adaptation, which more often than not requires concerted efforts from all countries. In 2016, a landmark agreement was reached at

the United Nations Framework Convention on Climate Change, which sought to pave the way to limit global temperature rise this century to below 2 degree Celsius. Since then, in Asia-Pacific, positive headway has been made across several countries. China continues to make efforts to combat its pollution problems and it is leading the energy transition to renewables. Some countries, such as India and Nepal, have established cross-border advanced warning systems to safeguard against flooding, cyclone, drought and heatwave.⁷¹

However, similar cooperation in the region to curb climate risks has been limited, partly due to geopolitical tensions. For example, the border dispute between China and India may have played a role in China's refusal to share hydrological data for the Brahmaputra river from upstream China with downstream India in the monsoon season for flood projections, heightening flood risks in the region.⁷²

PREPARING FOR A COMPLEX, INTERCONNECTED, AND EMERGENT RISK LANDSCAPE

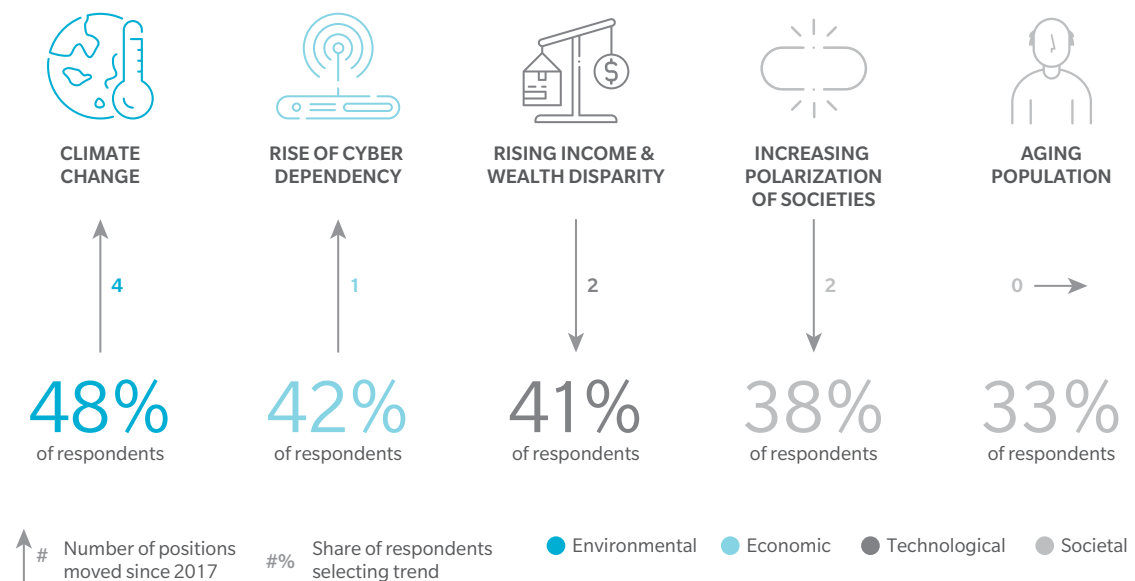
The Asia-Pacific region will continue to remain economically dynamic and vibrant, but businesses will also be looking at a complex web of interconnected risks that are simultaneously pulled by various trends. Findings from the *Global Risks Report 2018* show that the five trends shaping global development identified in the *Global Risks Report 2017* continue to be high on the minds of risk experts (Exhibit 9).

The turbulent pace of global and regional change in 2017/2018 has given rise to risks that can no longer fit into a singular category. A prime example of these risks is the permeation of technological elements into other categories of risks, notably geopolitical concerns. For example, it is now arguably impossible to have an informed discussion on geo- or socio-political issues in Asia-Pacific without referencing the increasing frequency of state-on-state cyber-attacks, or the political, economic and ethical implications

of enacted cyber laws in response. An equally illuminating example is how the risk of water crisis has transformed from an environmental risk to a societal risk due to its wide-ranging effects on communities, and may lead to geopolitical instabilities in the future. For example, the construction of dams by countries in upstream Mekong river for water and energy security has adversely affected the livelihood and the river ecosystem of countries in the downstream, exacerbating environmental risks in these localities and heightening geopolitical tensions, too.⁷³

In the discussion that follows, we aim to show this complexity, interconnectedness, and emergent characteristic of the Asia-Pacific risk landscape through in-depth analyses of two important issues for regional development, namely the risks of **critical infrastructure failure or shortfall, and talent shortages**.

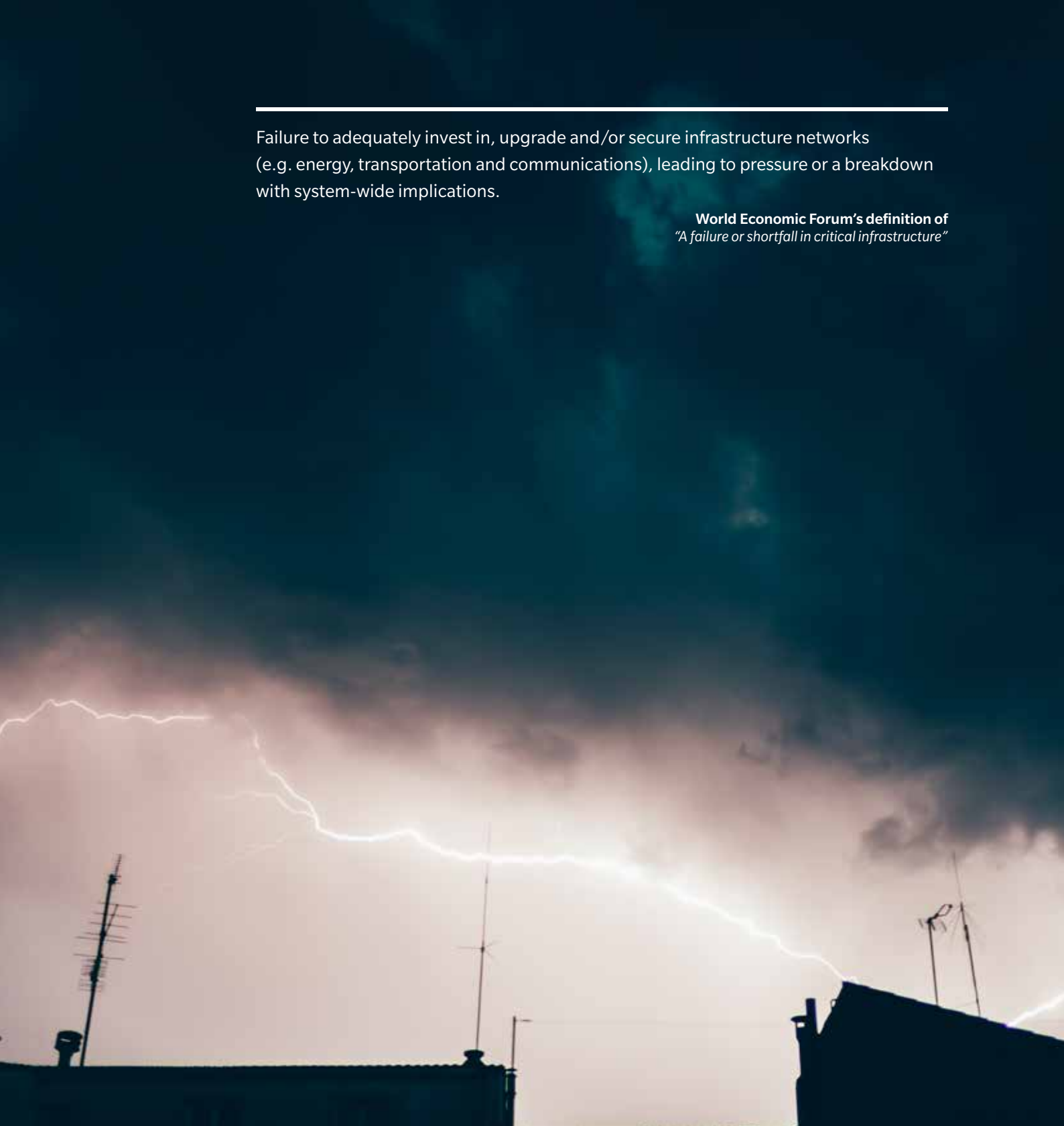
Exhibit 9: Top trends shaping global development 2018



Source: Global Risk Perception Survey 2018

Failure to adequately invest in, upgrade and/or secure infrastructure networks (e.g. energy, transportation and communications), leading to pressure or a breakdown with system-wide implications.

World Economic Forum's definition of
"A failure or shortfall in critical infrastructure"



SAFEGUARDING DEVELOPMENT IN ASIA-PACIFIC: KEY RISKS TO THE PHYSICAL AND HUMAN INFRASTRUCTURE

The Asia-Pacific region is developing incredibly fast economically. The continuation of such growth will require matching developments in the region's physical infrastructure and human infrastructure. These are important development areas for both governments and businesses in Asia-Pacific.

It is thus important to address the risk of critical infrastructure failure or shortfall (a risk to the region's physical infrastructure), and the risk of talent shortages (a risk to the region's human infrastructure). These risks affect regional economic growth, and also carry significant societal implications, with inequality and social instability at the center. Underdeveloped critical infrastructures present a major barrier to poverty reduction and equitable development. On the other hand, a growing talent crunch implies a shrinking population of those possessing relevant

skills, or access to the training of such skills. This inequality of skills will translate into an unequal distribution of income and wealth, which can be deeply destabilizing for society.

This chapter is thus dedicated to discussing the risks of critical infrastructure failure or shortfall, and talent shortages in Asia-Pacific. It begins with an overview of these issues across the region and is followed by an analysis of how ongoing trends will influence them, and how businesses can respond to these threats. Building on the previous chapter, these two nexus of risks provide vivid illustrations of how independent risks continue to be enveloped in mega trends that significantly impact how they will evolve. While the discussion is primarily from a business perspective, it also carries relevance to governments and policymakers across Asia-Pacific.

CRITICAL INFRASTRUCTURE FAILURE OR SHORTFALL

Infrastructure development in Asia-Pacific has historically faced a paucity of funds. There is a lack of private participation and governments finance more than 90 percent of infrastructure investment. However, most governments do not have the capacity and resources to meet their national infrastructure needs.⁷⁴ The effects of this shortfall have been widely felt as large pockets of the region suffer from poor connectivity, prolonged traffic congestions, power outages, or overload.

Transportation infrastructure: There is consensus that emerging economies are trailing significantly behind advanced economies in terms of transportation infrastructure quality, leading to substantial economic cost. Lost time and increased transportation costs due to road congestion are together estimated to cost Asian economies 2-5 percent of GDP every year.⁷⁵ Additionally, poor transportation infrastructure, especially port infrastructure, can also result in significant opportunity cost of unrealized economic growth.⁷⁶

Energy infrastructure: According to the Energy Trilemma Index, which tracks countries/territories' performance in Energy Security, Energy Equity and Environmental Sustainability,^a Asia overall is underperforming across all three pillars. As with transportation infrastructure, the substantial increase in energy demand from economic growth will require substantial additional development and improvement to the region's energy infrastructure. There are three key challenges the region faces in this regard:

- **The urban-rural divide in energy access** remains the key problem for energy equity in the region
- **The lack of energy security**, most discernible through high loss in transmission and distribution and unreliable energy supply, which lead to frequent outages that disrupt everyday life
- The **slow progress of the renewable energy agenda** needs to be addressed to ensure energy security while pursuing environmental sustainability

a. The three pillars of the Energy Trilemma Index are defined as followed:

- Energy security: Effective management of primary energy supply from domestic and external sources, reliability of energy infrastructure, and ability of energy providers to meet current and future demand
- Energy equity: Accessibility and affordability of energy supply across the population
- Environmental sustainability: Encompasses achievement of supply- and demand-side energy efficiencies and development of energy supply from renewable and other low-carbon sources

Information and Communication Technology (ICT) infrastructure: Limited access to ICT (notably in terms of the share of population with access to the Internet and broadband subscriptions) suggests a dearth in infrastructure despite more investment being dedicated to the sector. Failure to meet the growing demand for ICT infrastructure will significantly hamper growth in emerging countries, and will contribute to a widening digital

gap domestically and globally.⁷⁷ At the same time, more and improved ICT infrastructure are also needed from a cybersecurity perspective. Despite the rise in cyber dependency and the growth in the number and sophistication of cyber-attacks in recent years, there is a lack of investment in appropriate cybersecurity measures, leaving many critical infrastructures exposed.⁷⁸

Table 1: Selected indicators for the state of transportation, energy and ICT infrastructure across different economies in Asia-Pacific

SECTOR	QUALITY OF TRANSPORTATION				ENERGY			ICT			
	Road	Rail-road	Port	Air transport	Quality of energy supply	Access to electricity	Loss from Transmission & Distribution	Mobile subscription	Individuals using the internet	Fixed broadband subscription	Secured internet servers
Unit	1-7, best	1-7, best	1-7, best	1-7, best	1-7, best	% of population	% of electricity consumption	Per 100 people ^{*1}	% of population	Per 100 people	Per one million people
Year	2017	2017	2017	2017	2017	2017	2017	2016	2016	2016	2016
EMERGING ECONOMIES											
Indonesia	4.1	4.2	4	4.8	4.4	97	9.8	148	25.3	2	1,284
Malaysia	5.3	5	5.4	5.7	5.9	100	6.1	141	78.8	8.7	4,837
Philippines	3.1	1.9	2.9	2.9	4.2	89	9.7	109	55.5	5.5	88
Thailand	4.3	2.6	4.3	5.2	5.2	100	5.9	174	48	10.5	580
Vietnam	3.4	3	3.7	3.8	4.3	99	9.2	128	47	9.6	1,335
China	4.6	4.8	4.6	4.9	5	100	5.8	97	53.2	23	209
India	4.3	4.4	4.6	4.6	4.7	79	19.9	85	29.5	1.4	123
ADVANCED ECONOMIES											
Australia	4.8	4.1	4.9	5.2	5.7	100	5.1	110	88.2	30.6	21,547
New Zealand	4.7	3.5	5.5	5.6	6.5	100	6.6	124.4	88.5	32.8	14,980
Korea	5.6	5.7	5.2	5.9	6.4	100	3.5	120.7	92.8	40.5	1,196
Hong Kong	6.2	6.3	6.5	6.6	6.8	100	9.4	240.8	87.5	36.0	10,484
Japan	6.1	6.6	5.3	5.6	6.7	100	4.6	131	93.1	31.2	5,980
Singapore	6.3	5.9	6.7	6.9	6.9	100	1.7	150	81	26	58,690

*1 A subscription rate of more than 100 subscriptions per 100 people implies that on average, every person has more than one subscription

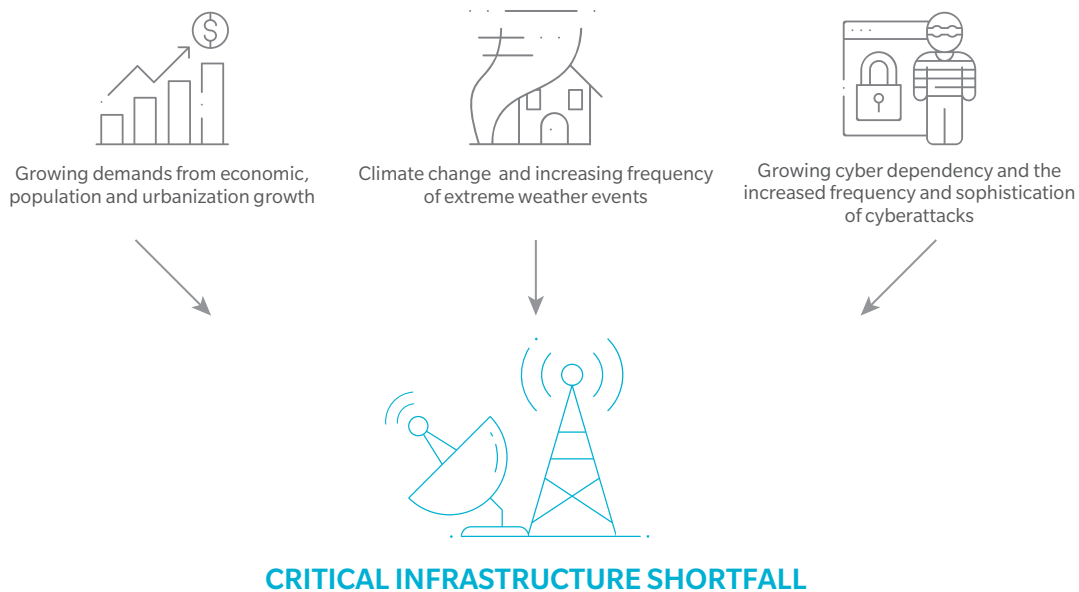
Source: Global Competitiveness Index 2017–2018, Energy Trilemma Index 2017, and the World Bank’s Development Indicators

FUTURE COMPLICATIONS: HOW ONGOING TRENDS EXACERBATE INFRASTRUCTURE FAILURE OR SHORTFALL

The existing infrastructure failure or shortfall in Asia-Pacific will be exacerbated by three ongoing trends in the region (Exhibit 10). These trends heighten the **shortage** of infrastructure, the **vulnerability** of existing infrastructure, and highlight the need to bolster critical infrastructure quantity and quality in the region.

- First, as discussed in the previous section, the rapid economic growth in Asia-Pacific, which is accompanied with a rapid growth in population and urbanization, will create demand for new critical infrastructure in the transportation, energy and ICT sectors
- Second, the increasing frequency and unpredictability of climate change events will inflict significant damage on critical infrastructure and also heighten demand for the expansion and upgrade of old infrastructure. It will also necessitate the provision of new infrastructure that can contribute to climate change adaptation and mitigation
- Finally, the rise in cyber dependency has made physical infrastructure significantly more connected and thus more vulnerable to cyber-attacks. The increased frequency and sophistication of these attacks in recent years have highlighted the need to protect critical infrastructure from a cybersecurity perspective

Exhibit 10: Ongoing trends that will exacerbate infrastructure failure or shortfall



Source: APRC analysis

GROWING DEMAND FROM ECONOMIC, POPULATION AND URBANIZATION GROWTH

Strong economic growth in the past 10 years in Asia-Pacific has pushed up the demand for new infrastructure, particularly in the region's emerging economies. There is additional pressure in this regard from continued urbanization,⁷⁹ the rate of which in East Asian and Southeast Asian countries has exceeded the global rate of urbanization (Exhibit 11A). Demographic changes will also likely increase the demand for infrastructure, both in countries where the population is expected to continue growing like in India, or in aging societies where there is an increasing demand for infrastructure that can accommodate an older population.

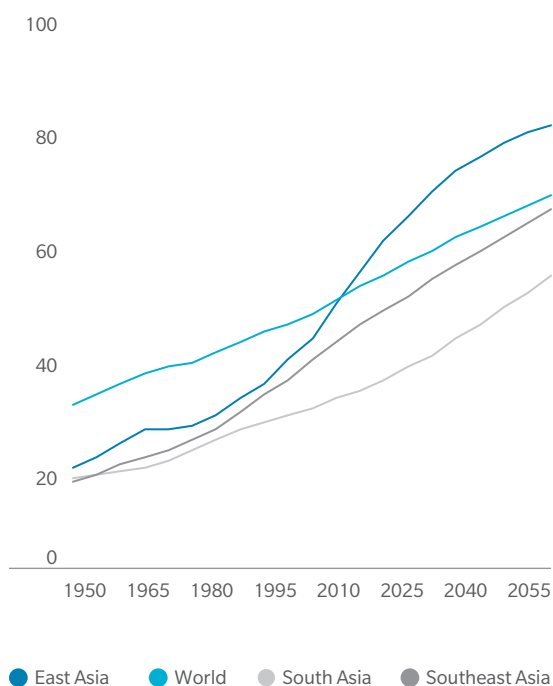
According a report by the Asian Development Bank (ADB), 45 developing countries in Asia (including Asia-Pacific and central Asia) will require an additional \$22 trillion for infrastructure development to maintain economic growth

and eradicate poverty between 2015 and 2030. As China has already been investing heavily in domestic infrastructure projects and the Belt and Road Initiative (BRI), the gap is presently a bigger concern in other countries in the region (Exhibit 11B).⁷⁴

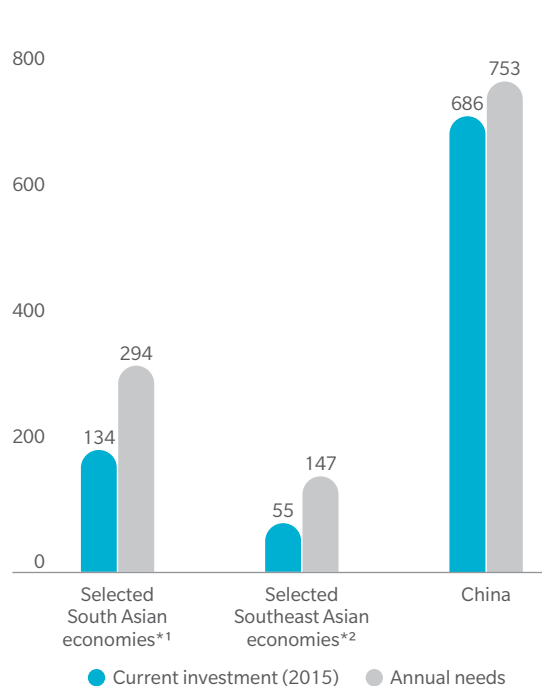
In terms of sectors, investment needs are the highest in energy and transportation infrastructure. Together, the investment gap in these sectors constitutes more than 86 percent of the total infrastructure gap in Asia-Pacific. This is consistent with a previous ADB estimation,⁸⁰ according to which, the largest infrastructure gap is in the electricity sector at 3.17 percent of estimated regional GDP, followed by transportation (2.3 percent) and telecommunications (0.82 percent). It should be noted, however, that the composition of this gap varies widely across regions and countries. For example, the transportation infrastructure gap is significantly more acute in South Asia than in East and Southeast Asia, where investment needs are more concentrated in electricity infrastructure.

Exhibit 11: More infrastructure is needed to support economic and population growth as well as ongoing urbanization

11A. PERCENTAGE OF URBAN POPULATION ACROSS REGIONS



11B. INFRASTRUCTURE GAP IN ASIA (2015 \$BILLION) 2016-2030



*1 South Asian economies studied in the ADB report are Afghanistan, Bangladesh, Bhutan, India, Pakistan, Sri Lanka, Maldives, Nepal

**2 Southeast Asian economies studied in the ADB report are Brunei, Indonesia, Cambodia, Laos, Myanmar, Malaysia, the Philippines, Singapore, Thailand, Vietnam

Source: Data from the UN World Urbanization Prospect 2018 and Asian Development Bank 2016, APRC analysis

CLIMATE CHANGE AND INCREASING FREQUENCY OF EXTREME WEATHER EVENTS

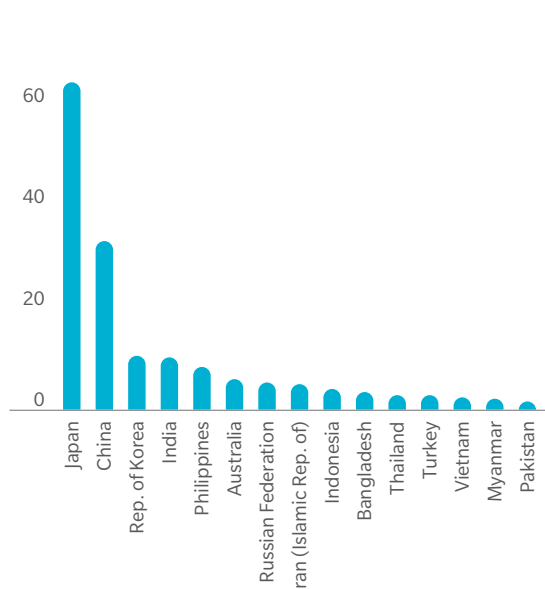
In the past few decades, we have witnessed a pronounced increase in the frequency of extreme weather events around the world. Economic losses from severe weather have been rising in tandem, and Asia-Pacific is perhaps most adversely affected – between 1997 and 2016, six of the 10 countries most affected by natural disasters were in the region.⁸¹ From 2006-2015, economic losses from natural disasters in Asia amounted to \$126 million a day,⁸² and this figure is projected to increase (Exhibit 12A).⁸³ Climate change is expected to severely impact all types of infrastructure and threatens the reliability and efficiency of energy, transport and water networks.⁸⁴ In July 2018, for instance, Typhoon Maria caused over 55,000 households in Taipei to be left without power for hours. In addition to direct losses, natural disasters also often delay repair and maintenance operations, hindering the emergency response needed for a prompt recovery. The In Focus section below lays out four key climate risks and their effects on infrastructure.

Climate change events will likely exacerbate the shortfall of critical infrastructure. The already substantial infrastructure gap increases

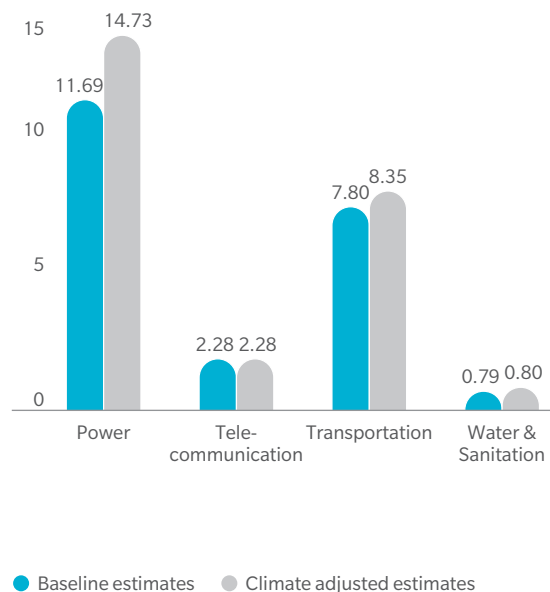
significantly when taking into account the investment needed to prepare new and existing infrastructure against the effects of climate change. Above the estimated baseline \$22 trillion addition investment needed, countries in Asia-Pacific will require an extra \$4 trillion over the next 15 years for this endeavor, mostly concentrated in the power sector, according to the ADB (Exhibit 12B). As indicated by the United Nations Development Programme, the development of climate-resilient infrastructure requires the deployment of both structural and non-structural risk mitigation strategies.⁸⁵ The former involves any physical intervention on infrastructure aiming at reducing or avoiding the impact of catastrophic events. A new class of “sustainable infrastructure” (SI), which entails the building of sustainable, low-carbon and climate resilient infrastructure, has recently received more attention, and efforts are underway to promote and support SI investment opportunities.⁸⁶ However, there are significant barriers to this endeavor, including a lack of regulatory frameworks, investor conviction and effective initiatives that investors can be on board with.⁸⁷ This is where non-structural measures, which encompass the adoption of policies and laws such as building codes and land use planning, and also training, education and public communication initiatives, are required.

Exhibit 12: Ongoing climate change will demand more investment into infrastructure to bolster resilience

12A. ESTIMATED ANNUAL AVERAGE FUTURE LOSS*
(2012 \$BILLION)



12B. INFRASTRUCTURE GAP IN ASIA (2015 \$TRILLION)
2016-2030



*1 Average annual loss (AAL) refers to the estimated average loss annualized over a long time period considering the full range of loss scenarios relating to different return periods

Source: UNESCAP 2018 and Asian Development Bank 2016

CLIMATE RISKS AND THEIR EFFECTS ON INFRASTRUCTURE

	HOW IT AFFECTS INFRASTRUCTURE	EXAMPLES
 <p>Floods Floods are projected to increase globally under climate change.⁸⁸</p>	<p>Infrastructure in coastal areas will become prone to more frequent flooding and storm surges due to sea level rise, and many low-lying areas will require barriers to be protected from water.</p> <p>Flooding also increases the probability of landslides and mudslides, affecting transportation infrastructure and power lines.</p>	<p>Roads, bridges, railways and airport across India, Bangladesh and Nepal were damaged by severe floods in 2017, isolating many areas across the region.⁸⁹</p> <p>In Japan, which is considered a leader in earthquake planning, heavy rainfalls in July 2018 exposed how it had overlooked the importance of making key infrastructure flood-resilient.⁹⁰ Torrential rain has destroyed roads, derailed trains and disrupted many businesses and supply chains.⁹¹</p>
 <p>Tropical cyclones Among the costliest types of natural disaster, with climate model projections pointing at a future increase in extreme rainfall and winds associated to these events in East, Southeast and South Asia.⁹²</p>	<p>Tropical cyclones cause disruption to transportation, energy, and telecommunication infrastructure. In addition, tropical cyclones are responsible for coastal erosion, increasing the risk of assets along coastlines.</p> <p>Tropical cyclone losses have been increasing in the last decades. This is linked to population growth, especially in densely populated areas of high hazard, and to macroeconomic trends, with a pronounced increase in exposure value.</p>	<p>In August 2017 typhoon Hato struck South China with wind gusts reaching 224 km/h, producing along its path economic damage of over US\$6.82 billion. Insured losses in Hong Kong, Macau, China, and Vietnam amounted to over US\$1.1 billion, making Hato score among the top 20 most expensive events for the insurance sector in 2017.⁹³</p> <p>In September 2018, Japan's Kansai International Airport was completely shut down after high storm tides caused by Typhoon Jebi flooded the airport. Thousands were also left stranded because the only bridge linking the airport to the mainland via road and rail was severely damaged.⁹⁴</p>
 <p>Global warming and heat waves Average temperatures around the world have been increasing but at an uneven pace. In South Asia, average annual temperatures in some areas, such as South-eastern India and western Sri Lanka have increased by 1 to 1.5 degree Celsius between 1950 to 2010. In other areas, such as south-western Pakistan, average temperatures have increased by 1 to 3 degrees Celsius over the same period.⁹⁵</p> <p>Climate change has caused the observed global increase in the frequency, intensity, and duration of heat waves, and such changes are expected to persist in the future.⁹⁶</p>	<p>A warmer climate will reduce the efficiency of energy infrastructure, as higher temperatures increase electric power losses in transmission and distribution network and reduce the efficiency of the cooling systems employed in energy production plants. On the demand side, heat waves are and increasingly will be responsible for steep surges in the energy demand of electricity used for cooling.</p> <p>Heat waves will increasingly cause thermal stress and buckling in steel infrastructure not designed to withstand prolonged period of high temperatures.⁹⁷</p> <p>Additionally, heat waves can cause asphalt to soften and expand, damaging roadways, and affect all types of infrastructure projects, as extreme temperatures limit construction labor productivity, especially in conditions of high humidity.⁹⁸</p> <p>A warmer climate will also increase the risk of droughts, with the consequent reduction in the amount of water available for hydropower production.⁹⁹</p>	<p>Railway failures caused by extreme temperatures have been one of the major causes of train service disruption in Australia.¹⁰⁰</p> <p>During the heat wave which affected Australia in early 2018, more than 50,000 households in Sydney did not have access to electricity because the surge in consumption caused distribution networks to overload and fail.¹⁰¹</p>

CYBER DEPENDENCY AND THE INCREASED FREQUENCY AND SOPHISTICATION OF CYBER-ATTACKS

Cities and businesses in Asia-Pacific are increasingly dependent on technology for their everyday operations. This growing cyber dependency has two major implications for infrastructure development. On the one hand, it will lead to a growing demand for ICT infrastructure that is currently already not being met. On the other, it also means that cities and businesses in the region are progressively under the threat of a systemic breakdown from a cyber-attack.

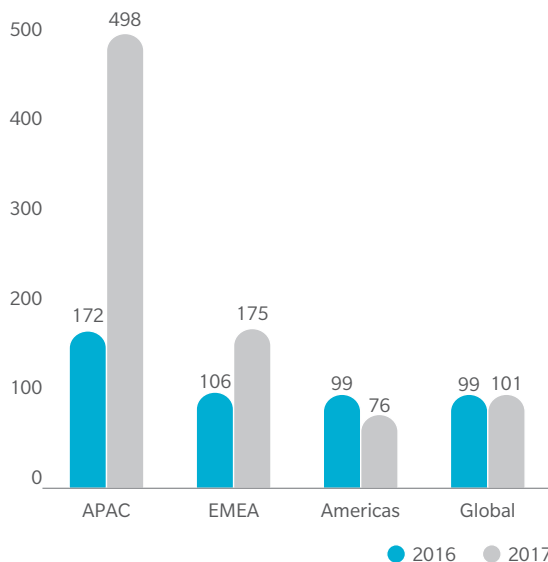
Countries across Asia-Pacific have similarly experienced cyber-attacks on what they considered critical infrastructure. For example, last year, reports in Australia showed a rise in cyber-attacks on the health, finance and transport sectors.¹⁰² The government has responded by updating the sabotage law to include major critical infrastructure such as utilities, key transport facilities and healthcare facilities, among others.¹⁰³ The government has also passed the Critical

Infrastructure Bill to establish guidelines to better monitor critical infrastructure.¹⁰⁴ Similarly, Singapore also passed a Cybersecurity Act in early 2018, with the strengthening of critical infrastructure as one of its key priorities.¹⁰⁵

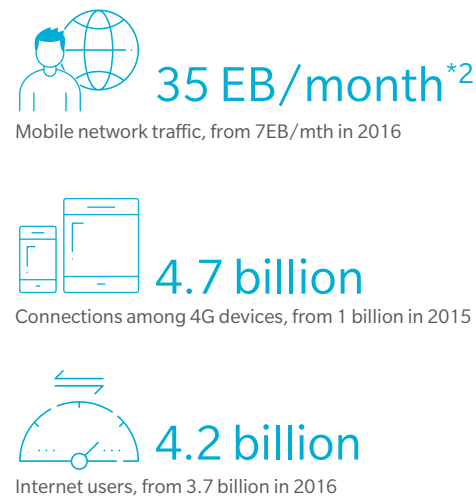
This dual effect of cyber dependency means that the shortfall in ICT infrastructure in the region should be considered not only in terms of infrastructure quantity but also in terms of security and resilience. There is already a serious dearth in investment in the security aspect of ICT infrastructure in Asia-Pacific, as exemplified by the lack of secured Internet servers in the region. FireEye's annual M-Trends reports have consistently found that dwell times are higher in Asia-Pacific than in any other region globally, suggesting that the cyber security architecture in the region is significantly slower to pick up breaches.^{53,78} The increased frequency and sophistication of cyber-attacks in Asia-Pacific will only worsen the current shortfall, highlighting the need for governments and businesses alike to make new and existing infrastructure resilient against potential cyber threats.

Exhibit 13: Growth in global digital transformation by the year 2020 will be led by APAC, leading to higher threat potentials

MEDIAN DWELL TIME*¹ (DAYS), BY REGION



GROWTH IN DIGITAL TRANSFORMATION GLOBALLY



*1 **Dwell time** is the time between an attacker compromising a secured network and the breach being detected

*2 Exabyte (EB) is equal to 10^{12} megabytes

Source: Data from FireEye's M-Trends reports 2017-2018, APRC analysis

BUSINESS IMPLICATION

Critical infrastructure failure or shortfall can have adverse effects that directly impact businesses' operations. Companies may see their operations disrupted due to sudden outages, while in the long run they may face a significant decrease in productivity and rising costs. While the studies cited below mostly reference the manufacturing sector, it is important to stress that the impact of critical infrastructure failure or shortfall extends to various areas. For instance, poor infrastructure was one of the key factors that contributed to the failure to contain Ebola in several African countries in 2014, according to the World Health Organization.¹⁰⁶

DAMAGES TO COMPANIES' OPERATIONS: CONGESTIONS, OUTAGES AND PRICE SHOCKS

Potential business disruption due to critical infrastructure breakdown. Electricity outage is a major source of disruption, particularly in South Asia where the average company experiences nearly one outage per day, each lasting 5.3 hours on average.¹⁰⁷ For businesses in these countries, the unreliable electricity supply results in loss in output when unanticipated outages happen, and results in them being forced to move away from investing in energy-intensive capital.

Separately, poor transportation and ICT infrastructure quality make these infrastructures more vulnerable to external disruption such as extreme weather events, cyber incidents, or terrorist attacks. In a recent report on the cost of cyber-attacks to the healthcare industry, APRC found that the potential loss from cyber-attacks for manufacturing, transportation and rail, and energy are among the highest across different industries.¹⁰⁸ For example, a cyber-attack on several ports run by Maersk in India in 2017, left the global supply chain heavily disrupted.¹⁰⁹

Rising operational costs. Poor transportation infrastructure results in a substantial increase in companies' operational costs. The cost of moving goods in Indonesia, for example, was estimated at around a sizeable 27 percent of GDP.¹¹⁰ Increased costs of moving are primarily a result of delays in shipments due to severe congestion. In some instances, such delays can also impact operating costs through wider market distortions. For example, severe congestion at key ports in China and Indonesia from late 2017 to early 2018 caused a short-term coal price spike and increased costs for related companies.¹¹¹

Failure or shortfall of energy infrastructure have the same effects. For example, businesses in Australia experienced a near doubling of their electricity bills in 2017,⁶⁹ directly impacting their bottom line, threatening layoffs and business viability.¹¹² This was caused by an uncoordinated close-down of coal-fired plants even when renewable energy sources were not able to match adequate capacity, and exacerbated by high network costs, particularly in transmission and distribution.¹¹³

Long-term decrease in productivity. Research has pointed to the role played by transportation infrastructure in fostering market access and contributing to companies' productivity and production.¹¹⁴ The effects of congestion on loss in productivity have also been well-documented.¹¹⁵ ICT infrastructure is also playing an increasingly important role in company productivity and in facilitating trade. The dramatic growth of ICT in India, for instance, has significantly contributed to increase in total factor productivity in the manufacturing sector.¹¹⁶ Conversely, the lack of ICT infrastructure can be a major barrier to productivity – slow Internet speed and the lack of affordable high-speed options have been quoted as among the key issues for businesses in Asia-Pacific, forcing them to develop separate offline/online options to get around the problem where telecom infrastructure is poor.¹¹⁷

ADDRESSING CRITICAL INFRASTRUCTURE FAILURE OR SHORTFALL: OPERATIONAL AND STRATEGIC RESPONSES

Given the far-reaching impact of critical infrastructure failure or shortfall, how can companies realistically respond to this threat, particularly because infrastructure development traditionally falls outside the purview of the private sector in Asia-Pacific?

A longer-term, strategic approach is important. Here, the focus is on critical strategic decisions, such as where to locate a company's manufacturing center, or whether a company should take an active part in the development of infrastructure in the region to help close the infrastructure gap. Simultaneously, businesses will also have to consider the impact of critical infrastructure failure or shortfall at an operational level. This entails employing risk mitigation strategies such as risk transference through insurance, employing business continuity management solutions, and wider restructuring of their operations to bolster resilience.

1. Factoring in Infrastructure Failure or Shortfall in Strategic Considerations

Infrastructure is a major factor contributing to a country's competitiveness and constitutes the second pillar in the World Economic Forum's annual Global Competitiveness Index. Correspondingly, for companies and particularly international businesses, the state of critical infrastructure in the

country of operation features prominently in their strategic considerations. International businesses looking to set up operations in countries with less developed infrastructure must weigh between the potential trade-off from accessing these economies and the risks of disruption due to infrastructure failure or shortfall. Domestic companies in these countries, too, will have to factor inadequate infrastructure in their business development and risk management plans.

That said, governments in the region are investing heavily in infrastructure development, with some (such as China, India and Vietnam) spending a significant portion of their national budgets on this. In the long run, this will lessen the risks associated with inadequate infrastructure for companies in the region.

In the short- to medium-term, the current infrastructure investment wave led by Asia-Pacific governments also presents ample opportunities for businesses and other stakeholders to take an active part in infrastructure development. Apart from public-private partnership (PPP) ventures, governments in the region are also implementing other programs to attract private capital into infrastructure, such as asset recycling, notably in the case of Australia.¹¹⁸ Public assets are privatized (sold or leased out long-term), with the proceeds reinvested in new infrastructure. Programs like this provide private businesses with the chance to take up and operate relatively low-risk brownfield assets, as opposed to taking on more risk when participating in a greenfield type deal.

Exhibit 14: Levers of infrastructure project bankability



Source: "Closing the financing gap: Infrastructure project bankability in Asia", Marsh & McLennan Companies' Asia-Pacific Risk Center 2017

In general, one of the key criteria for consideration from a private business and investor perspective when entering this space is whether projects are bankable. APRC's recent report on closing the financing gap for infrastructure projects in Asia-Pacific identified six levers for project bankability (Exhibit 14).¹¹⁹

Efforts to institutionalize these levers in Asia-Pacific are still relatively nascent. For example, findings from the World Bank's PPP Benchmark report showed that while South Asian countries are at par with the global average, countries in East Asia and the Pacific have largely fallen short in PPP preparation and procurement processes.¹²⁰ Despite the fact that risks are inevitable, businesses looking to enter this space will be supported by governments' continued efforts to improve institutional frameworks as well as incentives provided for PPP projects. These opportunities are also extended to other industries that are not directly tied to infrastructure development. For example, investment in infrastructure can be a stable source of cash yield for financial institutions such as commercial banks, insurance companies and investment funds.

2. Bolstering Operational Resilience

It is important that companies evaluate the role of critical infrastructure failure or shortfall in relation to climate change events as well as cyber-attacks. These events not only directly impact company facilities and operations which the company has control over, they can also lead to the breakdown of critical infrastructure such as outages and damaged bridges that are not under the companies' purview, but nevertheless have an impact on its operations. For example, even when a company's production lines are not affected by a climate event (such as a flood), the supply chain may still be disrupted from transport infrastructure being damaged or rendered unusable.

Where critical infrastructure is not built to be resilient against such threats, damages to businesses can be greatly exacerbated. For instance, the lack of investment and planning

in urban infrastructure has greatly amplified the risk and damage of floods in cities in India.¹²¹ In this case, companies located in urban areas with poor drainage and sanitation may suffer the same substantial damages as those with operations located on low-lying flood plains.¹²² Solely focusing on the direct damage to companies' properties from weather events and cyber incidents can lead to second order damage due to infrastructure failure being overlooked and total damage being underestimated.

Addressing the problem of critical infrastructure failure or shortfall with a mind for climate change and cyber-attacks may require companies to rethink the organization as a whole. Possible solutions such as operational reengineering, or the establishment of spare capacity/backup production capabilities can also be considered as longer-term strategic responses.

An example of this latter approach is the shift from "consumers" to "prosumers" of energy. In this arrangement, organizations take an active part in the production, consumption, and management of energy (Exhibit 15). Prosumer-driven organizations also go beyond ensuring redundancy and resilience and aim to harness new technology and analytics to more efficiently use energy, saving substantial operational costs in the process.¹²³

In practice, some companies have been investing in off-grid distributed energy systems,¹²⁴ using renewable energy to bolster operational resilience in the face of frequent outages. Major airports have been among the leaders in implementing this solution in India. For instance, in 2016, Delhi International Airport announced a plan to expand its solar power capacity from 7.8 MW to 20 MW by 2020 to reduce the electricity it draws from the grid.¹²⁵ Elsewhere, Cochin International Airport has already achieved self-sufficiency on solar power since 2015. These successful cases provide a viable model for businesses in India and across the region.

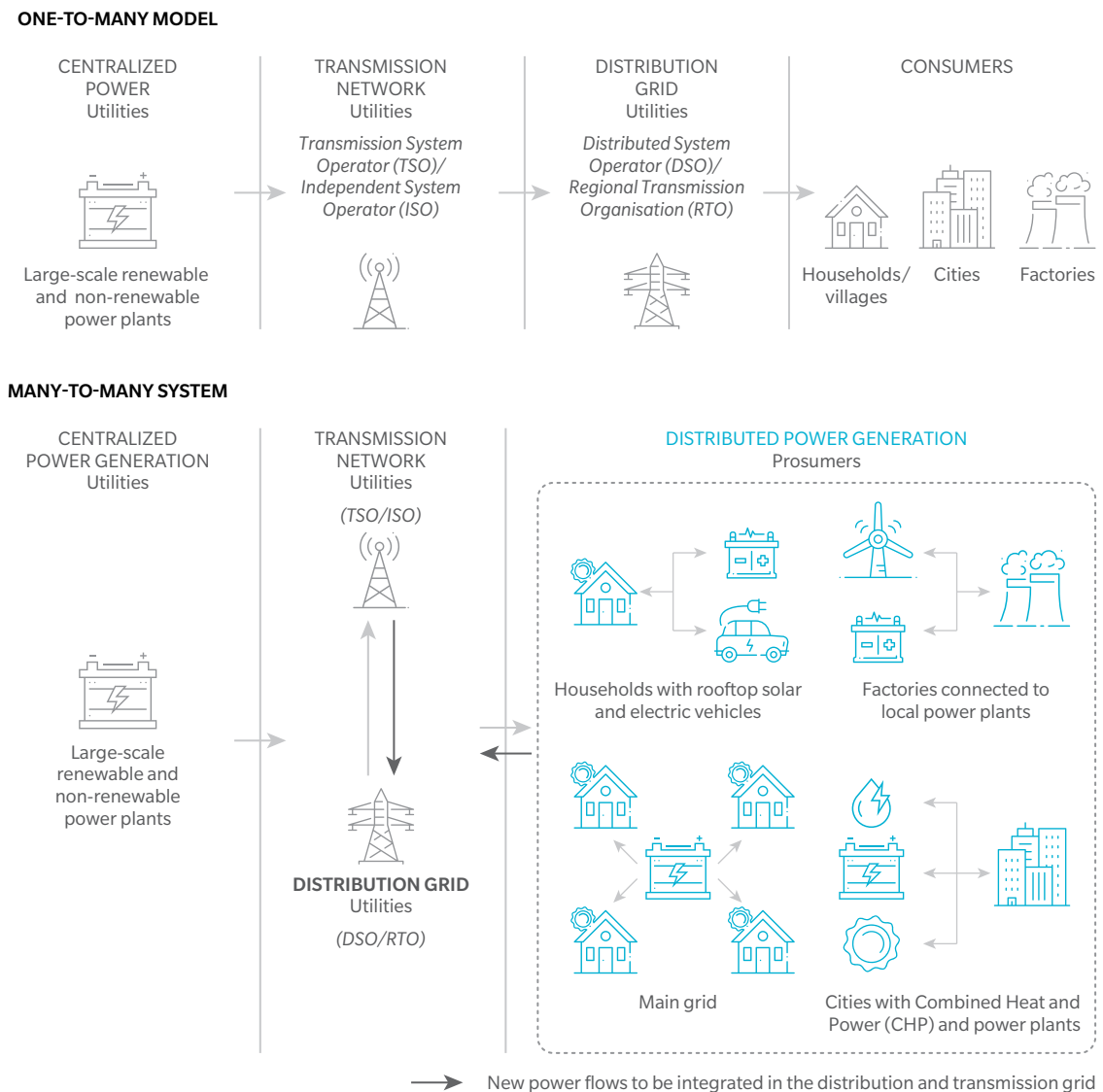
Finally, an important consideration for companies is to insure against loss associated with critical infrastructure failure or shortfall. For example,

disruptions can be considered as Business Interruption (BI) incidents,^b and can thus be covered by traditional BI risk transfer approaches. However, it is important to note that traditional transactional insurance is not always enough to maintain shareholder value, prevent loss of market share, or protect against other adverse risks in the case of BIs. There are a variety of additional solutions that companies can employ in this regard, including:¹²⁶

- Business recovery planning
- Introduction of backup single suppliers
- Outsourcing of critical functions to spread the risk
- Adjustment of inventory control strategies

Ultimately, companies will need to employ a combination of strategies to adequately bolster resilience against the risk of critical infrastructure failure or shortfall.

Exhibit 15: From the One-to-Many model to Many-to-Many model



Source: "World Energy Trilemma 2017: Changing Dynamics – Using Distributed Energy Resources to Meet the Trilemma Challenge", Oliver Wyman and World Energy Council, 2017

^b It should be noted that not all BI type losses can be insured, and companies will typically need to be insured for physical damages first

TALENT SHORTAGE

Exhibit 16: Polling results for the 5 most important risks for doing business in the next 10 years across New Zealand, Hong Kong, Singapore and the Philippines



Note: For our presentation of the Global Risk Report 2018 in New Zealand, Hong Kong, Singapore and the Philippines attended by business executives, including risk managers, the APRC asked participants the open question: “What do you think are the top risks for business in your country in the next 10 years?”. The polling is not meant to be analyzed quantitatively and is aimed at soliciting responses outside the designated risk list identified in the EOS

A future talent shortage is a major concern for organizations operating in Asia-Pacific, and this plays out in APRC’s discussions and surveys with business leaders across the region (Exhibit 16).

Talent shortages occur when companies are unable to recruit or retain people with the talent/skillsets needed to maintain business operations and competitiveness. This is both a short-term and a long-term concern, as executives not only need to recruit talent to meet their businesses’ immediate priorities, but must also constantly consider how their businesses will be shaped by long-term market and societal trends, how their organizations should change accordingly, what the skills required to achieve these goals are, and where they can acquire these skills.

The World Economic Forum’s Global Talent Competitiveness Index has looked into a broad range of macro and structural factors to assess the overall capacity of a country to both nurture its own talent as well as to attract global talent.¹²⁷ An overview of the country ranking shows that emerging countries are significantly less talent-competitive than their advanced counterparts,

suggesting that talent shortages will be more serious in these economies. However, there are important variations among groups. For example, Japan and Korea are among the developed countries expected to be hit with severe talent shortages due to their rapidly aging populations. Japan is already facing an extremely tight labor market, and the problem had been exacerbated by the government’s restrictive foreign labor laws which only recently have started to being eased.¹²⁸

Among the institutional pillars assessed, the efficacy of a country’s education system stands out as a key factor in determining the talent competitiveness in both advanced and emerging economies. For example, executives in highly competitive economies for talent such as Singapore and Hong Kong still cited an “inadequate educated workforce” as one of the key challenging factors for doing business. Similarly, high youth unemployment rates continue to be referenced by business leaders in New Zealand and Australia as emblematic of the inadequacy of the education system in equipping graduates with the right skills.^{129,130}

“Talent shortages occur when companies are unable to recruit or retain people with the talent/skill sets needed to maintain business operations and competitiveness.”

The role of education is particularly heightened in emerging economies. A recent report by the Workforce Analytics Institute examined education attainment and technological endowment levels across major emerging economies in Asia to divide them into four distinct groups based on countries’ workforces’ current level of preparedness, and their workforces’ readiness for the future.¹³¹ This analysis shows a worrying trend of worsening talent shortages. Several major growth economies in the region, notably India and Indonesia, are lagging behind both in current preparedness as well as future development, while others such as Vietnam and China are heading in the wrong direction with regards to future skill development.

In these emerging economies, the problem of talent shortage has arguably sat at the core of concerns over unemployment, which ranked as one of the most important risk for doing business in the Asia-Pacific regions in the next 10 years according to the Executive Opinion Survey data. In this context, the fear of rising unemployment is not induced by slowed economic growth, but rather by the unemployability of the labor force either due to inadequate education and training systems, or due to automation increasingly replacing lower-skilled jobs and creating a large surplus of low-skilled labor. Vietnam is an example of the former, where despite the decrease in overall unemployment, unemployment among those with bachelor’s degree has increased significantly.¹³² A similar situation has also been observed in Malaysia, where many graduates have resorted to becoming drivers for Grab, a Singapore-based ride hailing company, in the absence of other employment.¹³³

FUTURE COMPLICATIONS: HOW TALENT SHORTAGE WILL CONTINUE TO BE A TOP CONCERN

There are two major ongoing trends that have driven the talent shortage problem in Asia-Pacific, and will continue to do so going forward (Exhibit 17):

- Asia-Pacific continues to be at the forefront of technological advances. Technology is reshaping all aspects of work, not only with regards to how tasks are accomplished, but also the very definition and skill requirement of “jobs” and how they are organized
- Asia-Pacific is also the world’s most rapidly aging region, and this carries wide-ranging implications for the region’s future labor market. It is, however, important to note that while the region is aging as a whole; different societies have divergent trajectories which will consequently affect how the talent shortage problem plays out in different contexts

Exhibit 17: Ongoing trends that will complicate the problem of talent shortage in Asia-Pacific



TECHNOLOGICAL ADVANCEMENTS

Emerging tech is continually reshaping work and existing business models, and leading to growing demand for talent



AGING SOCIETIES

Uneven aging trends and levels of economic growth across the region means that the labor force is shrinking in some countries, while there is a surplus of low-skill workers in others

Source: APCR analysis

THE IMPACT OF RAPID TECHNOLOGICAL CHANGE

Technological advances and their applications in work have necessitated the acquisition of new technical skills with which education systems have struggled to keep pace. For example, businesses' day-to-day operations now not only require basic computer literacy, but also a general competence in ICT; and other higher-level skills such as those in the fields of data science and analytics too are increasingly becoming a crucial requirement for organizations.¹³⁴ The supply of these skills, however, remains limited in Asia-Pacific.¹³⁵

While the lack of technical skill is a serious problem, it is but a small aspect among other wide-ranging effects of continued fast-paced technological advancement. Hyper-connectivity and emerging technologies brought about by the Fourth Industrial Revolution (4IR) are disrupting old business models and fundamentally changing how businesses are conducted. Key examples include the rise of the "gig economy", the emergence of fintech, and potential applications of blockchain technology.

As traditional business models break down, the conceptualization of "employment" and "jobs" has also changed. According to recent research from Mercer and Oliver Wyman, the role-based conceptualization of "jobs" which once entailed

a fixed role with predesignated accountability and output tied to a fixed set of skills in a hierarchical organization, is increasingly making way for a new arrangement. In this new arrangement, the focus is on harnessing diverse skills and knowledge in a project-based setting. Accordingly, businesses' talent demands have also changed. The emphasis is no longer on filling a role, but on finding the right "skills" (Table 2).¹³⁶

Two other effects of technological advancement are worth noting here. The first is how technological platforms have augmented the connection between employers and candidates, enabling them to access a wider talent pool outside traditional work arrangements – such as gig-employees and crowd sourcing. In this manner, technology is indeed not just performing work, but is broadening access to it as well.

Second, the injection of technology into work, as evidenced by the ongoing digitization of the workplace, will not only necessitate an upskilling of the workforce, but also a more comprehensive job redesign to facilitate this integration. Consider, for example, the increasing application of automation and AI technology across different industries. As many tasks are now automatable, jobs will correspondingly need to be designed around higher-valued work, where machines are enabled to augment human decisions.¹³⁷

Table 2: Change in the conceptualization of jobs

	PAST JOBS	FUTURE JOBS
Setting	Hierarchical organizations	Project-based work
Focus	A specific role in the organization, tied to a set of outputs and accountabilities	Skills and knowledge that add value to a project
Skill Requirement	<ul style="list-style-type: none"> • A specific set of skills • Largely applicable to similar roles across other organizations 	<ul style="list-style-type: none"> • A diverse set of skills and knowledge • Idiosyncratic to specific type of projects, contexts or settings
Example	The traditional accountant that differs little across different companies	The data scientist whose work will differ vastly if she/he works in marketing versus in finance

Source: Adapted from "Delivering the Workforce of the Future", Oliver Wyman and Mercer 2018

POPULATION AGING IN ASIA-PACIFIC

Businesses operating in Asia-Pacific face a serious population aging challenge that is unique to the region. While Asia-Pacific is the fastest aging region globally, the pace of population aging varies significantly across the region, with some economies expected to encounter the problem of an older workforce sooner than others. Analysis from APRC,¹³⁸ which considered different levels of economic development across countries, identified three analytical country groups in Asia-Pacific. This distinction is important because each group of countries (and the businesses operating within them) will face a different set of problems related to talent shortage based on how fast they are aging (Table 3).

It is important to note that these categorizations are only broad groupings. The actual dynamics between economic development and composition,

and the state of the education system pose a complexity that companies need to understand and adapt to. For example,¹³⁹ while in terms of demographics and economic development, the Philippines belongs to group 3, the country has a significantly higher tertiary education attainment rate and high-skilled labor compared to other countries with the same income level, such as Vietnam. Despite this, several sectors, such as the Business Process Outsourcing (BPO) industry in the Philippines, continue to struggle with serious talent shortage,¹⁴⁰ which suggests a continual need for the education system in the country to upgrade graduates' skillsets.

The combination of aging and technological advances, most notably in the field of automation, will greatly complicate not only the talent shortage problem in Asia-Pacific, but also wider societal problems – most prominently an increase in inequality. The following In Focus section explains these links.

Table 3: Talent shortage problem in country groups in APAC, by level of economic development and demographic profile

COUNTRY GROUP	DESCRIPTION	TALENT SHORTAGE PROBLEM
1. Money rich, time-poor	<ul style="list-style-type: none"> High-income economies with a high percentage of skilled labour and developed education system Already benefited from past demographic dividend but now facing the challenge of an already aged population 	<ul style="list-style-type: none"> Businesses face significant talent shortage due to a rapidly shrinking labour force and managing an older workforce
2. Golden-present, grey-future	<ul style="list-style-type: none"> Middle to high-income economies with differing levels of projected economic growth, percentage of skilled-labour and quality of education Enjoying the demographic dividend, but is ageing rapidly 	<ul style="list-style-type: none"> Businesses face significant talent shortage due to a rapidly shrinking labour force and preparing for an older workforce At the same time, current labour force falls short of meeting businesses' demands
3. Young, need to grow rich before growing old	<ul style="list-style-type: none"> Mostly lower-income economies that are still relatively young with less developed education system Need to take full advantage of the upcoming demographic dividend to grow rich before growing old 	<ul style="list-style-type: none"> Businesses must manage an abundant, but potentially unemployable labour force

Source: Adapted from "Advancing into the Golden Years", Marsh & McLennan Companies' Asia Pacific Risk Center 2016

THE BROADER RISKS OF AUTOMATION, AGING AND TALENT SHORTAGES

The confluence of rising societal aging and the increased automation of work have important implications for labor markets, regulations and economies in Asia-Pacific. A recent APRC report highlighted that the region faces some of the highest levels of risks from these two key trends. Not only are nations in this region projected to have some of the highest rates of aging in the world going into 2030, but the region is also home to large proportions of older worker populations in low, basic-skilled – and therefore automatable – work.

Global supply chain shifts will further complicate things. The International Labour Organization has estimated that 137 million salaried employees across age groups are at risk of losing their jobs to automation in Southeast Asia's emerging economies. Nations that are heavily dependent on manufacturing exports – such as Thailand, Indonesia and Vietnam – are likely to be especially affected by these shifts. Basic-skilled work in service industries in the region is also under threat, such as BPO jobs and clerical work. Automation is allowing multinational companies to shrink their Asian outfits and re-shore large sections of their supply chains.

Intensifying automation therefore has a twin-effect on employment in Asia-Pacific. Economies in the region are at risk of widespread job displacement across low and basic-skill workplaces in the coming years. At the same time, the deployment of automation will create new demand for higher-skilled technical jobs that is unlikely to be met. These simultaneous effects are likely to widen the labor and skill supply-demand mismatch, thus exacerbating the talent shortage problem in Asia-Pacific.

Job displacement from automation will be especially harmful for older employees, who tend to find it more difficult than younger employees to find new jobs after becoming unemployed.

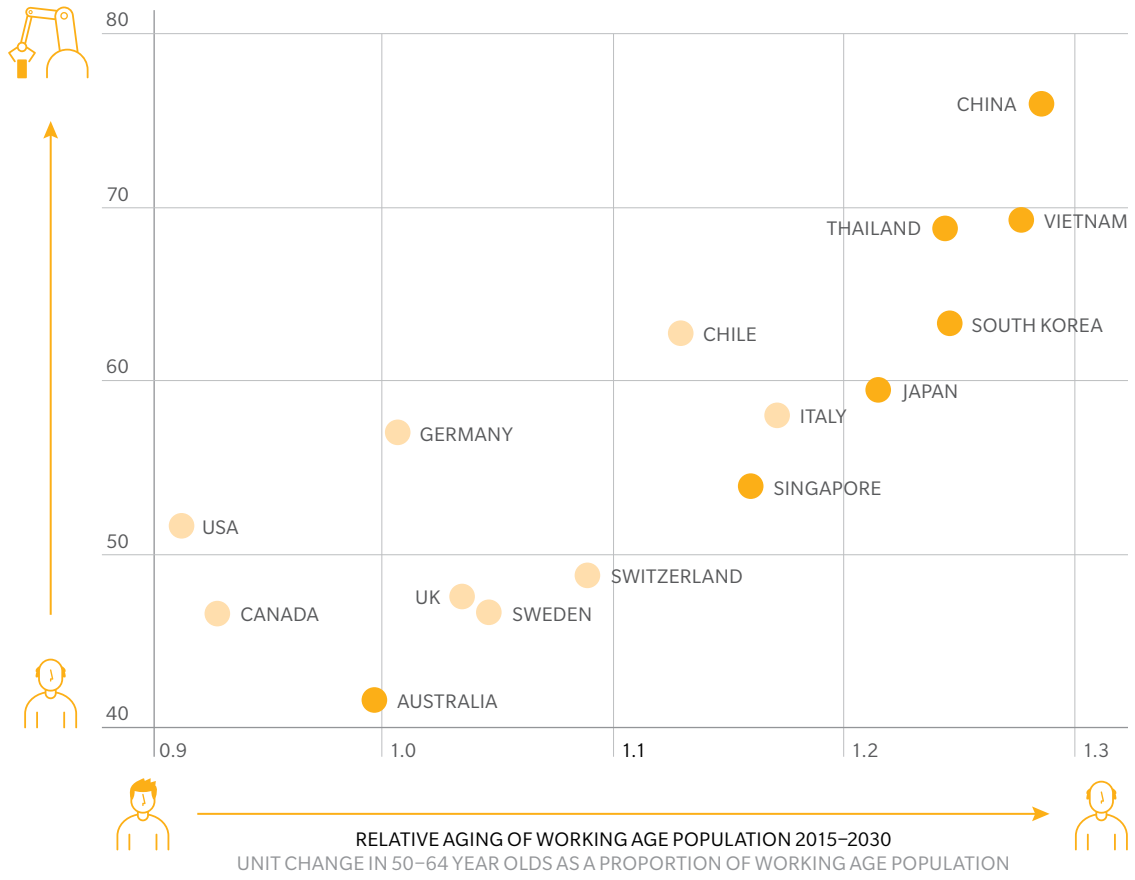
In many countries in Asia, older employees are disproportionately found in low-skill, highly automatable work (Exhibit 18).¹⁴¹ Older employees also tend to lack ICT skills and are therefore often overlooked or discriminated against in hiring processes. Without concerted action on the part of companies and governments to ensure the redeployment of employees displaced by re-shoring and automation, inequality and stagnating growth will exacerbate across the region.

At the same time, evidence from advanced economies in the OECD has shown that it is possible to leverage technology to take advantage of the “longevity dividend”.¹⁴² Analysis points to three main roles that technology can play to achieve this goal.⁴⁷ First, the application of technology in the field of medical science and biotechnology can facilitate a healthier and more productive workforce. Second, automation has been able to replace more manual and physically demanding tasks, enabling older employees to participate in sectors previously unsuitable for them. And third, the rise of job-matching and training platforms have made it easier to source for suitable seniors for open positions.

In the end, the key lies in how technology, and more specifically automation, is being applied in the workplace, and how governments and companies are preparing their older employees for the coming technological wave. One crucial step will be developing capabilities for rehabilitating employees affected by these rapid shifts. Companies will need to redesign their brands and outputs to service higher-skill needs in order to continue to attract investment and adapt to the rising tide of automation. As such, business leaders will need to invest both in new technologies and new talent. Particularly in fast-aging economies, companies will likely need to incorporate a targeted older-worker angle into their strategies for the future. Finally, close collaboration between companies and governments will be crucial to upskilling employees in the region and redeploying them to new, higher-level work and in overcoming Asia-Pacific's widening talent gap.

Exhibit 18: Risk of Aging and Automation

AVERAGE RISK OF AUTOMATION TO OLDER WORKERS
WEIGHTED AVERAGE BASED ON PROPORTION OF OLDER WORKERS IN LOW SKILL WORK



Source: "The twin threats of Aging and Automation", Mercer and Oliver Wyman 2018

BUSINESS IMPLICATIONS

Executives have expressed concerns that talent shortages will adversely impact their businesses operationally and financially. For example, more than 61 percent of C-suites executives across

various industries in the region expect the lack of talent to impact business prospect in the next three years.¹⁴³

THE STRUGGLE FOR TALENT

According to a recent Manpower Outlook survey, employers in Asia-Pacific continue to expect strong growth in payroll between the second and third quarters of 2018 (Exhibit 19). However, the trend in talent supply does not seem to support this growth. For example, in a recent survey,¹⁴⁴ 34 percent of employers in Asia said that they were either not very or at all confident that they will acquire the talent needed for their business goals in the upcoming year. In Singapore, the talent shortage problem is reported to be at its highest since 2008, with 56 percent of employers having difficulties filling vacancies.¹⁴⁵

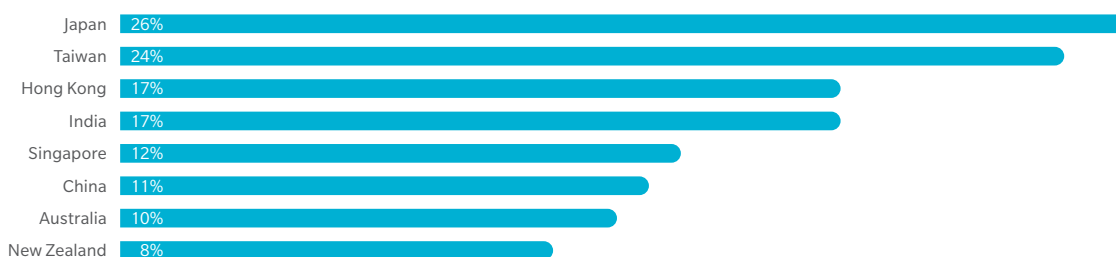
The shortage of talent is reported to be most serious in six areas, namely Sales, Accountancy & Finance, Information Technology, Marketing & Digital, Engineering, and Operations. Notably, across all seniority levels, the dearth in sales positions has been reported to be the most serious. The sales function is also the position that is hardest to retain talent once hired.¹⁴⁶

Apart from difficulties in skill acquisition, businesses will need to prepare for three other challenges pertaining to talent:

- Businesses in already aged or rapidly aging countries such as Japan, South Korea and Singapore will find themselves managing a shrinking and aging workforce. They will have to compete in increasingly tightened labor markets, and will have to manage increasing cost and productivity challenges of ill-health associated to an older workforce. According to a recent report from the APRC, in the Singapore context, these costs will increase significantly in the next 15 years.¹⁴⁷ While these challenges are not directly related to talent shortage, they exacerbate its impact on business
- Another issue related to a rapidly aging population and the associated labor crunch is that of regulatory limitations surrounding immigration. Expanding the talent pool beyond the domestic market is one of the ways governments or businesses can help alleviate a tight labor market, but this option is not always politically viable. For example, even as the Japanese government is trying to ease visa rules for skilled foreign employees to address the country's severe labor shortage,¹²⁸ it has signaled no intentions to change longer-term immigration policies (for permanent residency and citizenship) given the politically sensitive nature of the issue

Exhibit 19: Employment outlook in Asia-Pacific 2018 Q3

EXPECTED PAYROLL GROWTH FROM 2018 Q2 TO Q3
2018 Q3



Source: Data from Manpower Group

- Finally, companies are also concerned over how they can retain talent. Apart from compensation and a fair reward system,¹⁴⁶ which remains a pertinent factor in Asia-Pacific, research has also pointed to the importance of employee value proposition, which employers need to provide by offering a

compelling work experience where employees can thrive.¹⁴⁸ While career development and learning opportunities are the most important drivers for employees in Asia-Pacific, flexible work, well-being, purpose and technological augmentation have also been identified as significant factors¹⁴⁹

A STRUCTURED APPROACH TO TACKLING TALENT SHORTAGE

Tackling talent shortage in Asia-Pacific is challenging and will likely require a comprehensive, long-term strategy that is tailored to each organization. Businesses have begun building the framework for these strategies. A recent paper on the future of work from Mercer and Oliver Wyman, for example, laid out a four-step process (Exhibit 20).

In the following discussion, we focus on two key issues that every business should examine, and provide some high-level directional suggestions on how they can respond.

The first issue concerns the first and second steps laid out in the above framework: **what changes businesses should expect to impact**

their workforce, and what these impacts are.

There is no short answer to these questions, but as suggested in previous discussions on the key trends that will affect talent shortages in Asia-Pacific, businesses will have to factor in how technology and an aging workforce will change their organization as well as the talent market. Organizational/job redesign and workforce planning will be key in projecting and preparing for these changes.

The second issue concerns the specific strategies business leaders can employ to meet the company's talent needs to achieve their vision. The two main areas executives will need to focus on are **talent sourcing** and **skill building and development.**

Exhibit 20: A four step process to prepare for the workforce of the future

1. Set the vision and prepare change

What changes are impacting my workforce?

- Identify the trends impacting the workforce
- Assess the impacts across the value chain
- Align leadership around the future workforce vision

4. Deliver the transformation

How do we deliver the workforce transformation?

- Establish transformation governance
- Roll out enabling technical platforms
- Manage the transformation



2. Map the current and forecast the future workforce

What will my future workforce look like?

- Model and project the size and shape of the future workforce under different scenarios
- Identify future talent gaps
- Evaluate and select the options for addressing the gaps

3. Determine and design workforce strategies

What strategies are needed to bridge from current to the future?

- Specify the strategies for delivering the future workforce
- Implement technology platforms to enable the automation of work and access to external talent pools

Source: Adapted from "Delivering the workforce of the future", Mercer and Oliver Wyman 2018

CHANGES IMPACTING THE WORKFORCE

1. Organizational and Job Redesign as a Starting Point

One potential starting point for businesses is organizational and job redesign, taking into account the two major trends that will likely impact the talent and skill market, namely technological advances and the Asia-Pacific region's aging population. While redesigning does not directly address the difficulties in talent acquisition, the reorganization of work and functions based on long-term trends will lay the groundwork for workforce planning and strategies.

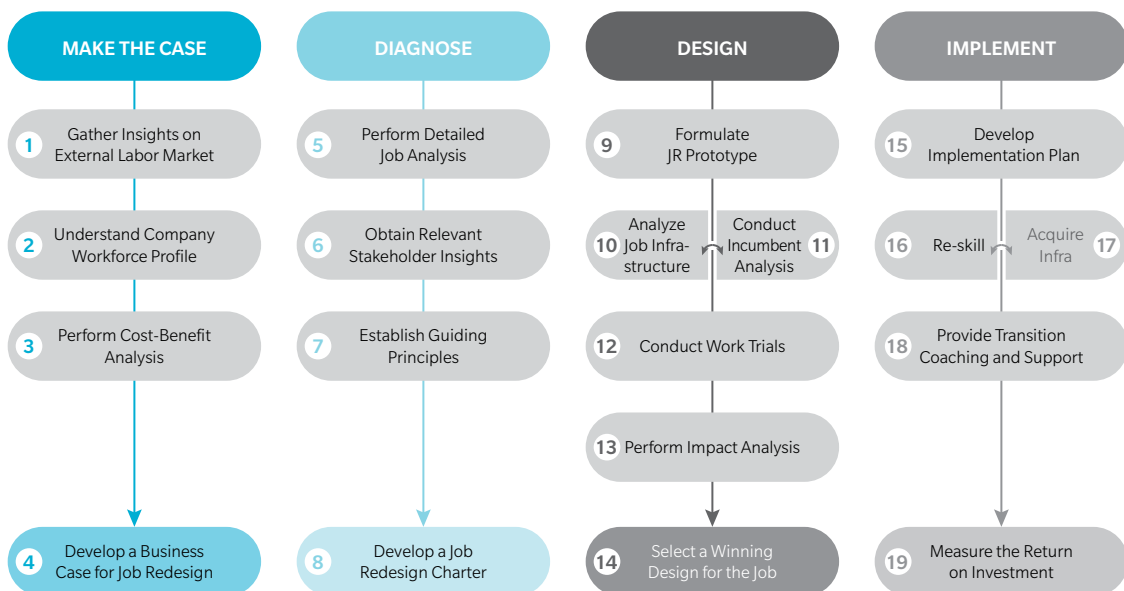
Companies will benefit from a structured approach supplemented by fact-based and data-driven analysis in organizational and job redesign. For example, job functions can be broken down to multiple different specific tasks to be assessed for automatability. The most transactional tasks can be automated, while other tasks can be repackaged to make best use of the workforce's skills/talents. Data-driven analysis may be able to pinpoint the optimal job rearrangement where human input is dedicated to higher value work, supported by automated processes.

Businesses in Asia-Pacific have recognized that in already aged or rapidly aging societies, an older workforce is a reality they will have to prepare for. Accordingly, work must be redesigned with the aging employee at the center (Exhibit 21).

The challenge is to meaningfully engage older employees to stay productive and competitive, and also to ensure their well-being. This can be achieved by the help of technology, supplemented by continued reskilling and redeployment. The application of technology can significantly aid older employees in a wide range of physical, lower-value tasks so they can dedicate their wealth of experience on higher-value work. Other elements, such as adjustments to physical working space and introducing flexible working hours, have also proven to be crucial to the job redesigning process.

The application of job redesign has yielded concrete successes. In Singapore, for example, two success stories of job redesign for an older workforce are Lawry's The Prime Rib restaurant and the Central Providence Fund Board (Exhibit 22). In the first case, a combination of leveraging technology to automate the ordering process, as well as facilitating flexible hours and mixed age tasks, led to a 30 percent improvement in workflow efficiency and high satisfaction among employees. Similarly, the Central Provident Fund Board has

Exhibit 21: Key steps in job redesign for older employees



Source: Adapted from "The twin trends of aging and automation", Mercer and Oliver 2018

enjoyed increased improvement in the services it offers as older employees brought with them a wealth of experience and skillsets.

Other companies are following suit. Saudi Aramco, a major oil and gas company, has recently announced new refineries in Southeast Asia in partnership with Malaysian oil major Petronas. The company is actively targeting retirees from the oil and gas industry and positioning itself as an employer of choice for a multigenerational workforce with the company's advertisements showing images of senior citizens leveraging technology and working in highly automated refineries.

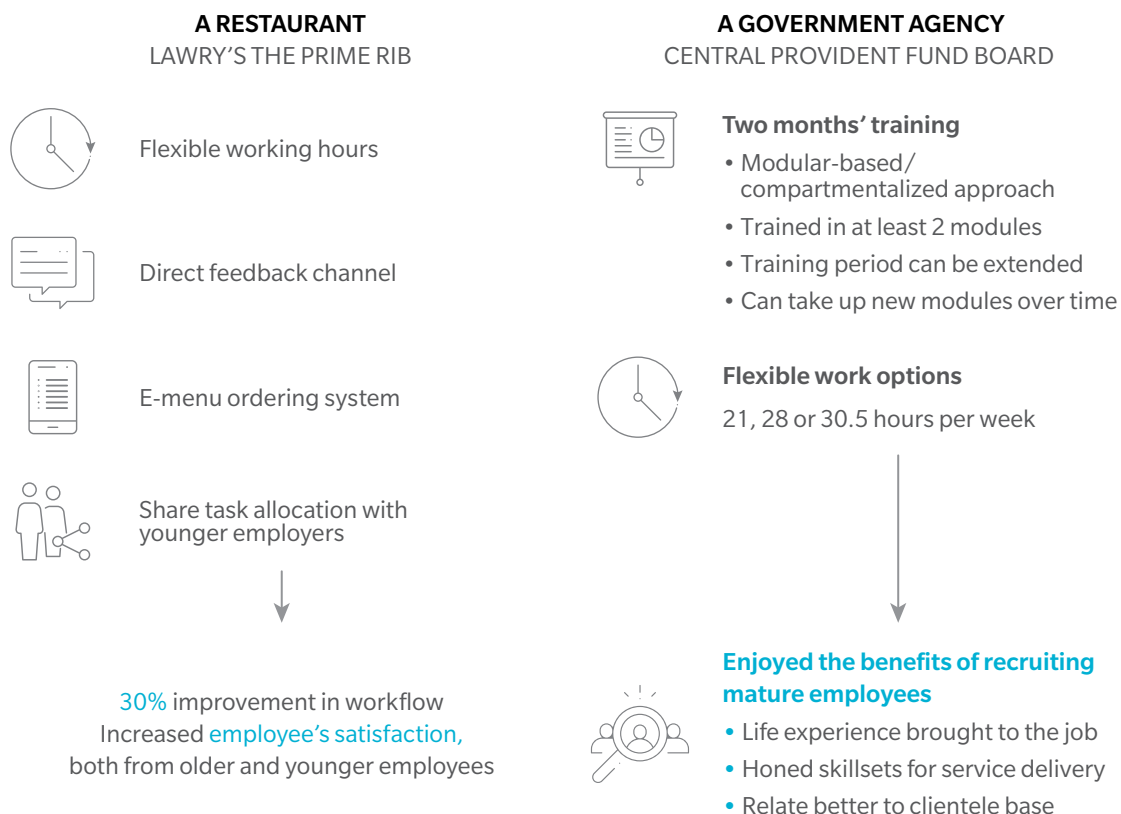
2. Workforce Planning

As businesses examine all the trends impacting their workforce across the value chain and put forward plans for redesign, executives can start their workforce planning.

In simple terms, workforce planning constitutes a talent/skills market projection. First, businesses will need to assess how the labor market – specifically talent and skills supply – will change given ongoing trends. This is accompanied by a second process of demand assessment, where companies evaluate what their workforce should look like in the future, not only in terms of “jobs” or “roles” but also knowledge, skills, and abilities, given the companies' aspirations. This supply-demand analysis allows companies to identify areas where there is a substantial talent gap in the company, the likely available options to fill these gaps and the risks and benefits associated with each.

The next step is to build a coherent set of **talent strategies** to achieve the company's vision of its future workforce. This typically covers how the company can source talent, engage and reward talent, develop talent, and also cover talent outplacement. The following discussion focuses specifically on **talent sourcing** and **skill building and development**.

Exhibit 22: Examples of job redesign success



Source: APRC analysis

TALENT STRATEGIES

The applications of technological advancements are rapidly reshaping the concept of “work”, and companies’ talent strategies should also evolve accordingly; they should not only address the new realities of how work is conceptualized and organized, but also leverage technologies for more efficient processes.

1. Talent Sourcing: Technology Driving Major Changes

There are four major technology-driven directional changes that businesses should take note of.

Businesses should source for potential, and not just competencies. Businesses usually examine the pool of available talent and look for the right qualification, skillsets and experience. They sometimes also look for the right type of personality and value fit for the organization. However, this is no longer enough. With technology rapidly changing how jobs are performed, organizations will take on human capital risks if they only look for static roles and skills. Rather, they should look for candidates with the potential to grow and adapt quickly to shifting sands.¹⁵⁰

Businesses can benefit from access to an extended talent pool. Organizations in Asia-Pacific should keep in mind that while the region is expecting a talent crunch, they are increasingly gaining access to an extended pool of talent through the rise of technological platforms

that help better connect job seekers with work, and enable new forms of work arrangements. Businesses are no longer restricted to “buying” talent with full-time contracts; they also have the option to “borrow” talent. Uber and Grab are the quintessential examples of this shift which has facilitated the rise of the “gig-economy”. The extended talent pool that companies can access not only includes contractors and freelancers, but also includes other arrangements such as partnerships and crowdsourcing (Table 4).

While this extended net for sourcing talent offers companies significant benefits in terms of cost efficiency, flexibility and agility, there are substantial challenges involved in moving to these types of work arrangements. Central to this is the question of how to guarantee labor rights and benefits for non-traditional employees.¹⁵¹ For example, analysis by the Central Provident Fund on Singapore, where the number of gig-employees is expected to grow substantially, showed that this group of employees will suffer a significant deficit in their retirement savings.¹⁵² Elsewhere, there have been increasing regulations to address the rights of gig-employees.¹⁵³ At the same time, permanent full-time employment remains the dominant form of employment, but with increasing political pressure in Asia-Pacific to improve working conditions, such as through the implementation of or increase in minimum wage.¹⁵⁴ Therefore, there are significant considerations for businesses to make if they plan to take advantage of this new kind of talent.

Table 4: The extended talent pool

TALENT POOL	DESCRIPTION	EXAMPLE
Internal workforce	Directly employing permanent talent will continue to provide the majority of the workforce, but will be supplemented by members from extended talent pools	Project-based work
Partnerships	Sourcing talent through partnerships will increase in importance, as industries and capability barriers blur and organizations seek a broader set of capabilities to stay competitive	A company-owned diagnostics center co-locating within and jointly run by a hospital, which encourages cross-pollination of talent across partners
Freelance	Sourcing talent through the freelance market will increase, as social trends like individualization impact the perception of work and large segments of the workforce prefer to work more flexibly and on projects that align to their skills and interests	The ever-increasing use of freelance application developers by companies competing in the fast-evolving mobile-first marketplace
Crowdsources	Crowdsourcing talent will increase, especially where the “wisdom of the crowd” generates more creative, innovative, and faster solutions	Crowdsourced testing is an emerging trend in software testing, replacing hired professionals or consultants

Source: Adapted from "Delivering the workforce of the future", Mercer and Oliver Wyman 2018

Talent sourcing should account for the rise of bots. Traditionally, talent sourcing has mainly covered the process of finding and hiring full-time talent – that is, “buying” talent. Over time, the framework has extended to “building”, where businesses invest in training and development to build talent from within, as well as “borrowing” talent through the gig-economy or from partnerships. However, businesses will increasingly consider not only humans, but also bots. Businesses should therefore take into account their automation plans in the process of recruitment, and source their talent with intensifying tech-human collaboration in mind.

Businesses can implement “smart recruitment”.

Technology has enabled new and more effective processes for recruiting talent. Companies have increasingly digitized the process and made use of powerful data analytics to optimize recruitment – cutting time and costs while improving on the recruitment experience for both candidates and recruiters. Unilever’s new acquisition model,¹⁵⁵ for example, is widely regarded as a successful case study in recruitment process digitization (Exhibit 23).

Companies will also likely increase recruitment through social media, which is now not only used for job posting and advertisement, but increasingly also for screening potential candidate experiences, skills, and personality. For example, a 2016 survey shows 68 percent of HR managers in India¹⁵⁶ reported looking into LinkedIn, Facebook or Twitter for more information on potential recruits. With the advent of data analytics, however, there is potential for a much more systematic way of employing social media for recruitment.¹⁵⁷ Here, social media is not only used as a “first impression” tool; rather, candidate metadata can be used to build a holistic profile of potential candidates and enable effective targeted recruiting at less cost.

2. Talent Building and Development: Digitization in the Spotlight

Arguably, one of the most important areas of business development in future will be the digital transformation of the organization – many of the redesign, talent sourcing and recruitment solutions described above will not be possible without digitization. As such, engaging their workforces in digital transformation should be a key priority for businesses. This will require the building, developing and reskilling of companies’ internal workforce and talent.

Exhibit 23: Acquiring talent in the digital age – The case of Unilever new talent acquisition model

Unilever’s goal to become a more digital organization led them to develop a new talent acquisition model.

After a series of pilot programs, Unilever new recruits through an automated screening platform using video interviews, where interviewees upload a self-filmed video. After the video is evaluated by machine-learning software, successful candidates are referred to in-person interviews. New recruits sign contracts on smart devices, and tailored applications enable the initial onboarding process.

Unilever is not only hiring the digital talent it is looking for but has significantly reduced recruiting time and marketing costs while enhancing its brand image in the digital space. At the same time, it delivers a new employee experience before the employee even joins the company, setting the stage for what is to come.

UNILEVER’S NEW TALENT ACQUISITION MODEL HAS RESULTED IN:



Improved candidate experience

80%+ positive feedback from candidates



Decreased marketing expenditure

3%+ decrease in 2016, down to €7.731 million



Optimized recruiting time

75% reduction in recruiting time

90% reduction in time-to-hire



Optimized candidate selection

Offer rate up from 63% to 80%

Acceptance rate up from 64% to 82%

Source: “Open-source talent”, Mercer and Oliver Wyman 2018

SKILLSFUTURE SINGAPORE

As a small island-state that faces a scarcity of both natural and human capital, the Singapore government has consistently been trying to improve the productivity of its resources. However, despite efforts to restructure the economy to raise national productivity by 2 to 3 percent annually since 2010, productivity growth has consistently fallen short of expectations: labor productivity growth was stagnant at less than 1 percent on average between 2010 and 2015.

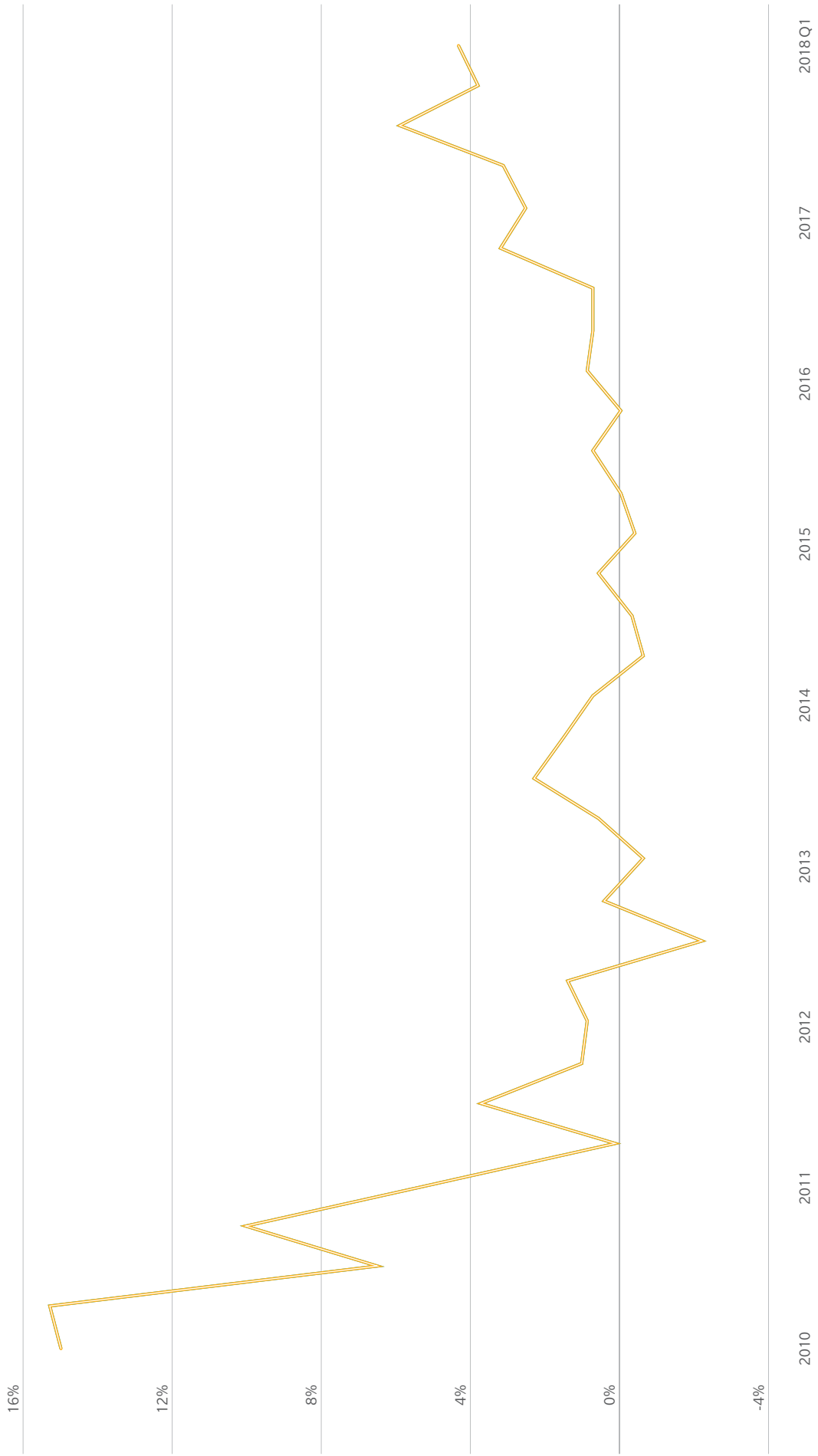
In 2016, the government launched a more systematic and integrated approach, the Industry Transformation Programme, to focus on developing and integrating industry-specific measures in 23 key sectors through partnerships between industry and government. To support the restructuring of the various sectors, the government also introduced SkillsFuture, a framework to improve the skills and capabilities of employees in Singapore. The approach taken by SkillsFuture is two-pronged: first, the government identifies and subsidizes the provision of trainings; and second, it provides incentives such as credit, internships and awards for individuals to take on these trainings. By targeting individuals across different life stages, the SkillsFuture framework aims to address the challenges of a skills mismatch and talent shortage through continual skills upgrading.

The HR industry, for example, has benefitted from the efforts to improve HR capabilities. By partnering with industry and the labor union, the government established the Institute for

Human Resources Professionals (IHRP) in 2017. To position the HR industry for the future, the IHRP identifies and benchmarks the core competencies necessary for HR professionals throughout their careers. HR professionals can then acquire and deepen the necessary skills through SkillsFuture grants and awards such as the SkillsFuture Study Award. To incentivize employers to invest in the training of their employees, employers who send their employees for training are also given financial support for both salary and training fees. Beyond assisting employees and employers, the SkillsFuture initiative also provides credit and guidance, such as career matching services, for individuals interested in entering the HR industry.

SkillsFuture has benefitted many individuals: more than 400,000 individuals participated in subsidized training courses in 2016. However, the implementation of the novel initiative has also been a policy learning and fine-tuning process for the government. It was revealed earlier this year that the SkillsFuture initiative suffered about S\$40 million in fraudulent claims by a criminal syndicate, the largest case of defrauding a public institution in Singapore to date. In response, the government has been reviewing and strengthening its fraud detection system through data analytics. Another unresolved challenge is establishing indicators to evaluate the progress and outcomes of the various incentives provided to individuals under the SkillsFuture framework. Nonetheless, SkillsFuture remains an integral component of Singapore's effort to improve labor productivity and overcome its talent gap through lifelong learning.

Exhibit 24: Changes in value added per worker at 2010 market prices



Source: Data.gov.sg

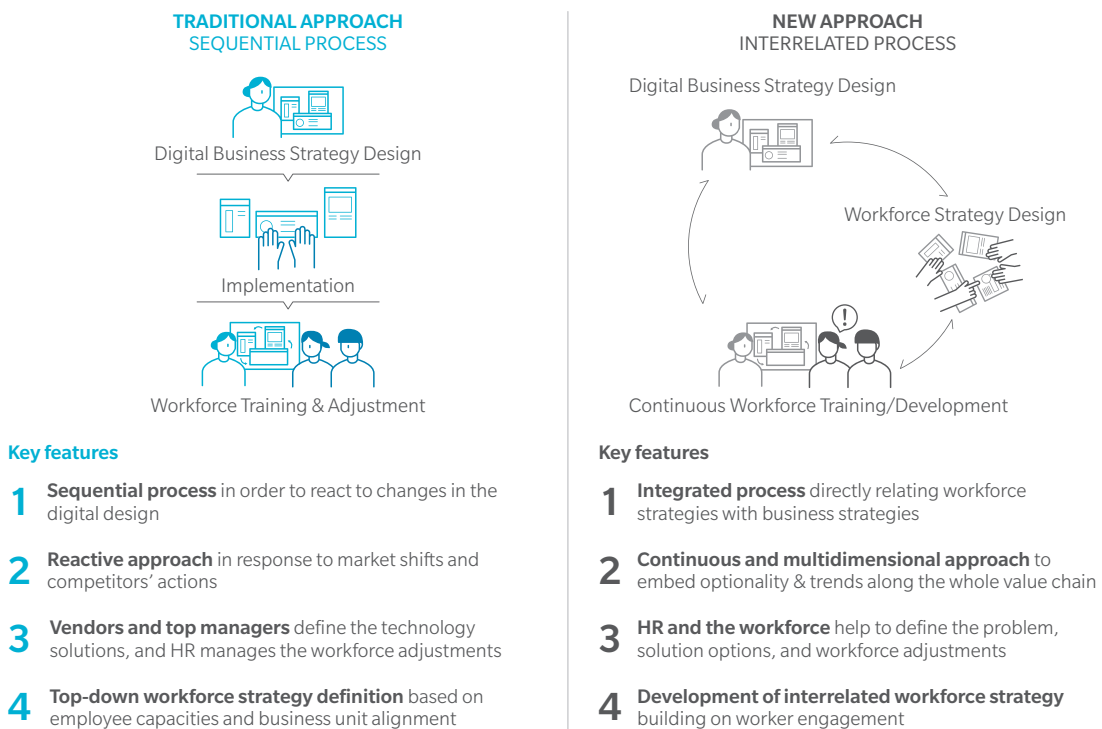
Given talent scarcity and skill shortage concerns, it is concerning that only 15 percent of C-suite leaders believe that upskilling and reskilling employees for new/changed roles will make a sizable difference to business performance. So far, only one in five have begun implementing strategies to develop the workforce of tomorrow, with a focus on upskilling digital competence (42 percent), increasing access to online learning courses (40 percent), and deploying rapid internal skills training (38 percent).

It is worth noting that this endeavor is important across all areas of business and not just digitization. Rather, digital transformation here is used as a case study to show how talent building and development should be organized. The most important takeaway is that businesses should move from a **sequential approach**,¹⁵⁸ where training and adjustment happen only at the end of a long designing and deploying process, to an **integrated approach**, in which design, development and training processes happen simultaneously and continuously (Exhibit 25). Continuous feedback from employees will greatly inform the designing process and enable a seamless rollout of the digital strategy.

Training and development are also not necessarily confined to the company. Businesses can take a more proactive and long-term view by partnering with educational institutions to equip the future workforce with the necessary skills to thrive. One key skill that has been highlighted is the ability to “learn how to learn”,¹⁵⁹ which enables employees to acquire a combination of technical, social and collaborative skills. Correspondingly, top down rote learning in schools must be replaced with a more project-based approach that provides more experiential opportunities. This approach can only be achieved through a close partnership between educational institutions and the industry, where the latter can deliver the practical experience often lacking in the classroom.

One country that may serve as a model for other countries in the region for talent cultivation through forward-looking training development programs in partnership with the business community, is Singapore. The In Focus section explicates how the Singapore government has adopted a long-term view on workforce development, and how companies can take an active part in this effort with the SkillsFuture Singapore initiative.

Exhibit 25: Moving from a sequential workforce strategy development process to a circular integrated process



Source: "Engaging the workforce in digital transformation", Mercer and Oliver Wyman 2018

CONCLUSION

In this third edition of the Evolving Risk Concerns in Asia-Pacific, we have provided an overview of the risk landscape in the region across key risk areas that were covered by the *Global Risks Report*. The discussion yielded three relevant observations for businesses operating in the region.

First, **global and regional geopolitical shifts** are increasingly permeating to risks in other areas, notably technological and economic developments. **Geopolitics continues to be the wild card** for businesses, and sudden changes in this regard can catch executives off guard.

Second, Asia-Pacific will continue to be one of the key sites for **technological innovation**. However, **the frameworks to address new operational, security and ethical risks that arise from these advancements are not necessarily in place yet**, which means businesses may need to put in place mitigation systems of their own. On the other hand, executives will also need to pay attention to changes in the regulatory landscape in anticipation of policy responses by governments to these threats.

Third, it is important for businesses to realize that the rapid pace of change in the region – especially in the areas of geopolitics and technology – is happening against the **backdrop of persisting socioeconomic and environmental vulnerabilities**. This presents an extra layer of consideration for executives as they plan their businesses' future development.

From this broad overview of the Asia-Pacific risk landscape, we focused specifically on two risks, namely **critical infrastructure failure or shortfall**, and **talent shortage**, and their potential impact on businesses. They represent various threats to the two key developmental pillars for the region – physical infrastructure and human infrastructure.

These are analyzed within the megatrends that will shape regional development in the long term. We would here like to stress on two key observations on the back of the discussion:

1. These **risks are crystalizing** in Asia-Pacific, and have **manifested in various forms** across economies in the region with businesses already feeling the impact
2. Megatrends in the region, notably **technological advancements and increasing cyber dependency, climate change, and a rapidly aging population**, will significantly complicate these risks. In some cases, such as critical infrastructure, for example, the risks of shortfall and failure will be exacerbated; in others such as talent shortage, these trends may have mixed implications that are presently hard to decipher and act upon

It is clear that businesses will have to **react swiftly** in response to these risks. To aid business leaders in this endeavor, we have suggested some directional changes companies can take as the first step towards a comprehensive response. Looking forward, however, businesses will need to look deeper into their own organizations to devise suitable and workable strategies.

Lastly, while we have mainly examined risks through the lens of businesses in this report, much of the risk insights presented in this report is also applicable to governments and policymakers. To observe and prepare for the evolving risk landscape in the region is a crucial first step to build effective risk management and greater resilience not only at the individual company level but also on the industry and national levels. It is our hope that this report can serve as a useful roadmap both for businesses as well as policymakers and other keen observers of the region, propelling them towards change, concrete actions and greater resilience.

APPENDIX: THE WORLD ECONOMIC FORUM SURVEYS

GLOBAL RISK PERCEPTION SURVEY OVERVIEW

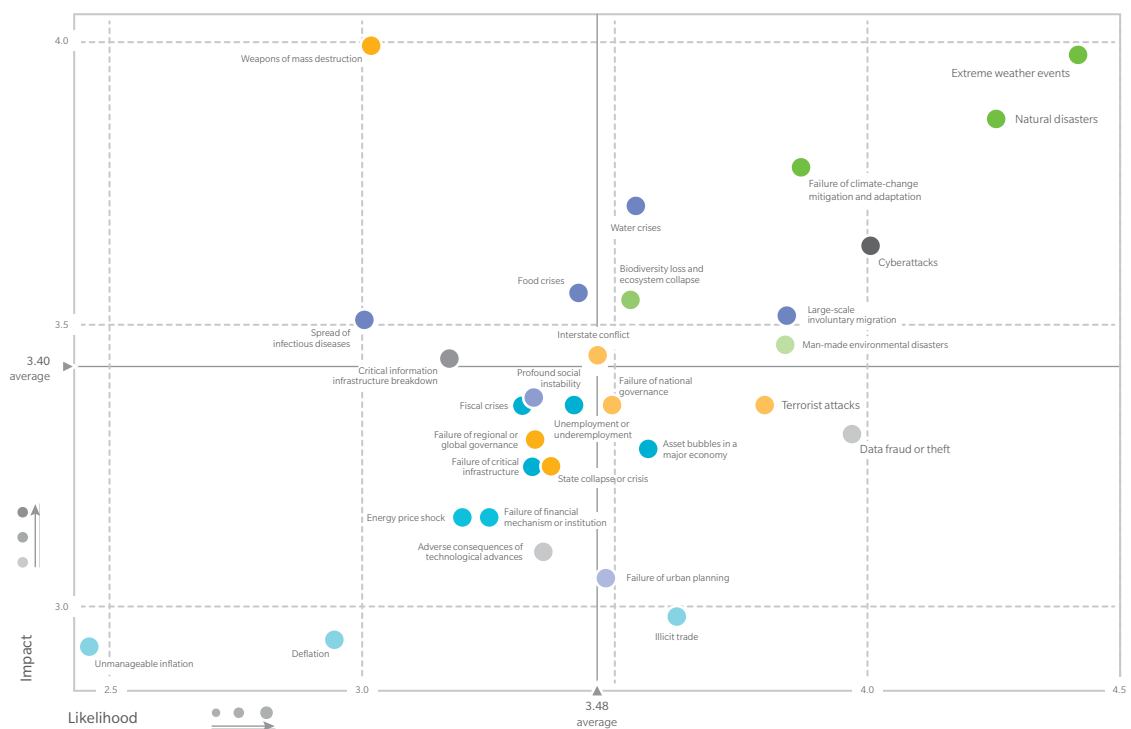
The *Global Risk Perception Survey* is the main instrument used to assess global risks in the *Global Risks Report*. The 2017 survey was conducted between early September and mid-October 2017, bringing together diverse perspectives from risk experts around the world from business, academia, civil society and government. Every year, risk experts are asked about the perceived impact and likelihood of risks over a 10-year time horizon. Almost 880 risk experts participated in the 2017 survey.

One of the key insights of the survey findings is the risk likelihood/impact map (Exhibit 26).

EXECUTIVE OPINION SURVEY OVERVIEW

The Executive Opinion Survey is conducted annually and provides risk perceptions, but from a different angle – recognizing risk management priorities from decision-makers themselves. Respondents are asked to choose up to five risks which they view as being most important for doing business in their country. Approximately 12,500 responses were collected for the Executive Opinion Survey, of which about 2,487 responses were from Asia-Pacific.

Exhibit 26: The 2018 global risk landscape



Source: Global Risks Report 2018

Exhibit 27: The Evolving Risks Landscapes, 2008–2018

TOP 5 GLOBAL RISKS IN TERMS OF LIKELIHOOD

2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Asset price collapse	Asset price collapse	Asset price collapse	Storms and cyclones	Severe income disparity	Severe income disparity	Income disparity	Interstate conflict with regional consequences	Large-scale involuntary migration	Extreme weather events	Extreme weather events
Middle East instability	Slowing Chinese economy (<6%)	Slowing Chinese economy (<6%)	Flooding	Chronic fiscal imbalances	Chronic fiscal imbalances	Extreme weather events	Extreme weather events	Extreme weather events	Large-scale involuntary migration	Natural disasters
Failed and falling states	Chronic disease	Chronic disease	Corruption	Rising greenhouse gas emissions	Rising greenhouse gas emissions	Unemployment and underemployment	Failure of national governance	Failure of climate-change mitigation and adaptation	Major natural disasters	Cyberattacks
Oil and gas price spike	Global governance gaps	Fiscal crises	Biodiversity loss	Water supply crises	Water supply crises	Climate change	State collapse or crisis	Interstate conflict with regional consequences	Large-scale terrorist attacks	Data fraud/theft
Chronic disease, developed world	Retrenchment from globalization (emerging)	Global governance gaps	Climate change	Water supply crises	Mismanagement of population ageing	Cyberattacks	High structural unemployment or underemployment	Major natural catastrophes	Massive incident of data fraud/theft	Failure of climate change mitigation and adaptation

TOP 5 GLOBAL RISKS IN TERMS OF IMPACT

2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Asset price collapse	Asset price collapse	Asset price collapse	Fiscal crises	Major systemic financial failure	Major systemic financial failure	Fiscal crises	Water crises	Failure of climate-change mitigation and adaptation	Weapons of mass destruction	Weapons of mass destruction
Retrenchment from globalization (developed)	Retrenchment from globalization (developed)	Retrenchment from globalization (developed)	Climate change	Water supply crises	Water supply crises	Climate change	Rapid and massive spread of infectious diseases	Weapons of mass destruction	Extreme weather events	Extreme weather events
Slowing Chinese economy (<6%)	Oil and gas price spike	Oil price spike	Geopolitical conflict	Food shortage crises	Chronic fiscal imbalances	Water crises	Weapons of mass destruction	Water crises	Water crises	Natural disasters
Oil and gas price spike	Chronic disease	Chronic disease	Asset price collapse	Chronic fiscal imbalances	Diffusion of weapons of mass destruction	Unemployment and underemployment	Interstate conflict with regional consequences	Large-scale involuntary migration	Major natural disasters	Failure of climate-change mitigation and adaptation
Pandemics	Fiscal crises	Fiscal crises	Extreme energy price volatility	Extreme volatility in energy and agriculture prices	Failure of climate-change mitigation and adaptation	Critical information infrastructure breakdown	Failure of climate-change mitigation and adaptation	Severe energy price shock	Failure of climate-change mitigation and adaptation	Water crises

● Economic ● Environmental ● Geopolitical ● Societal ● Technological

Source: World Economic Forum 2008–2018, Global Risks Reports

Note: Global risks may not be strictly comparable across years, as definitions and the set of global risks have evolved with new issues emerging on the 10-year horizon. For example, cyberattacks, income disparity and unemployment entered the set of global risks in 2012. Some global risks were reclassified: water crises and rising income disparity were re-categorized first as societal risks and then as a trend in the 2015 and 2016 Global Risks Reports, respectively.

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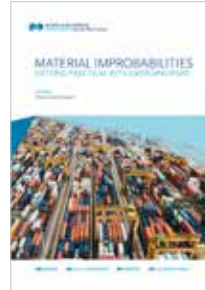
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RECENT PUBLICATIONS FROM THE GLOBAL RISK CENTER



THE GLOBAL RISKS REPORT 2018

The World Economic Forum highlights the issue that will exacerbate volatility and uncertainty in the next decade – while also presenting opportunities for government and businesses to build resilience and deliver sustainable growth. Marsh and McLennan Companies has been a strategic partner of the report since 2006.



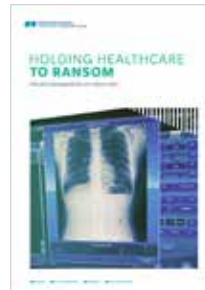
MATERIAL IMPROBABILITIES

This publication from Global Risk Center sets out how firms can move from generalized concerns to analyses, discussions and actions in response to specific threats that may most disrupt their ambitions and operations, and erode most value. It concludes by reflecting on the opportunities for Risk leaders to reframe the function to meet the needs of the new era.



INFRASTRUCTURE ASSET RECYCLING

This report explores how the asset recycling concept has been practically implemented in the context of Australia. From the Australian experience, it discusses the key takeaways for governments that are considering implementing asset recycling schemes. In particular, the report highlights the importance of accounting for public perception in a successful asset recycling program.



HOLDING HEALTHCARE TO RANSOM

This paper highlights some examples of best practices across industries in cyber risk management, and several key areas for healthcare organizations to start focusing on, such as preparedness, prevention, detection, response, and recovery, including the use of cyber risk insurance as a risk-transfer tool.



DRIVING ESG INVESTING IN ASIA

A partnership between AVPN, OW and APRC, the report highlights the existing ESG Investing landscape in Asia and illustrates key observations and common challenges faced by early adopters. It also outlines six practical steps investors can take to initiate their journey into ESG Investing, and provides key learnings and recommendations for those aiming to embark on similar journeys.



THE TWIN THREATS OF AGING AND AUTOMATION

The report examines and quantifies the risks of rapid societal aging, and of older workers' susceptibility to automation in fifteen major markets. Older workers today face significant risks of displacement at the hands of emerging technologies, and are often overlooked as viable sources of renewed productivity. It is therefore incumbent on employers to redeploy the unique abilities of older workers as part and parcel of any digital transformation strategy.



CYBER EVOLUTION: EN ROUTE TO STRENGTHENING RESILIENCE IN APAC

The cyber threat landscape is morphing constantly and dramatically. Around the world, cyber dependency grows as increasing digital interconnection among people, things, and organizations expand. Asia-Pacific (APAC) is no different. A collaboration between FireEye and APRC, this white paper aims to help organizations across APAC build and strengthen their enterprise cyber resilience.



TARGETING A TECHNOLOGY DIVIDEND IN RISK MANAGEMENT

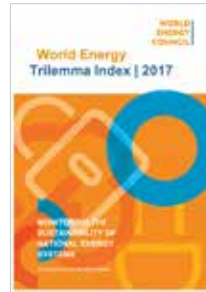
A collaboration between APRC and PARIMA, the report analyses results from The Emerging Tech in Risk Management Survey of 2017, providing insights into how businesses plan to deploy technology in corporate risk management. It contains case studies and perspectives from across Marsh & McLennan Companies' operating companies as well as from our external partners.

RECENT PUBLICATIONS FROM MARSH & MCLENNAN OPERATING COMPANIES



IS THE GOLDEN AGE FOR MNCs OVER?

The report by OW, presented at the Singapore Summit 2018, explores how the current political shift impacts MNCs on various perspectives and how MNCs should fundamentally rethink their business models and governance principles in order to successfully navigate against these headwinds.



WORLD ENERGY TRILEMMA INDEX 2017

A partnership between WEC and OW, the 2017 Energy Trilemma Index tracks the development of the three pillars of the energy sustainability, namely energy security, energy equity, and environmental sustainability across 125 countries. Balancing these three goals constitutes a 'trilemma' and is the basis for prosperity and competitiveness of individual countries.



FINANCIAL CRIME RISK MANAGEMENT IN APAC

The point of view from OW looks into the major issue of financial crime in APAC to stress the substantial cost it can entail for financial institutions and society at large. The report suggests crucial steps to managing financial crimes from communication, culture, compliance, to coverage, computation and cooperation.



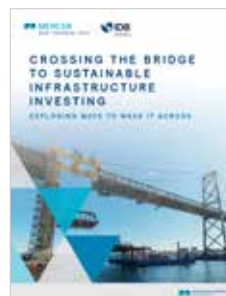
THE NEW IMPERATIVES FOR FINANCIAL SECURITY

Part of the Healthy, Wealthy and Work-Wise program, Mercer's latest report examines why smart companies are using technology to deliver an employee experience that empowers the workforce and improves the physical and financial well-being of individual employees and their families.



DELIVERING THE WORKFORCE FOR THE FUTURE

For many companies, the path toward this future will require a fundamental transformation in the way they think about strategy, business models, HR, and their most critical resource – their staff. This report shares Mercer's point of view relating to skills, size, and shape, and provides an outline to guide business leaders as they progress from envisioning to delivering their future workforce.



CROSSING THE BRIDGE TO SUSTAINABLE INFRASTRUCTURE INVESTING

To better understand what is happening on the ground, review the barriers and identify tangible next steps to address the funding gap for sustainable infrastructure, the Inter-American Development Bank (IDB) commissioned Mercer to undertake a multiphase project beginning in mid-2016.



EXCELLENCE IN RISK MANAGEMENT XV

Technology is embedded in nearly every aspect of our lives, including in many businesses' critical functions and risk professionals are tasked with answering critical questions about the risks these new technologies present. A collaboration between Marsh and RIMS, this year's Excellence in Risk Management survey looks into risk professionals' views on their role in innovation as well as their companies' digital approach.



CYBER RISK MANAGEMENT: RESPONSE AND RECOVERY

In the event of a debilitating attack, cyber insurance and associated services can limit an organization's financial losses and help accelerate its recovery. This report from Marsh & McLennan's Global Risk Center and Women Corporate Directors outlines what directors need to know to position cyber insurance within a comprehensive risk management framework.

ACKNOWLEDGEMENTS

To read the **digital version** of Evolving Risks Concerns in Asia-Pacific 2018, please visit www.mmc.com/insights.html

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