

The future redefined Asia Pacific at an inflection point

PwC's 2011 APEC
CEO Survey

Executive Summary

APEC
2011 USA
CEO SUMMIT



Asia Pacific at an inflection point

As CEOs look to domestic markets to sustain growth

Of the few bright spots in the global economy, none is proving more influential on business strategies globally than the transformations underway in Asia Pacific. The gradual rise in incomes and opportunities for millions of people across this wide and diverse band of nations is a welcome source of optimism.

Each incremental gain in GDP in youthful and dynamic APEC economies heralds new markets and possibilities for business. Continued growth in emerging economies over the next three to five years—even if growth moderates as expected in 2012—would generate billions in economic activity.

Yet faltering recoveries in the US and Europe are proving to be more disruptive than businesses had expected just a year ago, and hopes that Asia can offset the slowdown are diminishing. Meanwhile, strategies are accelerating to secure footholds in fast-growing APEC markets.

We surveyed over 320 industry leaders from July to September 2011. We also conducted 20 follow-on, in-depth interviews with CEOs and other top corporate officers. This document presents the key findings from the 2011 APEC CEO Survey. You can find the full report on pwc.com, along with video interviews with APEC region business leaders outlining important challenges and opportunities ahead.

1

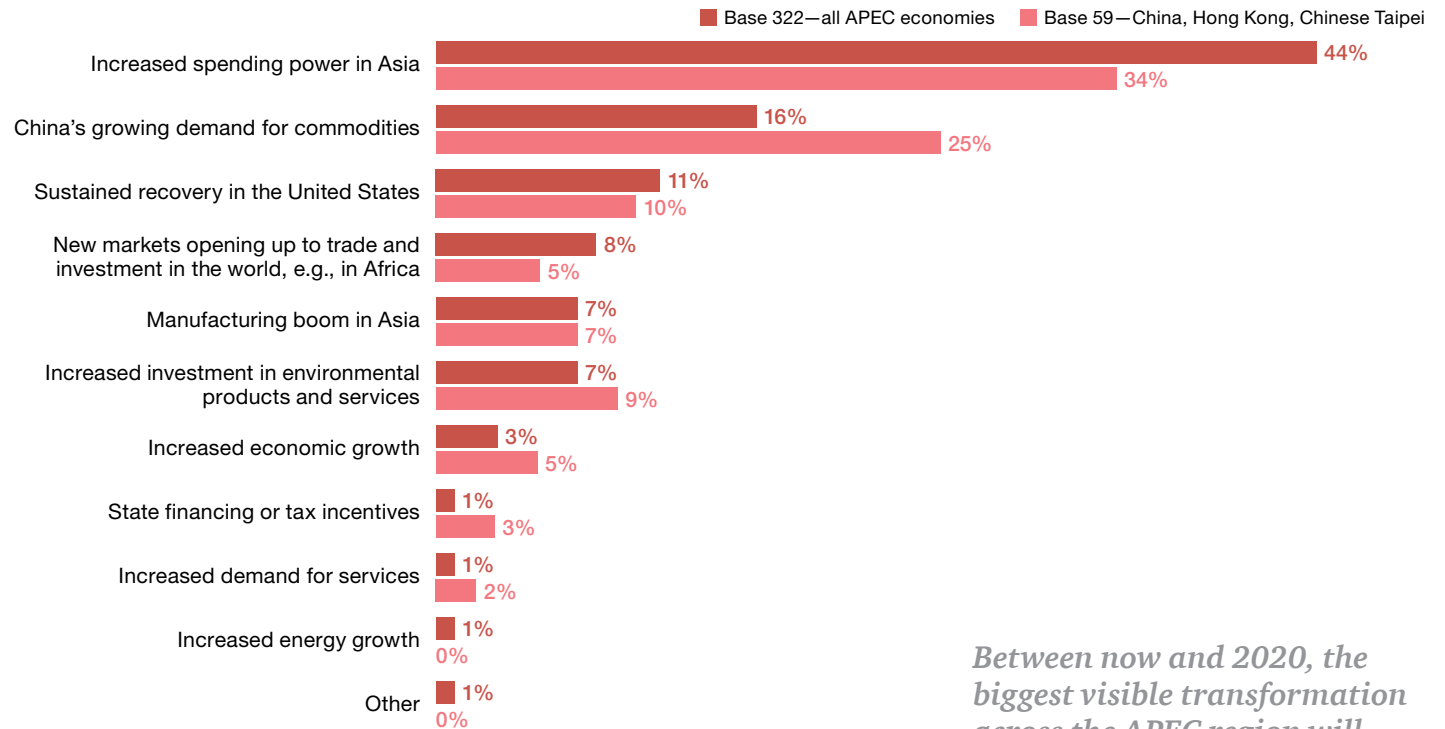
What do CEOs believe are the main opportunities for their company in Asia Pacific?

Looking beyond today's uncertainty, business leaders are optimistic for their company's future in the emerging APEC economies. They recognize these markets are at an important inflection point and are directing a substantial portion of overall investments into Asia's domestic economies, with 44% convinced the rise in spending power in Asia, particularly in China, offers the single biggest opportunity for growth for their companies. This holds true whether the CEOs are based in fast-growing or mature markets.

The majority are 'very confident' in revenue growth over the next three to five years. Among those based in China, Hong Kong, and Chinese Taipei, the figure rises to 76%.

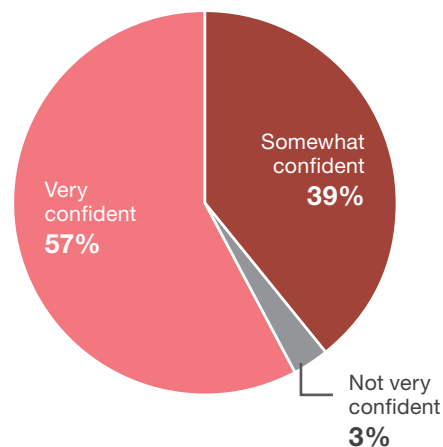
Asia's emerging middle class fuels the business case

Q. Which of the following provides the main growth opportunity for your organization over the next 3–5 years?



Q. How confident are you about your organization's prospects for revenue growth over the next 3–5 years?

Base: 324



Between now and 2020, the biggest visible transformation across the APEC region will come from the depth of global connectedness of both people and businesses. This will occur through the pervasive use of the Internet as it evolves and the consumption of connectivity through a huge array of new devices and applications, some that people haven't even dreamed up yet. The rate at which this is developing and diffusing into the APEC region is stunning.

Craig Mundie, Chief Research and Strategy Officer, Microsoft

2

Why are they so confident?

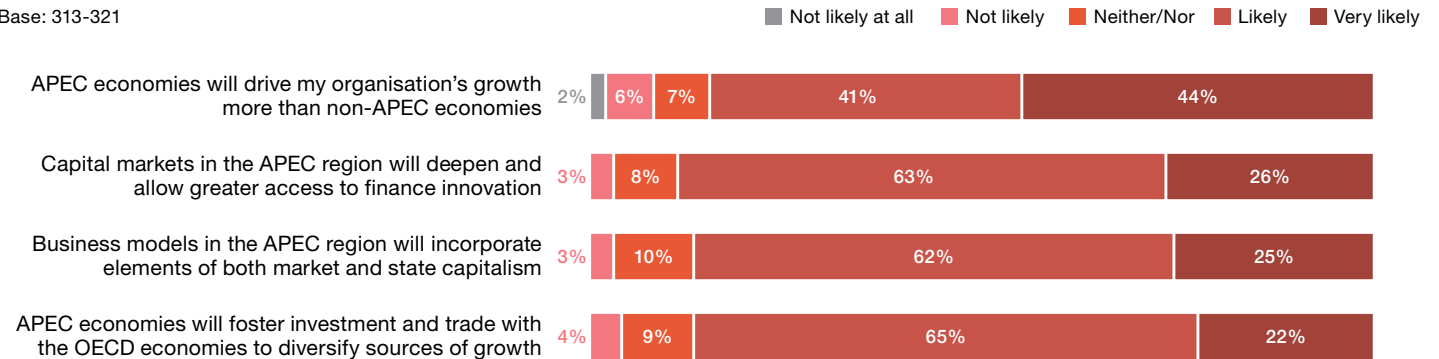
Rising wealth within—and the sheer size of—emerging middle class markets across the APEC region are fueling expectations for new sources of company growth. Moreover, trade in goods is on the rise between APEC economies, as is trade in services, if more gradually. Business leaders believe these intraregional ties are set to deepen: 64% of CEOs agree bilateral and regional trade agreements are more important to their company prospects than multilateral ones.

Thus inter-regional trade will play a key role in growth within the APEC-Asia bloc; 85% expect APEC economies will drive more of their company's growth in the next few years than non-APEC economies. A strong majority also believe it's more likely than not that capital markets 'will deepen' and create room for more financial innovation to take place.

Trends underway today will continue: Intra-APEC resiliency, continued financial and trade integration with OECD

Q. Thinking about the prospects for the APEC region through 2020, how likely or unlikely do you think the following changes are to occur?

Base: 313-321



There's tremendous opportunity for growth intra-Asia. These countries now have more capabilities and skills, more resources and more raw materials to trade with each other, and that is driving growth in intra-Asia very strongly.

Roger Crook, CEO, DHL Global Forwarding, Freight

3

What about the impact of a prolonged US economic slow-down on their business?

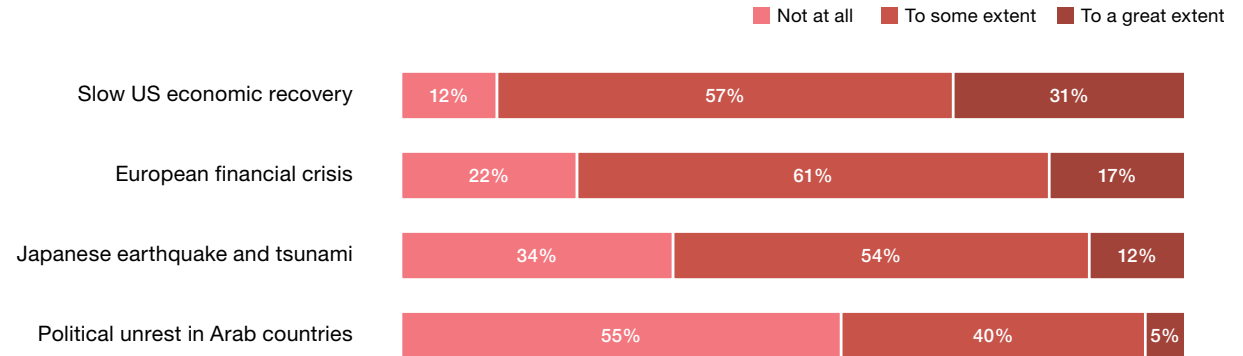
Clearly, the slower-than-expected recovery in the US impacted businesses across the region in 2011, far more so than the earthquake and tsunami in March in Japan or the unfolding financial crisis in the euro zone. This year has not been easy and a host of economic challenges appear likely to persist through next year. The IMF noted ‘moderating’ trends in Asia related to a weakening in mature economies in its September 2011 World Economic Outlook.

Uneven global growth trends lead to concerns over a rise in protectionism as governments face pressure to save jobs and protect advantages for domestic businesses: 28% say protectionist tendencies are a barrier to their growth to a ‘great extent.’

However... weak US growth and euro zone uncertainties weigh

Q. How seriously was your business impacted by the following events in 2010–2011?

Base: 312-319



One of the biggest concerns among the advanced economies in the APEC region is the debt situation in the US and Japan. If their problems are not solved in a short period of time, it's going to have a major negative effect on the whole economy for APEC.

Vincent H.S. Lo, Chairman
Shui On Group

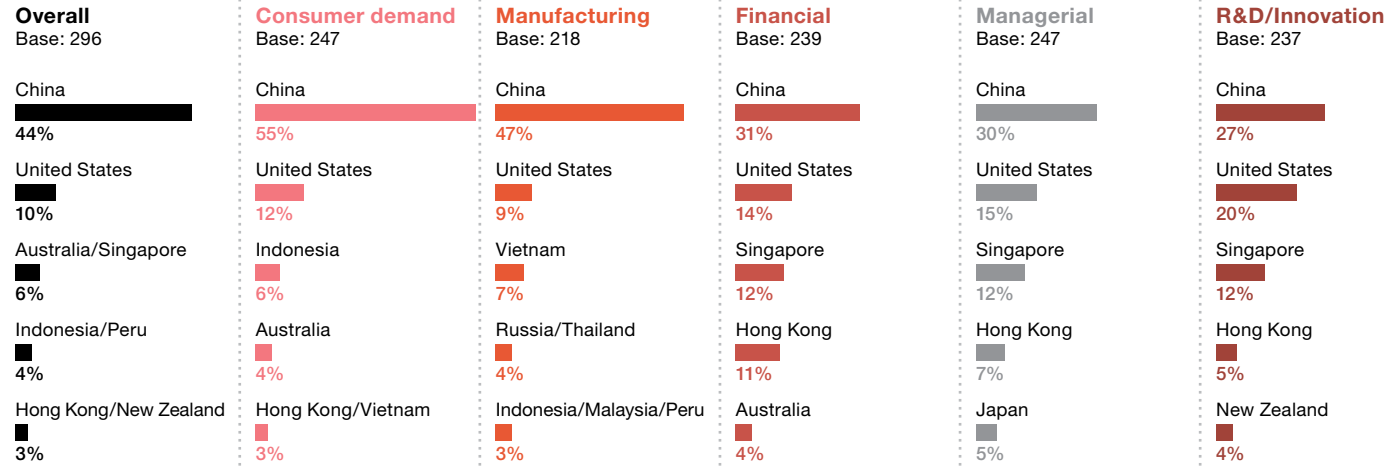
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Where are they investing in the APEC region?

Consumer markets are the driving force for investments. It's the 'billion toothbrushes' business case and it's very compelling. For example, of those investing in China in the next three to five years, 55% say investments are directed toward access to consumer markets. A new wave of investment is also flowing to expand footholds in China's evolving marketplace for services. Close to a third of investments will develop an R&D, managerial or financial presence in that country.

Next wave of investments in APEC Asia in services

Q. In which APEC economy are you making the largest investment in the next 3–5 years in the following areas?



5

What other economies are attracting interest?

CEOs are seeking footholds in consumer markets and manufacturing in Indonesia and Vietnam, for example, or to deepen operations in Singapore. It is a rapidly evolving web—with momentum already underway as production in some industries, for example, shifts from within Asia to lower-cost Vietnam. As a result, new trading relations are taking root and forecast to develop with distinctive scenarios for each country.

The potential of Vietnam to become a business process outsourcing centre is strong. Several IT giants from the US are already in the process of setting up BPO centres in Vietnam. The rise of Indonesia and the size of that market, the fact that its domestic economy has been driving economic growth and the relative stability in the political environment, have created a lot of interest in the country.

Chong Siak Ching, President and CEO, Ascendas Pte. Ltd.

6

What do CEOs consider the prominent barriers to growth?

As the business environment grows more competitive, frustrations with complex regulatory regimes, particularly with haphazard rules issued by different regulators within the same country, are on the rise. More leaders in mature markets (33%), say inconsistent regulations and standards are a barrier to growth ‘to a great extent.’

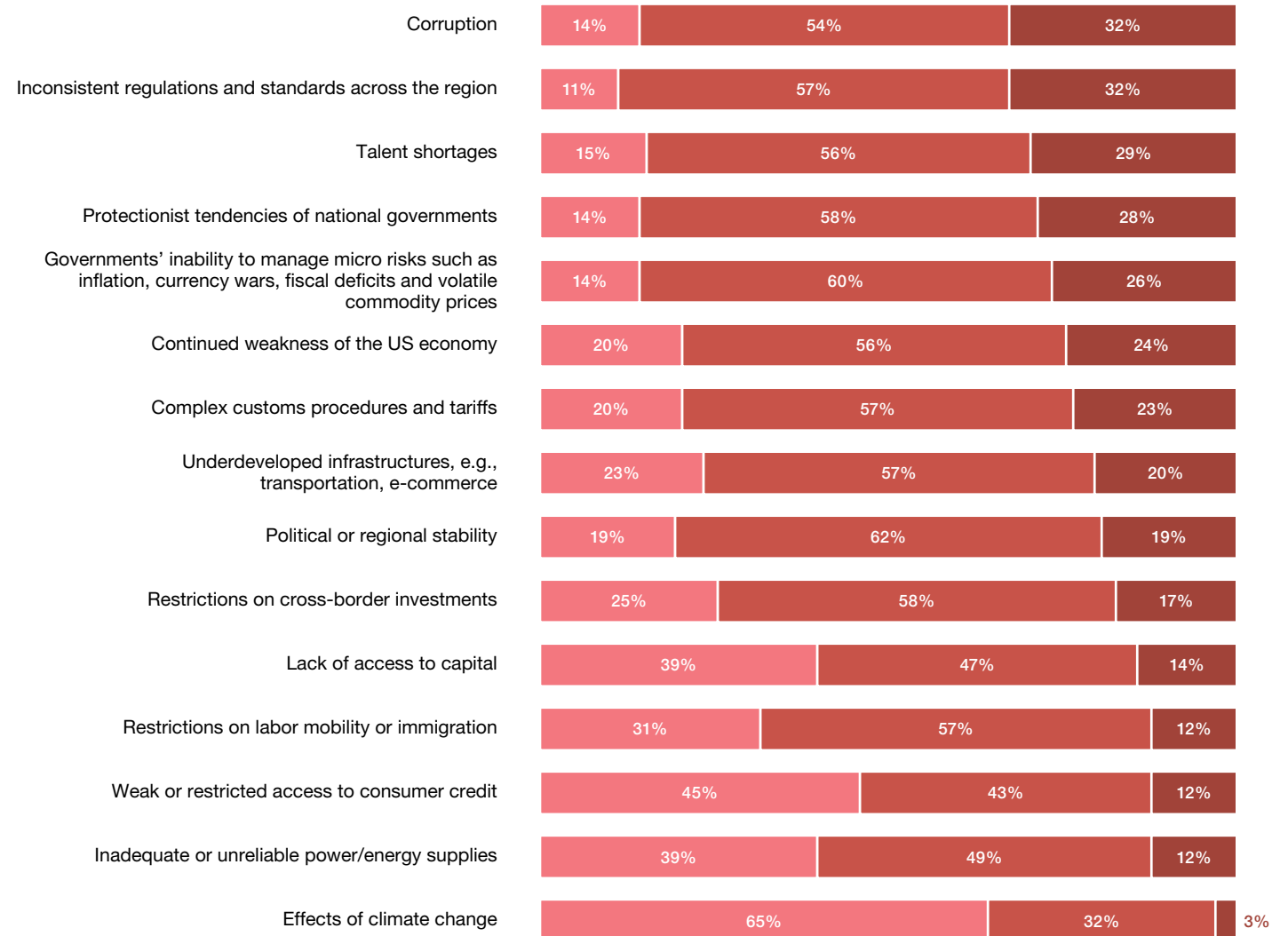
Corruption is a growth barrier to a ‘great extent’ for 35% of business leaders in fast-growing economies compared to 24% for those based in mature economies. Recently, APEC leaders have made many commitments to combat corruption. Together with the sharp rise in enforcement and record settlements for bribery-related investigations in OECD economies, the global momentum in anti-corruption is raising expectations for progress. Yet concerns persist, strongly indicating that implementation on the ground is lacking. Combating corruption ranked fourth in a list of issues that opinion leaders said APEC leaders should consider in mid-November in Honolulu, according to a survey conducted by the Pacific Economic Cooperation Council (PECC).

Inconsistent regulations and corruption impede efforts to build scale

Q. To what extent are the following factors a barrier to your organization’s growth within the APEC region over the next 3–5 years?

Base: 290-312

■ Not at all ■ To some extent ■ To a great extent



7

What strategic changes are they making to compete in Asia Pacific markets?

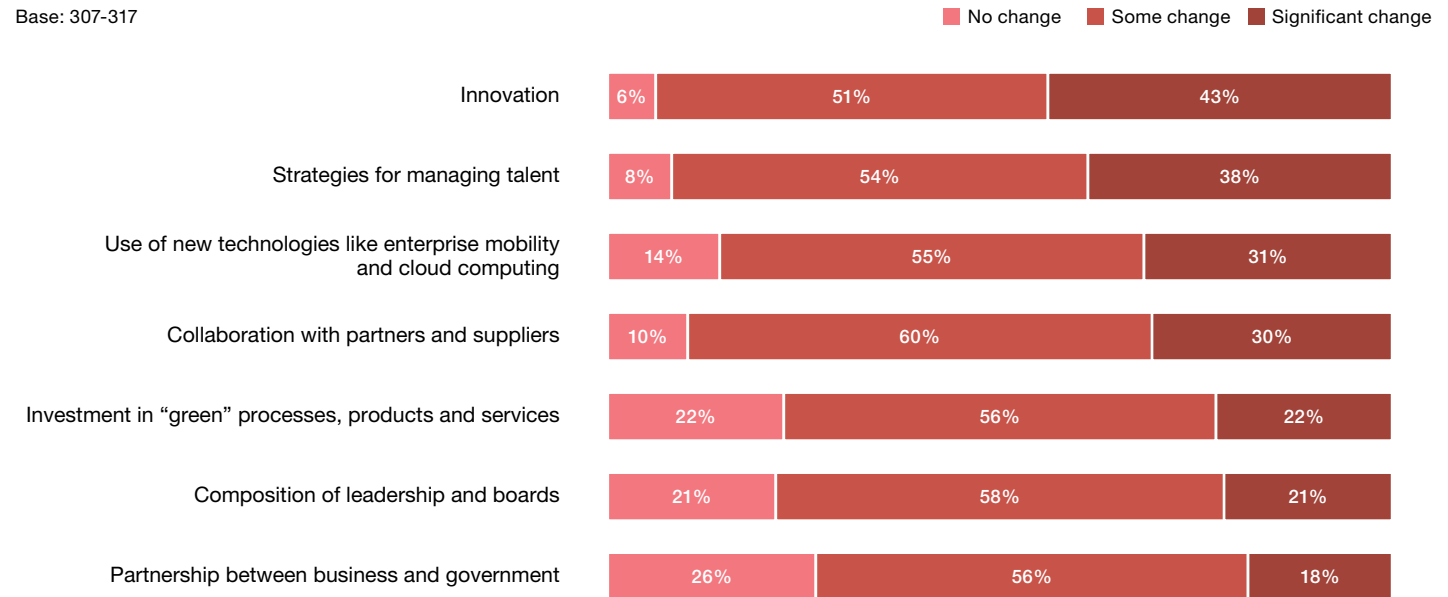
Equipping an organization to compete, successfully, in three to five years requires fundamental changes today in the way businesses innovate and manage talented people. Or so the majority of business leaders believe. As they orient toward growth in markets in China and elsewhere in Asia and Latin America, 94% are changing innovation strategies, with nearly half of that group making 'significant' adjustments.

CEOs are equally committed to an overhaul of talent management, with 38% likely to make deep changes in their organizations. Many are facing mounting challenges in fast-growing economies that include significant shortages of qualified managers.

Intense focus on improving the capacity to innovate

Q. Over the next 3–5 years, to what extent are you changing your strategy and/or operating and business models in the following areas in order to succeed?

Base: 307-317



The current business environment is really going to force business leaders and political leaders to rethink the way we are innovating and the way we are developing talent in the region. From an innovation standpoint, I think we're going to have to think more in terms of collaborations and co-creations whereby people will join together with various different areas of expertise in order to solve the very complex problems that we're facing in the future.

Deborah Henretta, Group President, Asia & Global Specialty Channel, Procter & Gamble

8

How prepared, or unprepared, do CEOs see their company for 'black swan' events?

The earthquake and tsunami that struck Japan in March is spurring deeper commitments to managing risks related to disasters and other 'black swan' events. It is a healthy development, as the region has recently experienced earthquakes in Chile, New Zealand and China and drought in Australia. APEC transportation ministers in September 2011 committed to formulating a 'common understanding of requirements' for transportation systems preparedness to better respond to future disasters.

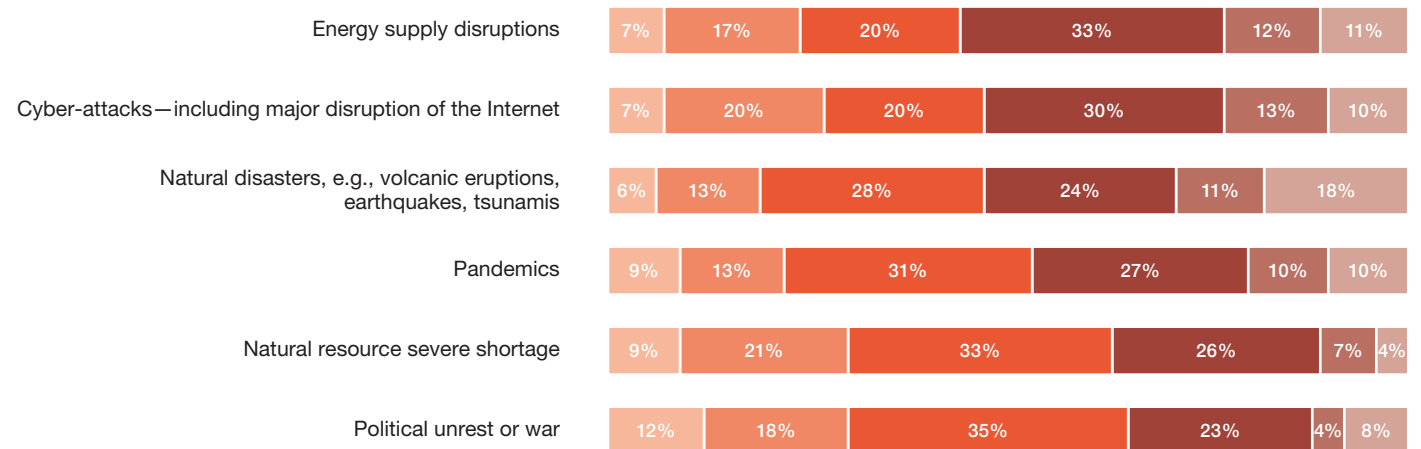
Currently, the state of preparedness in the region is mixed. One in four respondents said their companies do not have plans in place for continuing operations in the event of a natural disaster. More are focused on building in resiliency to mitigate the impact of disruptions to energy supplies or from cyber-attacks. Businesses with revenue under US\$100 million a year are less likely to have disaster plans than larger companies.

Energy security and cyber-security are top motivators to developing continuity planning

Q. Regarding the following low-probability, high-impact events, how would you describe your organization's business continuity plans?

Base: 307-317

Prepared: ■ Plan is in place ■ Plan has been tested ■ Plan has been implemented in real situations
Unprepared: ■ No plan exists ■ Plan being developed ■ Don't know



We see definite changes among Japanese companies in disaster preparations. Much of industry in Japan will re-emerge more resilient than before.

Osamu Kamikawa, Deputy General Manager, Planning & Coordination, Mitsui & Co.

9

How are CEOs changing approaches to innovation?

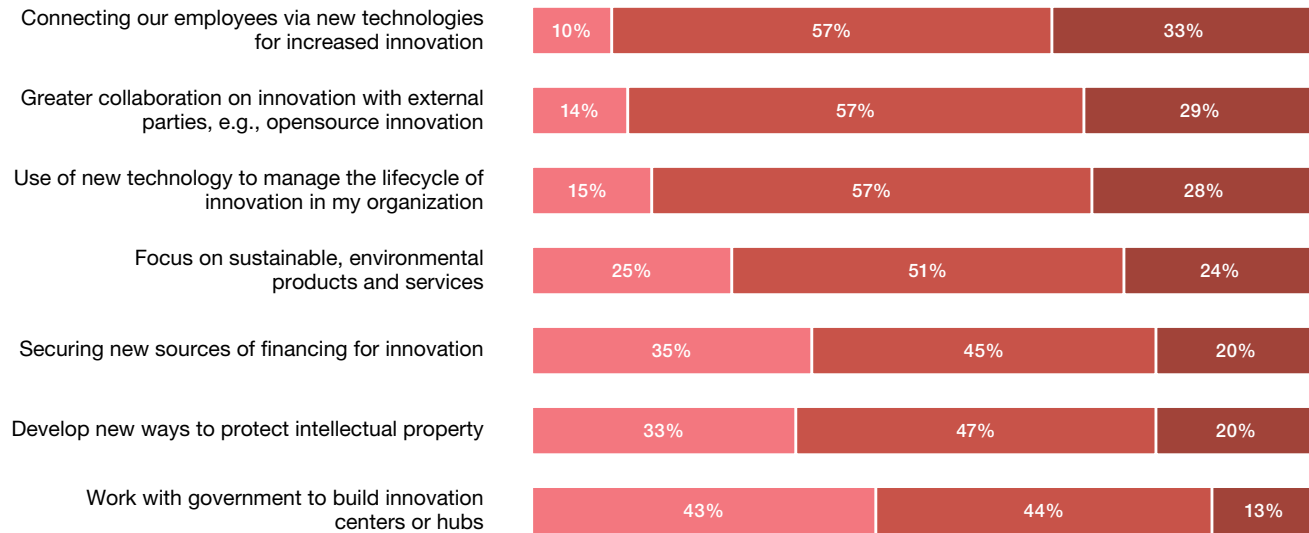
Above all, they are directing resources to better connect employees through emerging technologies, and to bind their organizations more tightly into networks with outside partners in an open collaboration model that is thriving on cloud computing and mobility technologies. These are top areas of change to innovation strategies. Business leaders are seeking to deepen their connection with the Internet transformation spreading across the region, creating new devices and applications, and reaching new customers and partners across the globe.

Putting the reach and flexibility of broadband to work and improving the capacity to support sustainable growth

Q. To what extent do you plan to change your innovation strategy in the following ways over the next 3–5 years?

Base: 304-310

■ No change ■ Some change ■ Significant change



A decade ago our pharmaceutical business in Asia Pacific imported innovative products from the United States and Europe. Today, a skilled group of scientists and physicians undertake end-to-end drug development across the region. This involves prioritizing compounds and indications for the compounds from the West and developing them for patients in the Asia Pacific region, while also developing new compounds in Asia Pacific that are directly relevant and of significant medical value to patients in the region.

William C. Weldon, Chairman and CEO, Johnson & Johnson

What are the pressure points with talent?

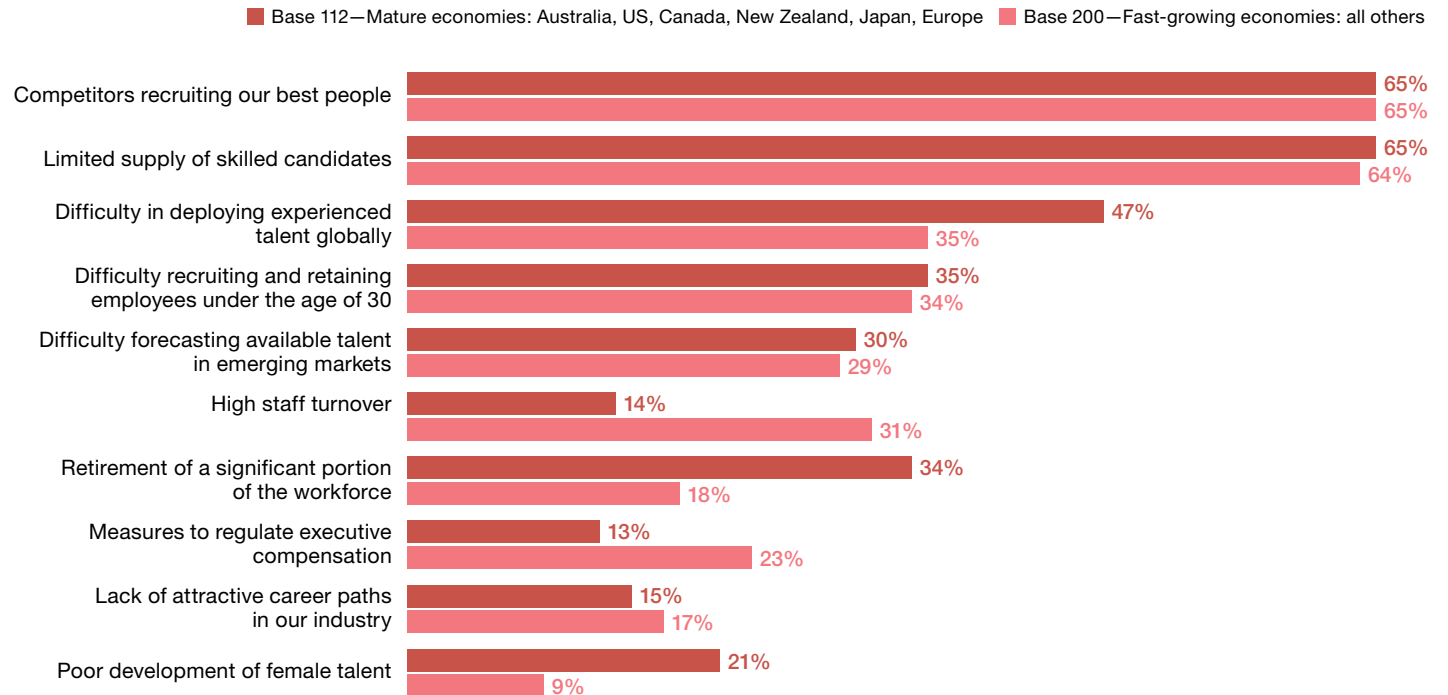
Getting the talent strategy right is perhaps the most complex and urgent challenge companies across the region face. High turnover and skills shortages are becoming an impediment to growth in the Asia-Pacific region, where more employers, in global surveys, routinely report difficulties in filling jobs.

China faces critical shortages at the senior management and executive levels. Double-digit wage rises and high turnover among managers are compounding the issue. Even with high unemployment, CEOs in mature economies still face talent-related concerns: nearly half (47%) say they're experiencing difficulties deploying people overseas.

Look forward 20 years, the skills shortage grows even tighter as demographic realities press on Japan, Korea, Russia, and China/Chinese Taipei/Hong Kong. As the boomer generation nears retirement, businesses in the US are facing a loss of managerial experience and high-level skills, particularly in the scientific and engineering professions.

Some pressure points in talent differ

Q. Considering the talent required for the success of your business over the next 3–5 years, what are the key challenges you are expecting?



It's about managerial skills, it's about leadership, it's about innovation, and those are not necessarily institutional based skill sets. They're in the nature of the person, in the nature of the work they do, and how companies allow them to bring their creativity to work every day.

Gregory R. Page, Chairman and CEO, Cargill Inc.

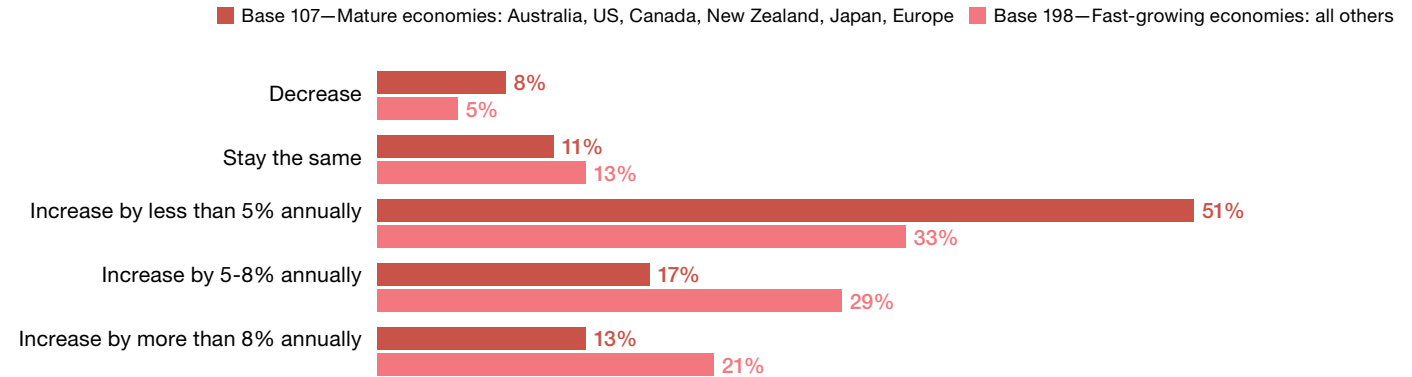
Are workforces expanding?

Yes. Expansion plans are ambitious. Even as labor costs rise in fast-growing economies, 50% of CEOs in these markets expect to increase headcount by at least 5% a year over the next three to five years. This is on top of expansions made over the past 12 months by a majority of respondents, with 23% of CEOs reporting that they expanded headcount by more than 8%.

The workforce potential in many fast-growing economies is vast, but business leaders believe uneven educational systems are falling short of producing candidates with the skills business leaders need. It's a challenge for every employer, regardless of where they are based, with 29% reporting difficulty forecasting available talent in fast-growing APEC markets.

Expansion plans may exacerbate the talent crunch

Q. What do you expect to happen to headcount in your organization globally over the next 3–5 years?



Our biggest challenge is talent. There is a major gap between us and the market, as well as international standards. If we can't resolve this issue, it will impact the organization's sustainable development. Our entire team is very smart, but we need to implement an institutional arrangement to develop their talent.

Donald, M. F. Lu, Chairman, Shanghai Pharmaceuticals Holding Co., Ltd.

How do businesses plan to attract and retain the skills they need?

CEOs are actively pursuing a variety of approaches to attract and retain skilled employees. Many are changing benefits schemes and pursuing nonfinancial incentives, such as greater opportunity for international experience, to remain attractive employers. Others are redoubling measures to train employees with the skills their businesses need to compete, beginning with a greater emphasis on apprenticeships and internships.

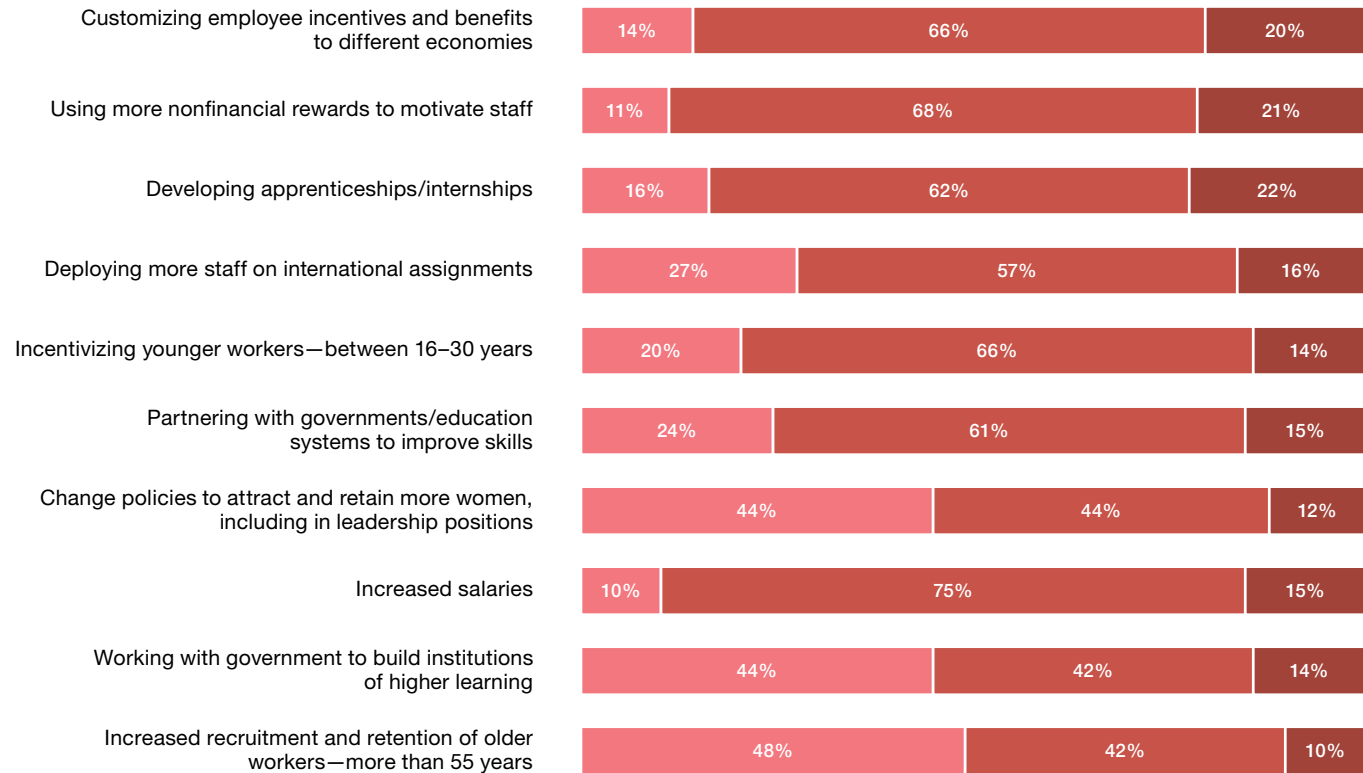
These approaches improve a country's or a company's 'brand' in the white-hot jobs market for skills, and that is becoming increasingly important as businesses in emerging markets close the gap with multinationals on pay and prestige. Responses show that the gap is narrowing still. Most CEOs based in emerging markets are expecting to raise salaries. It is one solution to the talent shortage on which 90% of business leaders in fast-growing economies agree: pay needs to go up.

CEOs in fast-growing economies changing approaches on many fronts

Q. To what extent do you plan to change your people strategy in the following ways over the next 3–5 years?

Base 181–195: CEOs in fast-growing APEC economies only

■ No change ■ Some change ■ Significant change



The impact of a company's culture cannot be underestimated. Modern enterprise cultures foster loyalty to the company and dedication to the task at hand, and even inspire passions. The power of this—it is like a spiritual strength—can hardly be replaced by any material factors.

SONG Lin, Charley, Chairman, China Resources (Holdings) Co., Ltd.

13

When it comes to sustainability, where are they most active?

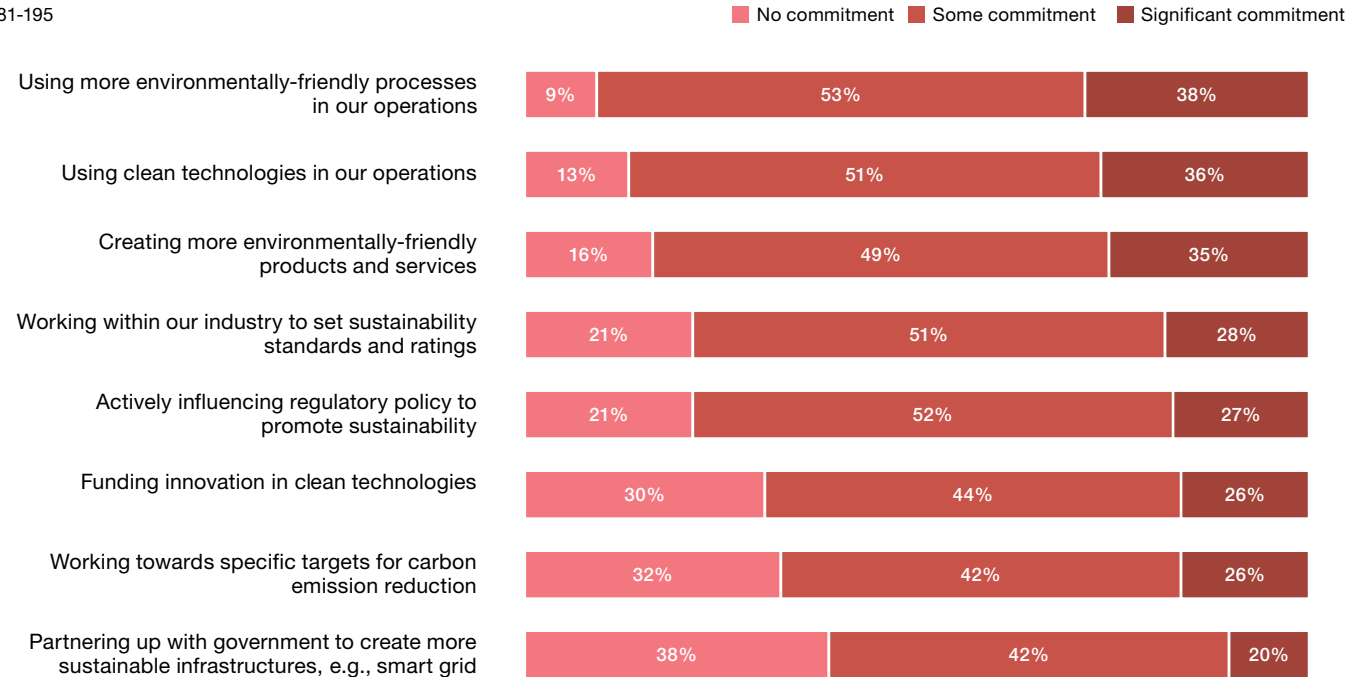
The expected growth translates into increased demand for energy. So the drive for renewable power forms an important part of innovation strategies. Over a third of business leaders say they plan to significantly increase resources toward clean technologies. They are actively pursuing environmentally-friendly alternatives where they can most exert control—in the processes, products and services created and managed by their own organizations.

Responses show mature-markets business leaders are more likely to pursue low-carbon alternatives, with 51% expecting to ‘significantly’ raise their commitment to using clean technology in company operations, compared to 28% of leaders in fast-growing markets. They are also more likely to make a strong commitment to greater efficiencies in processes—a significant driver of innovations in sustainability.

Sustainability: Prioritizing where they can—in their own organization’s practices

Q. In the area of sustainability, to what extent will your organization be involved in the following activities over the next 3–5 years?

Base: 181-195



For me, true sustainability is about growing a business every year in geographical reach, efficiency, technology and employee skills. Efficient green technologies are at the heart of this. It is time in the APEC region to take concrete action on green issues, instead of simply talking about them.

Ziyavudin Magomedov, Chairman, Summa Group

What are the priorities in cooperating with governments?

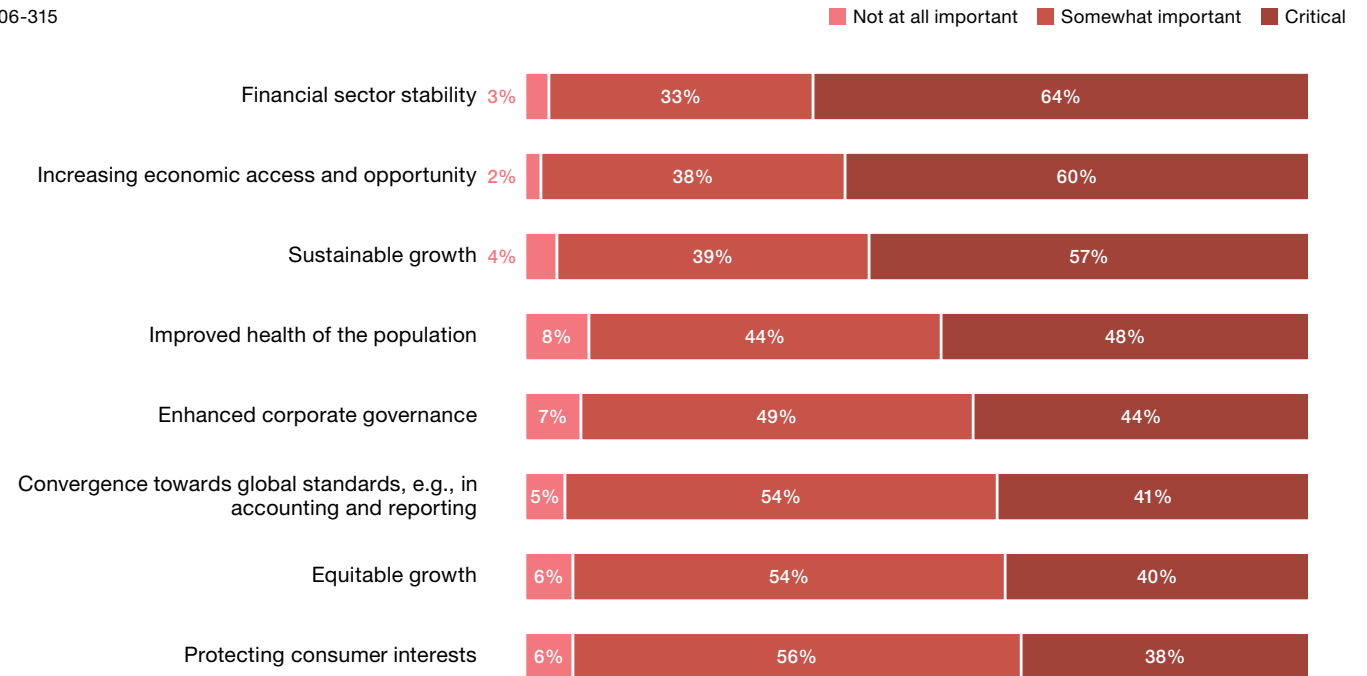
Maintaining financial stability ranked the number one way in which companies can partner more with government. Businesses expect to step up in cooperating with governments to prevent the spread of financial crisis; the speed with which liquidity can dry up in distant markets is better appreciated after the Lehman Brothers collapse of 2008.

In the same vein, working with policy makers to promote sustainable growth and spread economic access and opportunity are ‘critical’ priorities for 57% and 60% of respondents, respectively. This is hugely important to business leaders in APEC as fast-growing economies seek to transition to a more inclusive, politically stable future.

Priorities for stepping up public-private cooperation

Q. To what extent is government-business cooperation important to economic competitiveness and social well-being in the APEC economy in which your organization is based?

Base: 306-315



I would like to see ASEAN governments, particularly at this time, start to become more aggressive on the integration of our region. Each country, for instance, should have an ASEAN minister who is responsible for encouraging businesses and people in their countries to take advantage of what is available in ASEAN and to help them appreciate the importance of us coming together as a region.

Dato' Sri Nazir Razak, Group Chief Executive, CIMB Group

Where do businesses want APEC to take the lead?

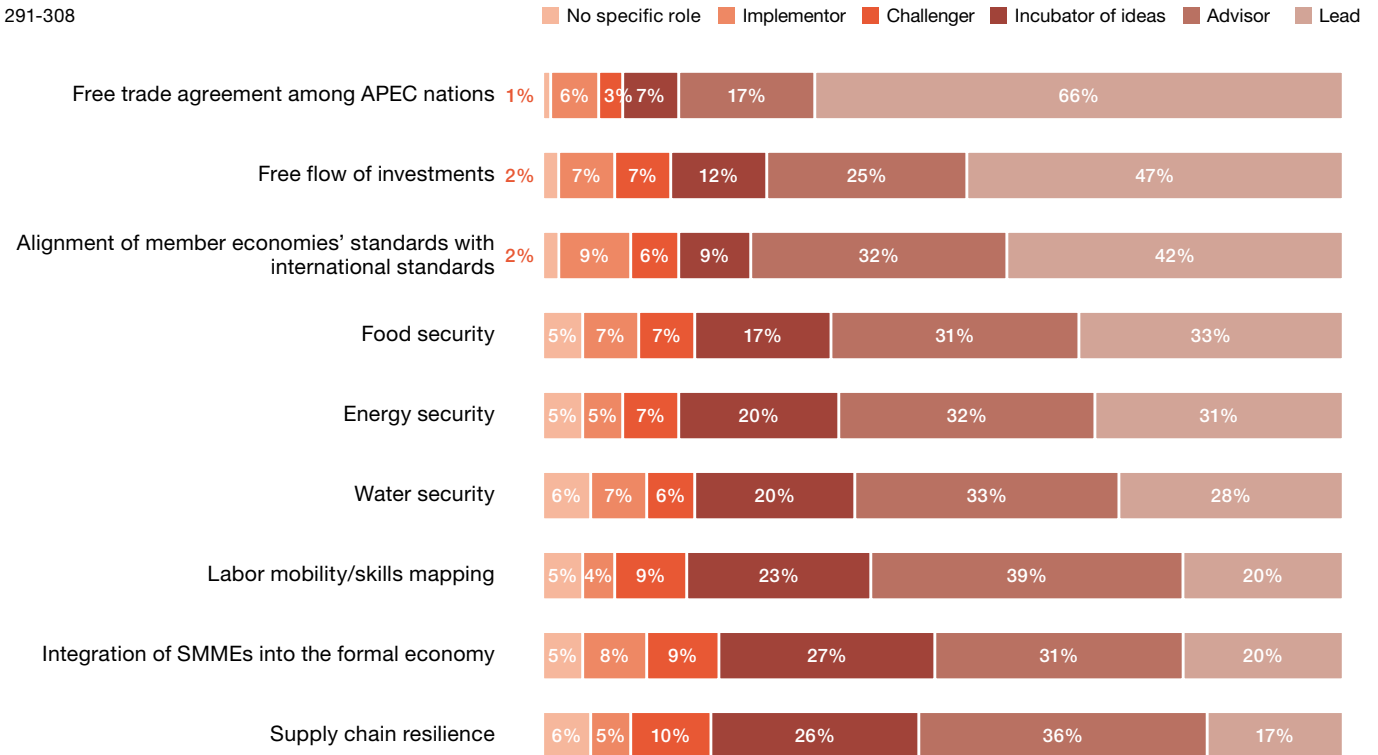
A clear mandate emerges: more CEOs want APEC to take the lead in advancing a free trade agreement in the region than in any other policy area for APEC. They are not waiting for a resumption of trade patterns that have dominated global growth for a generation—low-cost sourcing in the South and the East geared toward selling to markets in the West.

The majority (64%) say regional and bilateral trade pacts are more important to growth for the companies than multilateral trade. Greater trade cooperation among APEC nations will help lead to streamlined supply chains, new distribution channels.

Clear mandate to advance free trade and investment flows

Q. In addressing the following priorities, what should APEC's role be?

Base: 291-308



I would love to see a growing, vibrant APEC region that is pursuing economic integration, removing excessive regulation, and adopting free trading principles that should help lift markets by providing access to more of the goods and services that companies like FedEx provide.

Michael L. Ducker, Chief Operating Officer,
President, International,
FedEx Express

Asia Pacific: The future redefined

Two major currents are forging closer ties between the 21 economies in APEC. Trade in goods is on the rise, as is services, if more gradually. At the same time, businesses and citizens are growing richer in more places. Still, fast-growing APEC economies—growth drivers now not only for APEC but for the global economy—have substantial development-related challenges ahead of them.

Private consumption at current market exchange rates



PwC analysis based on various historical and forecast sources

Recent surveys show that five of the financial centres seen to have the strongest growth are in the APEC region: Beijing, Shanghai, Seoul, Hong Kong and Singapore. We think the growth opportunities are absolutely phenomenal because of the demographics and the macroeconomic situation and because, clearly, it's not a finished piece of work. For a bank, and indeed for all of our businesses, most of the growth comes from marginal activities. The greatest marginal growth in all those areas will be from this part of the world.

Stuart Gulliver, Group Chief Executive, HSBC Holdings plc

We do not consider the current challenges in the world economy as a reason to slow down or delay the projects which we have invested in, but we will maintain them and continue to innovate.

Nguyen Van Hung, Chairman and CEO, Becamex IDC Corp.

Asian dependence on Western markets will diminish, given the demographics, closer cooperation between Asian countries and the build up in intra-Asian trade. Chinese manufacturers are not sitting on their hands.

They are replacing imports with domestically-produced goods. Competition is going to be tough.

David Eldon, Senior Advisor, PwC, former Chairman, HSBC Asia Pacific

It is exciting to see that people are living better, average household incomes are rising and an increasing number of families are moving into the middle class bracket. The retail industry as well is expected to grow significantly.

Scott Price, EVP, President and CEO, Walmart Asia Pte. Ltd.

We are a little more cautious about the possibility of China using its domestic economy to act as a counter balance to the bad things happening to the economy globally. China is now seeing inflation across basic food prices and wages. It's no longer as cheap to do things in China as it used to be, and that limits the country's ability to fuel its economic growth even more.

Alex Arena, Group Managing Director, PCCW Limited

We are at a very important inflection point in the evolution of supply chains. The developing economies are not only producing but also consuming. That means supply chains are no longer simply flowing one way as they have traditionally been doing—sourcing from the East and selling to the West—but will also in the next ten years become more nuanced and complex.

Dr. Victor Fung, Group Chairman, Li & Fung Group

The battle within the APEC region to attract the right talent and to retain people—particularly in China, where the demand for talent is very strong—is something which an organization like ours must give maximum attention.

Anthony Nightingale, SBS, JP, Managing Director, The Jardine Matheson Group

The Pacific region is not detached from the problems in the U.S. and Europe. The decline in Western demand for Asian goods and services will affect Asia-Pacific growth, and Singapore will not be spared.

Companies in Singapore are reporting rising business costs and capacity constraints, problems faced by many countries in this growing region.

Tony Chew, Chairman of Singapore Business Federation and Executive Chairman of Asia Resource Corp.

Research methodology and key contacts

We surveyed over 320 industry leaders from July 27 to September 12, 2011, across the APEC region for the APEC CEO Survey 2011. We also conducted 20 follow-on, in-depth interviews with CEOs and other top corporate officers. PwC's extensive network of experts and specialists has provided its input.

We used an online methodology to achieve responses from 26 countries, including the 21 APEC economies. This multilingual survey was translated from English into 4 languages; Chinese, Japanese, Korean and Russian.

The survey responses were conducted in confidence and on an unattributable basis. Interviews were mainly conducted face to face and on camera. The insights from the business leaders we interviewed are quoted in this report, and video selections are available on pwc.com, as is further information on the data and graphics.

Note: Not all figures add up to 100% due to rounding of percentages and to the exclusion of 'neither/nor' and 'don't know' responses.

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