

Addressing challenges Expanding possibilities



Welcome

*Andrey Kostin
Chairman
APEC CEO Summit 2012*



Events over the past few years have been deeply challenging for businesses not only in Europe and North America, but also across the Asia Pacific region. Many of us are now focused on how we can make our own organizations respond with a new kind of resilience—injecting innovation and flexibility—to succeed through disruptions taking place across our markets.

Yet, we are also reminded of how interdependent our businesses have become. We know that choosing between commercial integration and regional isolation from the rest of the world is really no longer an option for businesses and governments alike. And, fundamentally, I believe most of us understand our responsibility to contribute to ensure effective cooperation.

When we think of how many technological advances and societal shifts have taken place in our lifetimes that allow businesses to better connect—and that today, we're real-time, all-the-time around the globe—we can be forgiven for assuming that the trend toward productive interactions will roll ahead on its own momentum.

It won't. The future of regional growth needs to be shepherded by a common sense of purpose. That is why organizations like APEC are so important. The APEC CEO Summits are a proven forum for state and business leaders to find solutions through open dialogue. PwC's report, building on a survey of more than 370 business leaders and interviews from across the region, confirms the necessity of regional cooperation for our companies' futures.

As APEC's host economy in 2012, we are delighted to welcome you to Russia, and I look forward to meeting with you.

About this report

*Dennis Nally
Chairman
PricewaterhouseCoopers
International Limited*



Over the years, PwC has been fortunate to survey business leaders from across the APEC economies to capture their insights into the forces changing our world and their business growth strategies.

Clearly, the opportunities across this dynamic region are many. CEOs are growing more comfortable with how massive computing power in the hands of anyone with a smartphone and an idea is creating new ways of doing business. And just as emerging technologies challenge traditional business models, so too are CEOs facing a new world of risk—each with a scenario potentially disrupting long-standing supply chain configurations.

In fact, among the more striking findings this year is that one in four businesses are adopting forms of renewable energy to generate their own power over the next 3–5 years. But perhaps the biggest impediment to expanding in this increasingly complex environment is the talent shortage. We asked CEOs about the solutions they are pursuing to find and retain the skilled people needed to drive their ambitious growth agenda.

This year PwC surveyed more than 370 business leaders, representing all 21 APEC economies. We grouped their overall responses into the following ten questions:

- How confident are CEOs in prospects for their companies?
- What are the top-tier risks to business growth?
- What are CEO investment priorities?
- What are CEO solutions to intensifying skills shortages?
- What new actions are CEOs taking for a new world of risk?
- Where are the bottlenecks in infrastructures?
- How are CEOs responding to resource constraints?
- Where are the critical technology and innovation gaps?
- How has the Eurozone crisis impacted integration trends in APEC?
- What are CEO priorities for APEC to work on?

I want to thank all who participated in the Survey, particularly the business leaders who took the time from their busy schedules to sit down with us. Their insights greatly informed our report. You can find the report on www.pwc.com, along with video interviews. I hope this report will advance productive dialogue between the business and government participants in APEC—and beyond.

How confident are CEOs in prospects for their companies?

CEOs are telling us they are coming through a tough year. A series of natural disasters and evaporating demand in Asia's traditional export markets are taking a toll. Only a third of CEOs are 'very confident' in revenue growth in the next 12 months. Yet confidence in the long term (3–5 years) rises—54% of respondents say they are confident over this horizon. The confidence gap underlines the challenges for businesses with operating *today* versus the promise of growth *tomorrow* in Asia Pacific.

APEC economies are not moving at the same speed: 15 of a total of 21 APEC economies are projected to outpace average global GDP growth over the next decade. And some of the fastest growers from 2001 to 2011 (Peru and Singapore, for example) are

estimated to land in the middle of the pack over the next 10 years. But the overall trend of rising incomes and economic opportunities for millions more in the region overwhelmingly trumps near-term headwinds in trade flows. Consider that consumer spending power among APEC economies is projected to nearly double through 2021.

As we'll see in this report, it is this promise that is fueling business investment across a spread of economies in the region. And to address today's uncertainties, business leaders are taking actions to diversify their operations. They are striving to become more resilient to manage the cross-currents created by shifting sources of growth.

The sky's the limit as we look forward 10, 20, 50 years, in terms of infrastructure development in Southeast Asia and elsewhere, so we'll have lots of opportunity. We should have a much bigger footprint based on the population base and what the standard of living will be 20 or 30 years from now compared to today.

Doug Oberhelman, Chairman and CEO, Caterpillar Inc.

Hong Kong has already become an offshore renminbi settlement center. Singapore and the UK are competing to become the next. CCB plans to actively promote the development of renminbi offshore markets and is currently considering the possibility of issuing bonds in these markets.

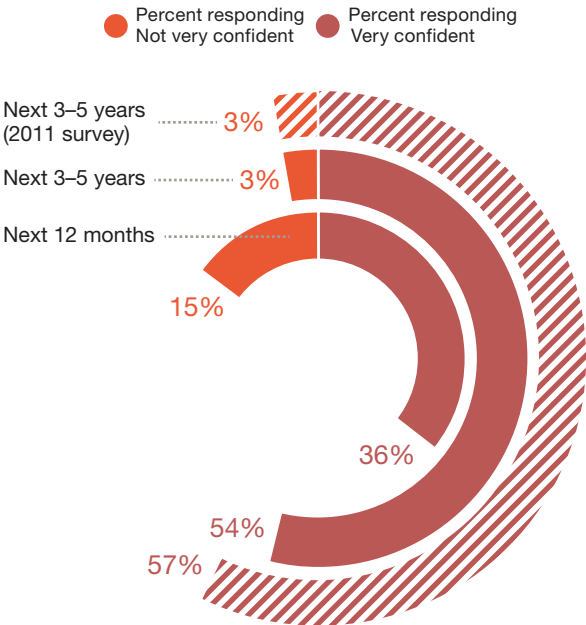
Wang Hongzhang, Chairman, China Construction Bank Corporation

There are many more consumers today, 3 billion of which are in Asia. OK, you might say not everyone is capable of buying something, but 300 million will definitely consume something, which is basically the size of the US of today.

Enrique M. Gubbins, Chairman, Sudamericana de Fibras S.A.

Upbeat over long-term revenue prospects—but near-term, a challenge

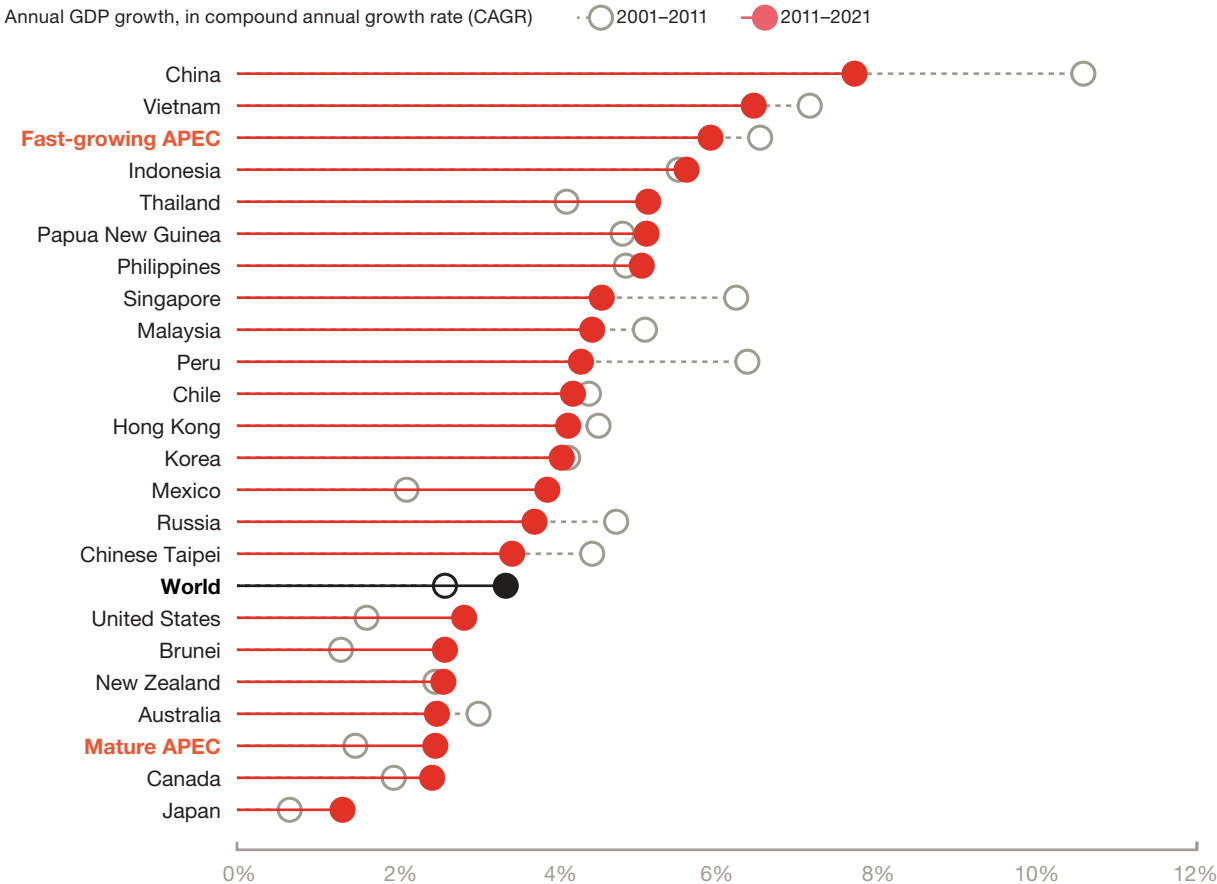
How confident are you about your organization’s prospects for revenue growth?



Base: 355–356

APEC’s output cools, but stays strong through next decade

Fifteen APEC economies projected to outpace average global GDP growth over next decade



Source: PwC analysis based on various historical and forecast sources, including Oxford Economics

What are the top-tier risks to business growth?

One emerging risk that CEOs identified involves a slowdown in China—considering that many commentators have hitched hopes that a robust Chinese economy can power global business. So what happens to corporate growth outlooks if China's growth decelerates? We asked business leaders just that—to what extent would a change in China's GDP to below 7.5% for the year affect their organization.

Their views put the reliance on China to shoulder global growth in context. While 43% of CEOs—including one out of three CEOs not headquartered in China—rank China as the most important growth driver for their company, greater threats to their organization lie with a US recession. To compare, 20% of all CEOs say the No. 1 revenue driver for their company is the US.

A spike in oil prices above US\$150/barrel would also impact heavily. This should not surprise: A US\$10 increase in the price of oil potentially reduces global growth by 0.5 percentage points, according to the International Energy Agency. But the intense sensitivity to oil price movements does underpin the importance of changes underway with the development of unconventional sources of natural gas, like shale-derived gas. By 2015, Asia is expected to be the world's largest natural gas market.

Our industry directly benefits from China's ongoing urbanization policy, which leads to what we call 'rigid demand.' When the rural population moves to the city at a consistent pace each year, government housing is not the answer for satisfying this type of demand creation. Property developers like us have an important role to play.

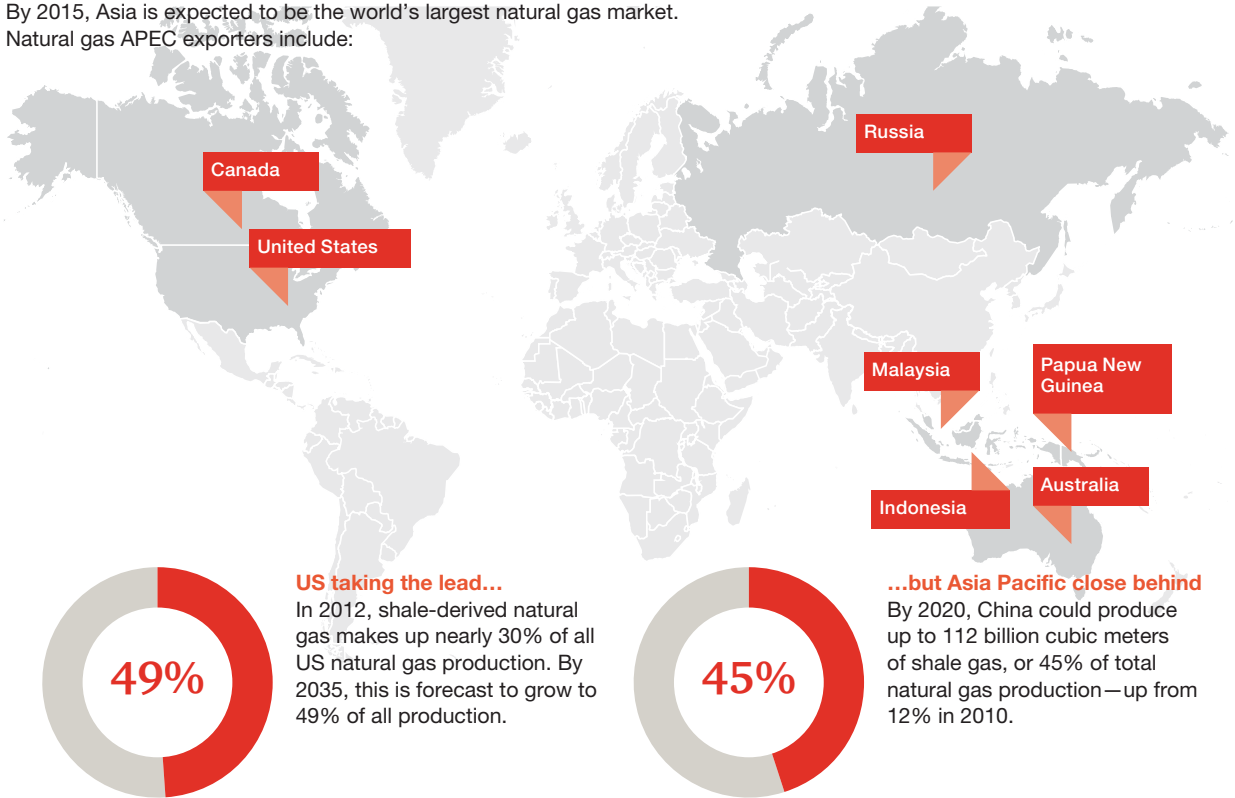
Li Sze Lim, Chairman, Guangzhou R&F Properties Co., Ltd.

Regional inconsistencies in regulations, lack of electronic document flow and single window services in customs remain serious obstacles for business. We estimate that up to 5% of EU-Asia trade can be transited via Russian rail and integrated multimodal operators. However, these inefficiencies undermine both Russia's and our company's global competitiveness.

Ziyavudin Magomedov, Chairman, Summa Group

The great shale play—a boom for natural gas

By 2015, Asia is expected to be the world’s largest natural gas market. Natural gas APEC exporters include:



Sources: Eurasia Group, PwC, *Eurasia Group Global Trends Quarterly, Third Quarter 2012*; IEA, *Golden Rules for a Golden Age of Gas*, 2012

Putting threats in perspective: Oil spike, US recession among possible, high-impact events

In your opinion, if the following economic scenarios happened in the next 12 months, to what extent would your organization be affected?

Base range: 335–366

	To a great extent	To some extent	Not at all
Oil price spike beyond US\$150/barrel	44%	45%	11%
Major disruption of Internet or cyber attack	44%	42%	14%
Pandemic	41%	45%	14%
US recession	39%	52%	9%
Eurozone breakup (e.g., exit of one or more economy)	34%	53%	13%
China’s GDP falling below 7.5%	32%	56%	12%
Natural disaster disrupting a major APEC trading/manufacturing hub	28%	56%	16%
Military tensions affecting access to natural resources	24%	50%	26%
Global food safety crisis (e.g., E. Coli outbreak)	21%	51%	28%
Event causing further decline in nuclear energy	12%	38%	50%

1–20%21–40%41–60%

3

What are CEO investment priorities?

Not surprisingly, China and the US are the dominant investment targets for CEOs over the next 3–5 years. Yet beyond markets in the US and China, the investment story evolves.

CEOs are spreading investments widely. Resource-rich countries, such as Russia, Indonesia and Australia and services capitals in Asia, including Hong Kong and Japan, rank as significant investment draws. And, when looking at investment among just APEC's fast-growing economies, the money flows reveal an interesting intra-APEC subtrend. CEOs headquartered in faster-growing APEC economies are prioritizing investing in Indonesia, Peru and Malaysia, for example.

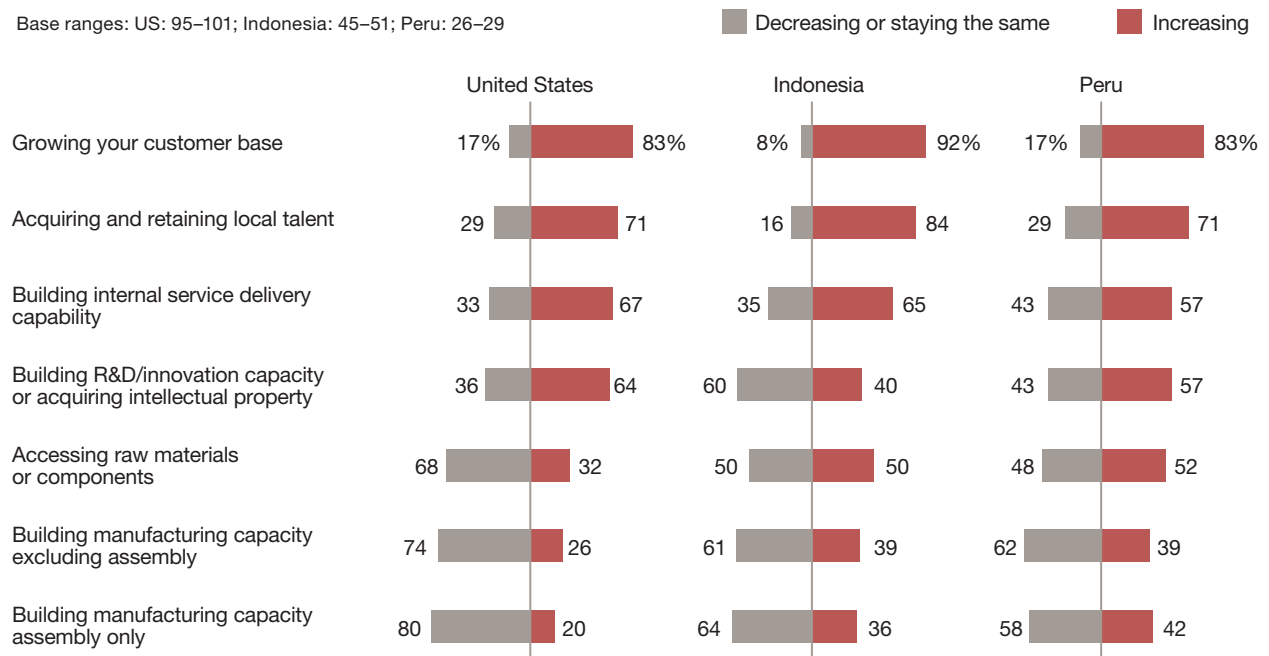
CEOs' plans in their priority markets reveal how APEC members are extending their presence well beyond their home markets and creating intricate trade networks. Consider, for example, Russia, which is ranked fifth for CEO investment targets. Looking to the next decade, Russia's trade network is estimated to deepen extensively with its APEC partners [Exhibit page 11].

Strategies are markedly similar. Thus for those CEOs who ranked the US as top, second or third destination for their company's investments, a majority intend to expand R&D and services capacity. For those investing in Indonesia or Peru, for example, accessing local talent and reaching more domestic customers are leading priorities. And in each of these economies, at least one in five CEOs expect to expand manufacturing capacity.

CEOs share similarities in investment plans for priority markets

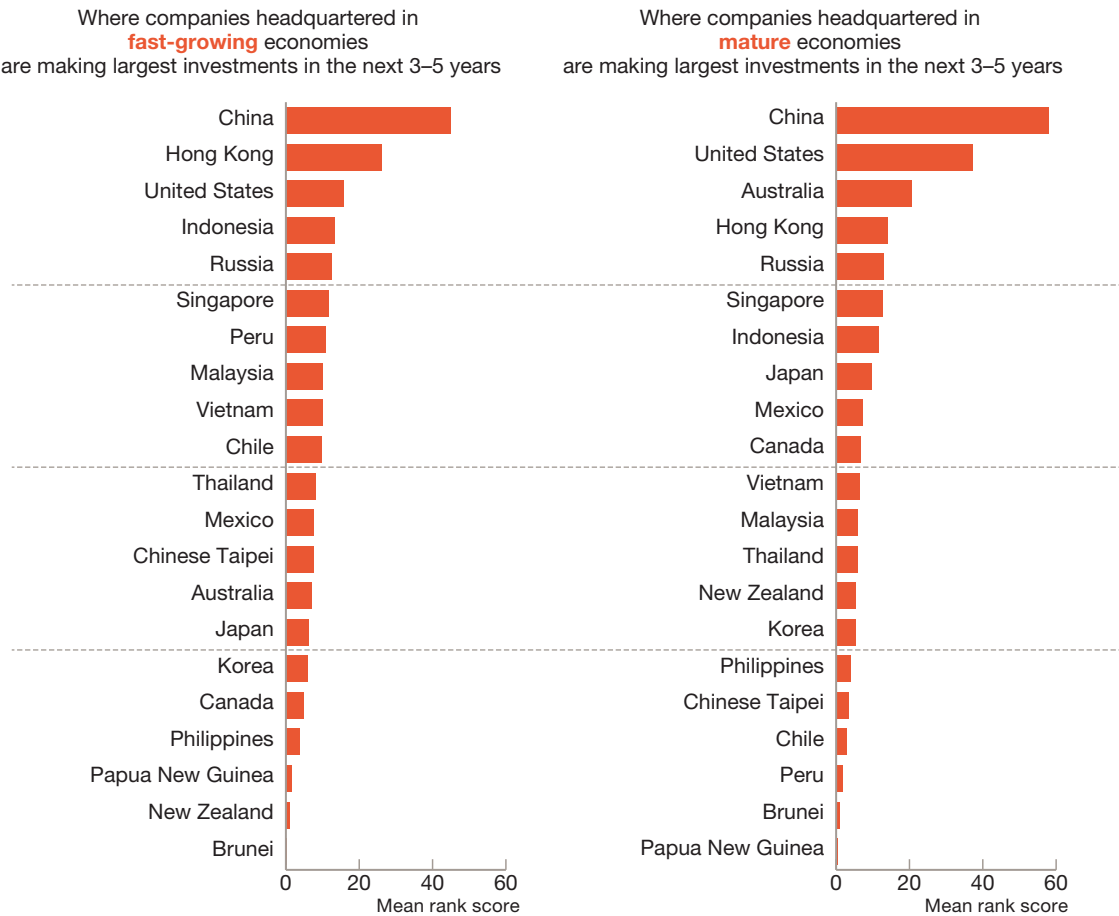
Will your new investments where you are making largest investments be increasing, decreasing or staying the same over the next 3–5 years in the following areas?

Note: Results below highlight US, Indonesia and Peru as examples.



China, US lead as APEC growth drivers

Please record the top 5 APEC economies where your organization is making its largest investments over the next 3–5 years.



Base range: 222–319; overall rank achieved by applying a score to respondents' largest revenue growth drivers

Note: An overall rank order was produced for questions where respondents were asked to provide a ranked response in order from high to low. The overall rank was achieved by applying a score to each response.

We are encouraging firms to move up the value chain, to go into processing of natural resources instead of just exporting raw materials. Despite global economic uncertainties, hopefully by the end of the year or next year at the latest, Indonesia will join the club of US\$1 trillion economies.

John A. Prasetyo, Chairman, CBA Consulting

Suning's move toward internationalization isn't just for the sake of internationalization. We hope that by venturing out into the international market, we'll be able to adopt better planning for our product lines, move to an improved business model, and bring about an increase in operational efficiency and market competitiveness.

Zhang Jindong, Chairman, Suning Appliance Group

What are CEO solutions to intensifying skills shortages?

They're working on many fronts to attract and keep talented people with their organization. The perceived skills shortages are a real threat to expansion: 42% of CEOs expect the pressure will intensify. This shortage, however, exists at the same time that 40% believe they'll add at least 5% to their workforce each year for the next 3–5 years.

High turnover rates are a factor, too. Companies are recruiting to replace almost as much as to expand. Analysis of employment trends in the region shows one in five hires in Asia Pacific leaves in the first year.¹ Talent is as much an operational challenge as it is strategic.

CEOs recognize that technology alone will not solve the problem. There are solutions in the short term for closing the skills gap, but over the long term, this issue is linked to how businesses are incentivized to grow the top line and create opportunities. Thus CEOs are adding benefits and adopting strategies to tap reserves of talent in

older and younger workers, as well as women. This is across the board: 29% of CEOs headquartered in APEC's fast-growing economies are specifically considering ways to retain more women.

Some businesses are partnering with educational institutions to improve programs that in many cases are no longer adequate to satisfy business or employee development needs.

Policy relief is not expected. Only a third of CEOs think restrictions on labor mobility will ease. But CEOs are moving ahead. As an example of the strategic importance of talent to their business, CEOs say they would like APEC to work on skills mapping in the region. This is their third top priority for APEC.

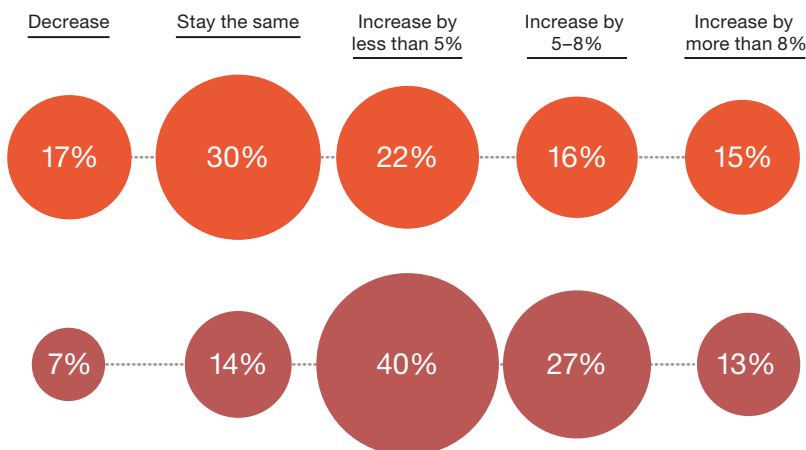
¹ *Breaking out of the talent spiral, Key human capital trends in Asia-Pacific*, PwC, 2012.

Hiring pace in APEC region looks to accelerate

Base range: 339–340

What happened to headcount in your organization globally over the past 12 months?
Did it...

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



We actually have an employment issue, not an unemployment issue. We currently have 600,000 [manufacturing] job openings today but cannot find the skilled workforce to perform these jobs. Unfortunately, the perception of manufacturing is not the reality... It takes a very highly skilled, highly qualified mathematical person, who is willing to do a lot of problem solving. It involves a lot of teamwork, and that base knowledge skill is not being taught at our schools today.

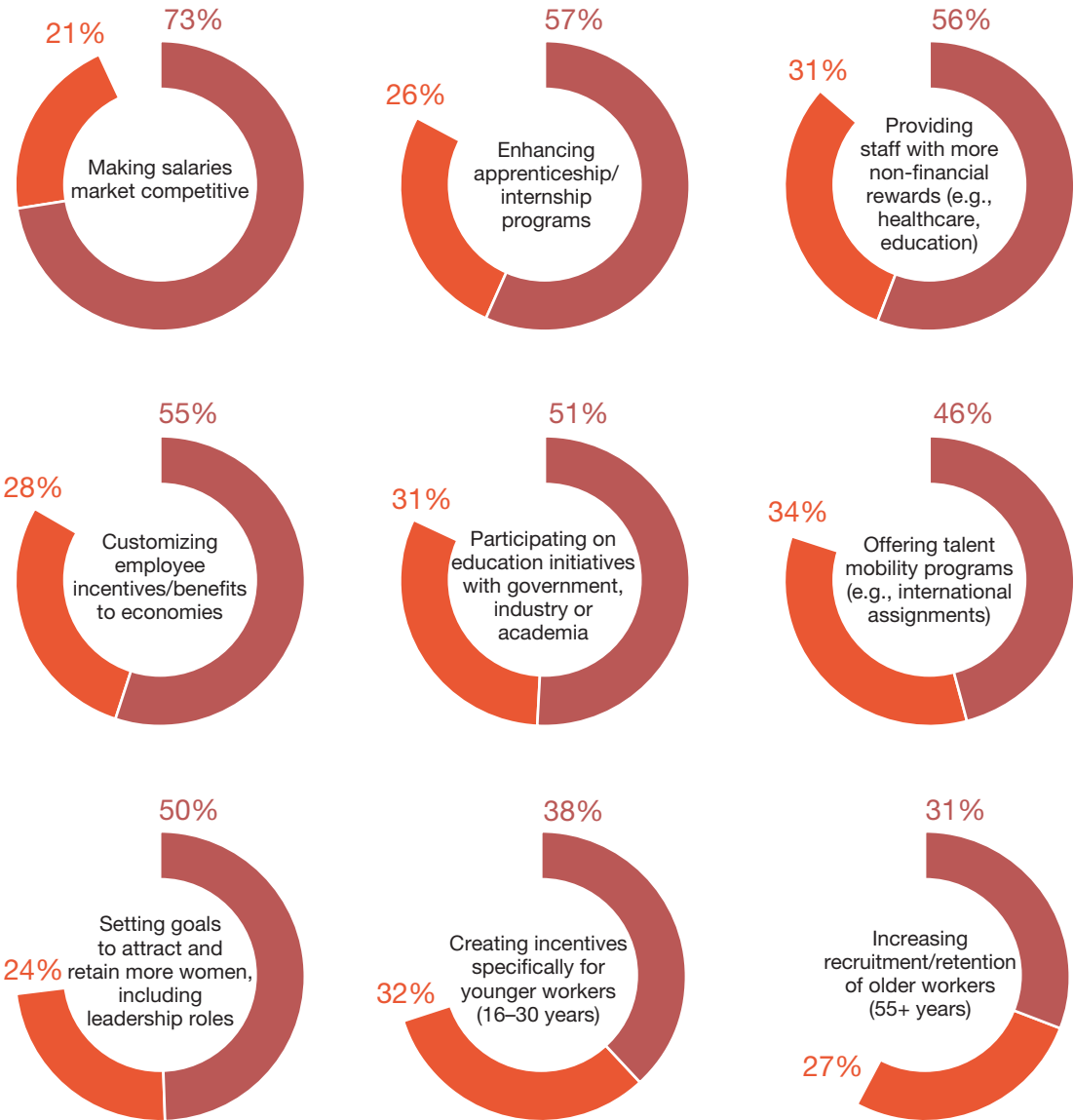
Darlene M. Miller, President and CEO, Permac Industries, Inc.

Companies raise the bar to recruit and retain top talent

Thinking of your operations in the APEC region, to what extent is your organization implementing the following in its people strategy?

Base range: 322–356

Currently (over the next 12 months) In the next 3–5 years



As skills premiums rise, as shortages of skilled workers become more apparent in the US and other countries, I think there will be some effective counter pressure to liberalize access. I would not be as pessimistic as the CEOs. Once we get past the global slowdown and lingering recessions from the financial crisis, this might be a major area of expanding international activity over the next 5–10 years.

C. Fred Bergsten, Director, Peterson Institute for International Economics

5

What new actions are CEOs taking for a new world of risk?

As business leaders grasp how quickly the effects of distant events can spread both financial and inventory risk, they are taking a series of steps to become more resilient to shocks. Over half of CEOs (57%) are diversifying suppliers and partners, and a third are reducing geographic concentration of their supply chains where they can. Yet global configurations are

largely intact: Just one in five CEOs say they are substituting domestic supplies for foreign supplies.

In a sign of how things are changing, one of four is building redundancies into operations or the supply chain. Ten years ago, those moves would have been inefficiencies targeted for elimination under 'Lean manufacturing disciplines.' Now they are important risk management responses to an integrated environment.

Businesses are focused on internally controlling what they can to adapt more quickly. Two-thirds are revising continuity planning. However, fewer are partnering more closely with government or non-government groups on their crisis-management

planning. It is a surprising omission considering the scale of natural disasters striking businesses in 2011—the costliest on record, with damages from major disasters in the APEC region estimated at US\$346.7 billion and less than 30% of global economic losses insured.²

Governments cannot be expected to step in and solve the many challenges that arise in sourcing when a supply chain breaks down during a disaster, but they can be a good source of information to help companies determine probabilities of disruptive events. Likewise, a better corporate understanding of how governments plan to manage certain events can inform contingency planning.

² APEC Economic Trends Analysis, APEC Policy Support Unit, May 2012.

New supply chain strategies in a new world of risk

Which of the following actions is your organization taking to mitigate the effects [of disruptive economic scenarios]?

Base: 375 for responses 'to a great extent' and/or 'to some extent' on impact of economic scenarios in the next 12 months

Supply chain actions

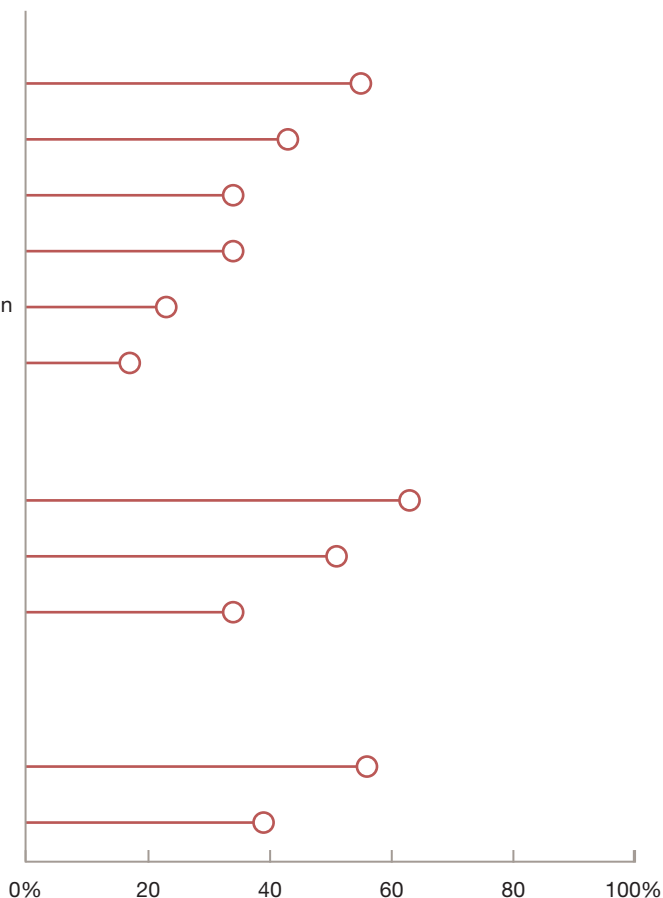
Diversifying suppliers or partners/alliances
Using technology for real-time visibility of operations and supply chain
Reducing geographic concentration of operations or supply chain
Increased demand planning with suppliers
Building redundancies into operations or supply chain
Substituting domestic supplies for foreign supplies

Crisis management actions

Revising business continuity plans
Responding to disruptive events faster
Partnering more closely on crisis response with government and non-government groups

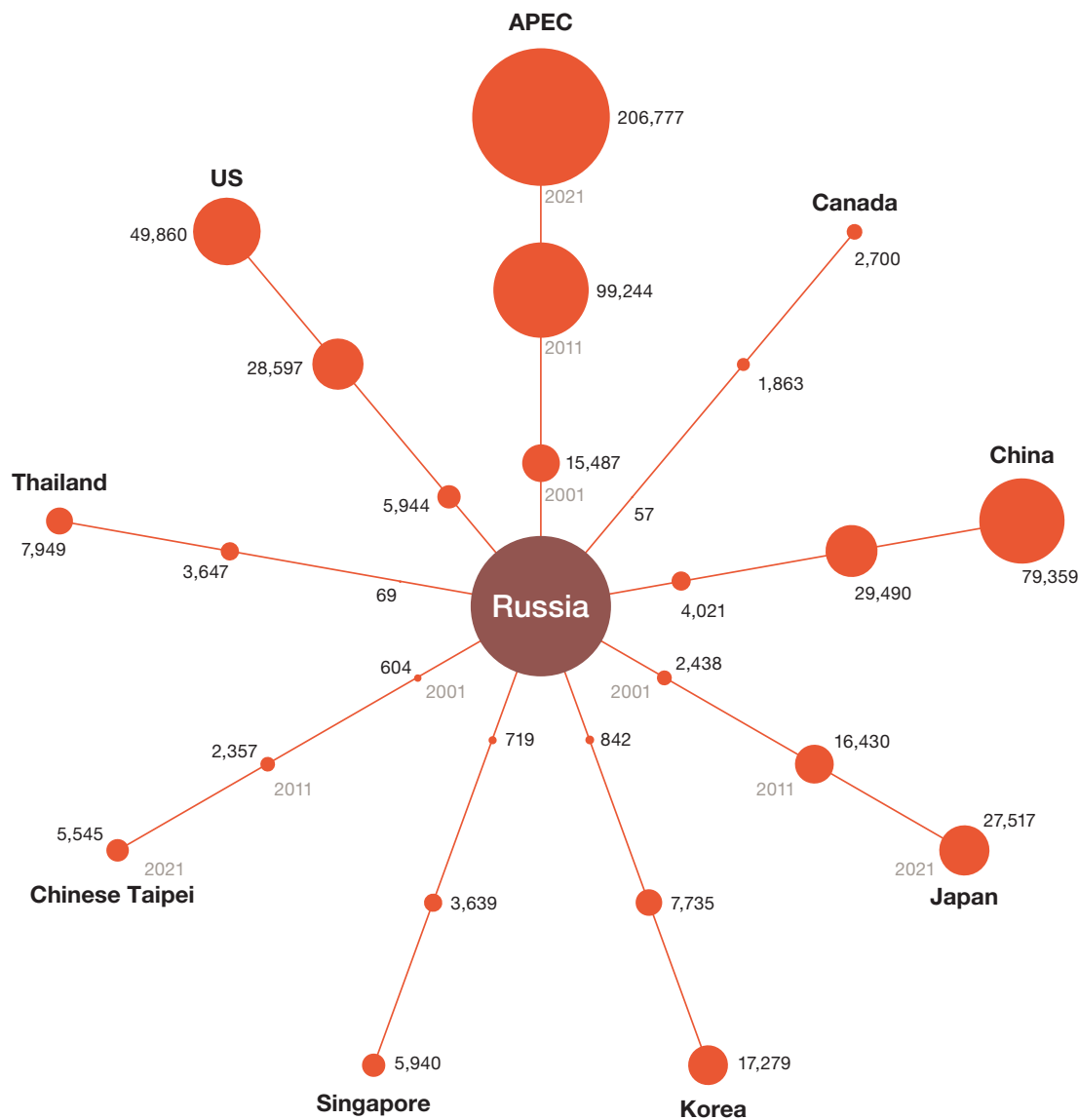
Strategic actions

Reducing exposure to high-risk areas (geographic or product/service markets)
Stress-testing those scenarios



Russia deepens, widens APEC trade network

Russia's exports to APEC and selected economies in US\$ millions



Source: PwC analysis based on various historical and forecast sources, including Oxford Economics

Every region, every business, every facility within Caterpillar is expected to have a plan for what might happen to them. A tornado is probably the best example. What do you do if you lose production? How do you recover? Where do you go? How do you make sure your people are safe? How do you get back in the swing of production after damage or whatever it may be?

Doug Oberhelman, Chairman and CEO, Caterpillar Inc.

Where are the bottlenecks in infrastructures?

Traffic-snarled commutes persist across many Asia Pacific capitals while logistical complexities continue to clog supply chains. Yet the main infrastructure developments are bearing fruit. A majority of APEC CEOs (73%) think infrastructures will continue to improve.

Improvements to underdeveloped infrastructures are critical for business expansion. When asked how inadequacies directly impact growth of their companies in APEC economies, concern clearly ran deep. Bottlenecks in transport networks are significantly impacting operations for close to 40% of all CEOs, for example. The pain is not equally shared in other instances. Weak water treatment systems are bedeviling prospects and operations significantly for three times as many CEOs headquartered in faster-growing APEC economies.

APEC has identified eight supply-chain ‘chokepoints’ as top priorities. The main objective is to improve supply chain performance (in terms of time, costs and uncertainty) by 10% by the end of 2015.

Opening these chokepoints will be a long-term—and expensive—endeavor. According to the Asian Development Bank, infrastructure needs—in new capacity and replacement of old infrastructure—are projected to require investments of about US\$8 trillion from 2010 to 2020 in Asia Pacific alone.

Yet today, the most intransigent infrastructure issue for more CEOs is not related to physical (or virtual) structures, but rather concerns the paper variety: 56% cite a ‘significant impact’ on their business arising from regulatory and legal barriers to smooth trade and transactions.

Cross-border infrastructures such as railway, electricity and gas pipelines could help Russia assume a greater leadership role in APEC.

B.J. Yang, President and CEO, Hyundai Energy & Resources Co., Ltd.

We are most concerned about the regulatory environment and human resources. The regulatory environment is among the toughest issues that banks must face upon entry into overseas markets due to the strict controls over the finance and banking sector.

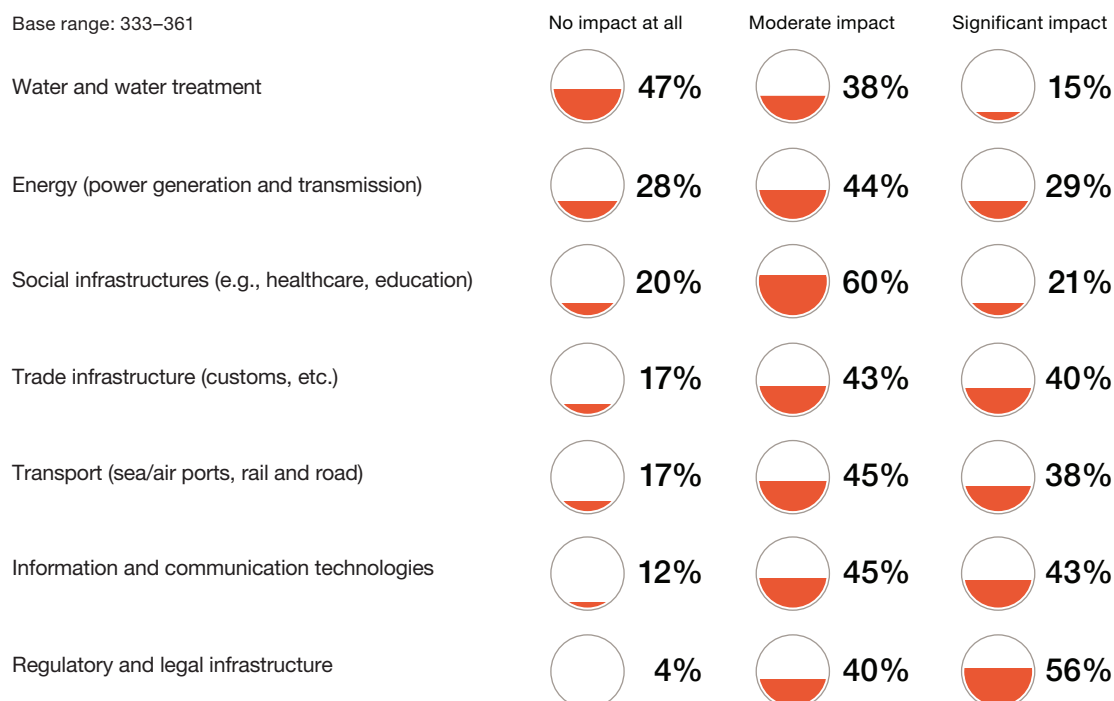
Le Cong, CEO, Military Bank

The results of reducing tariffs on manufacturing goods across the APEC countries have been impressive. But there’s still plenty of room to improve free trade. Clearly, services, capital markets and some of the new areas for growth, particularly in environmental goods and services, are still places where there can be room for significant improvement.

Stuart Dean, CEO, GE ASEAN

How infrastructure bottlenecks impact APEC companies' operations and growth

To what degree are bottlenecks in the following infrastructure categories directly impacting the operation and growth of your organization in APEC economies?



About US\$8 trillion is needed in Asia Pacific infrastructure investment through 2020—roads, mobile telecoms top list (in US\$ billions)



Source: Asian Development Bank and Asian Development Bank Institute, 2009.
Note: Figures rounded to the nearest US\$ billion.

How are CEOs responding to resource constraints?

The bottom line: sustainability planning is becoming strategic for many companies surveyed. CEOs today are more able to recognize a single organization's vulnerability to resource supply shocks. These can involve shortages or supply constraints in water, fossil fuels, rare earth metals and arable land for farming. As a result, CEOs are changing strategies to manage scarcity issues. For example, 37% of respondents

say they're building water costs into strategy planning, while 58% are adopting water conservation technologies.

Strikingly, one in four are taking direct control where they can and are planning to make use of solar, geothermal and other alternative solutions to generate their own supply of power.

Resource restraints continue to concentrate efforts on an array of 'green growth' measures across APEC economies. Take, for instance, APEC's goals to achieve a 45% reduction in APEC-wide energy intensity by 2035. Promoting greater trade of environmental goods throughout the region to help hit that goal is also in APEC's sights, with member economies in 2011 announcing plans to reduce applied tariff rates on environmental goods to 5% or less by 2015.

The drive toward sustainability has also helped spur M&A activity in clean energy sectors. The value of deals involving Asia Pacific clean-energy acquisition targets, for instance, rose to US\$4.6 billion in 2011 from US\$4.0 billion in 2010.³

CEOs are also in agreement on what APEC economies need to do to loosen resource constraints. For example, a majority believe that APEC economies need to mitigate resource nationalism to promote access to scarce resources—and 74% of CEOs agreed that policies are needed to address negative impacts of energy and water use.

³ *Renewables Deals—2012 outlook and 2011 review*, PwC, 2012.

The engine room of the world's economy is shifting eastward. Asian economies continue to grow while Europe is in a difficult economic situation. The key question for Russia now is how to rebalance its economic growth model—to reduce dependency on Europe in this uncertain time and to find new ways to take advantage of the opportunities which are unfolding in Asia Pacific.

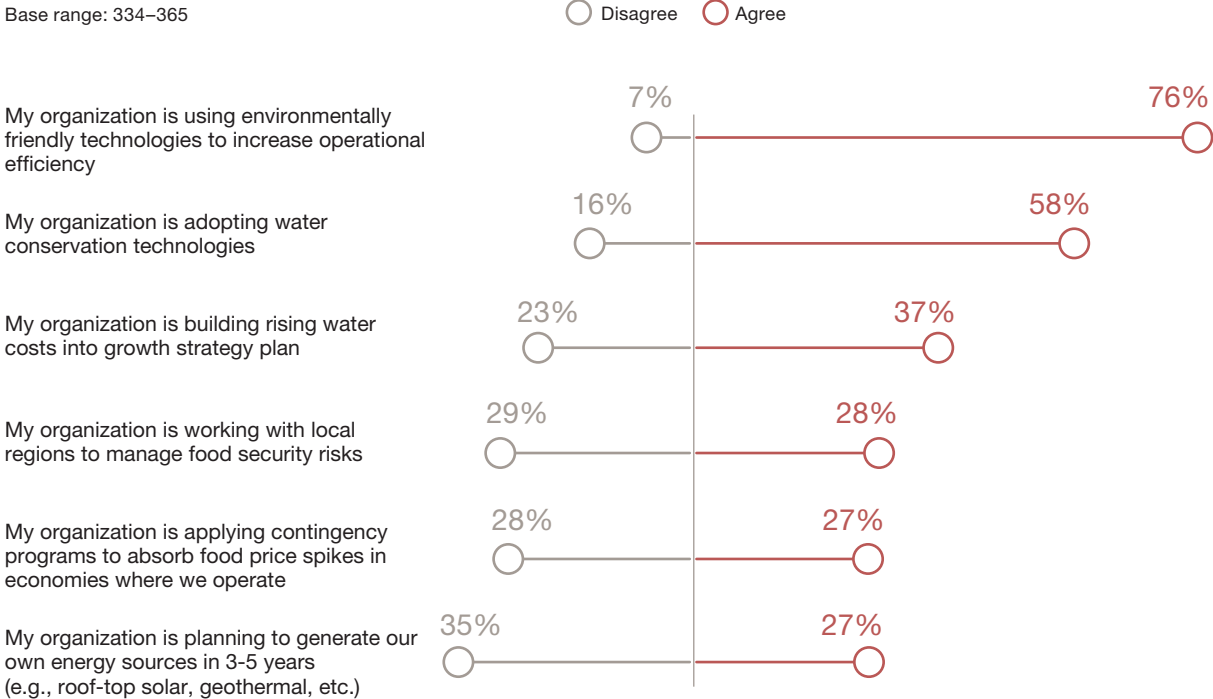
Artem Volynets, CEO, En+ Group

The Hai Phong facility in Vietnam gave us a second wind turbine generator factory, serving a very fast growing segment in the renewable energy business, in wind energy. And that also gave us back-up production facility in the unlikely event that we ever need it. So, as we continue to grow globally, it also enables us to be more resilient to some of the disruptions in the supply chain going forward.

Stuart Dean, CEO, GE ASEAN

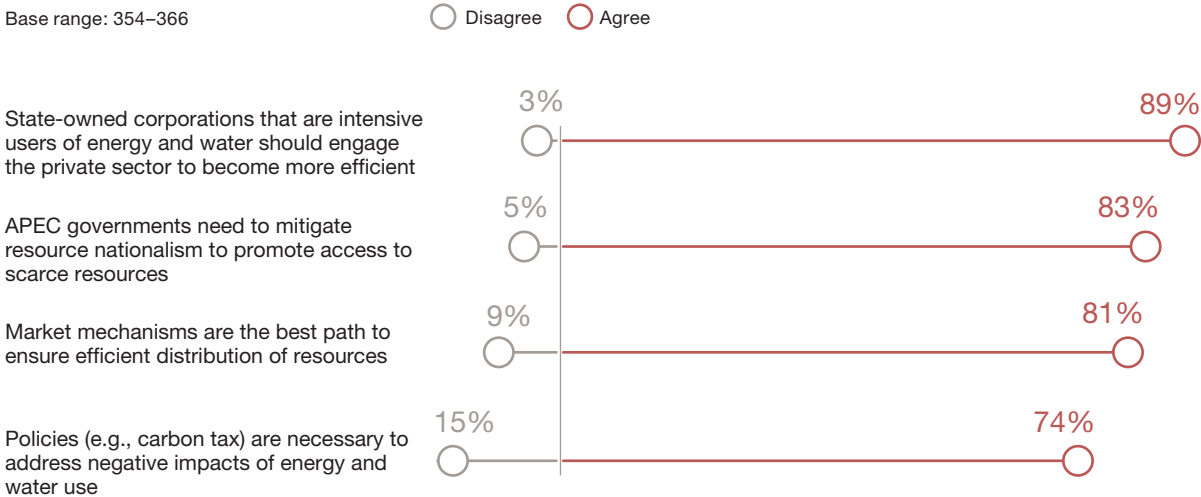
Actions APEC CEOs are taking to tackle sustainability challenges

Considering resource security and sustainability globally, to what extent do you agree or disagree with the following statements regarding your organization?



Where CEOs stand on resource security and sustainability policies

Considering resource security and sustainability globally, to what extent do you agree or disagree with the following statements?



Where are the critical technology and innovation gaps?

If ‘getting closer to the customer’ has long been good business practice, technology is redefining how the engagement is being done. And business leaders are pressing for the right monitoring and engagement tools to actively participate in the global information flow.

A majority (58%) say they face a ‘critical’ need to improve their use of technology to relate with customers. They’re also seeking the skills to manage this new dynamic. Talent that can navigate the exploding amount of customer and operations data is rare.

As more businesses try to differentiate with product and services, and as more governments seek to compete on innovation, understanding what CEOs view as important is also critical. Two factors stand out: Strong legal protections for intellectual property and access to a pool of talented people. Survey responses show that these are the two areas where most CEOs are least satisfied that they have what they need.

Breakthroughs will still come from R&D centers, but innovation now encompasses the continuous need to improve and reinvent products, processes, services and even brands. That task involves a lot more people—inside and outside the organization.

Thus a majority of CEOs recognize that a vibrant entrepreneurial environment—measured in part by how easy it is for start-ups to operate and shut down in bankruptcy—contributes to their company’s innovation. Businesses today are working far more closely with suppliers, customers and a wide network of external partners to extend competencies. Access to start-ups and research hubs is important.

Satisfaction gap: Where innovation conditions fall short of expectations

Thinking about the APEC economy in which you have the largest investment in innovation, how important are the following factors to the success of your organization?

Thinking of the APEC economy in which you have the largest investment in innovation, how satisfied are you in the following areas?

Base range: 255–343, responses ‘very important’ and/or ‘important’ to specific innovation factors

	Very important to company success	Very satisfied with current status
Depth of talent pool	56%	9%
Strong legal protection of intellectual property	51%	9%
Ease of setting up businesses	41%	13%
Universal broadband access	40%	13%
Patent laws	36%	9%
Tax incentives for R&D	32%	8%
Government assistance to small- and medium-sized enterprises	29%	6%
Availability of private capital (e.g., venture capital) to commercialize innovation	27%	10%
Proximity to ancillary services (e.g., business services, legal services)	26%	13%
Proximity to a hub of innovative companies	20%	10%
Proximity to a hub of research institutions	20%	11%
Bankruptcy laws	14%	9%
Presence of strong arts and cultural institutions	9%	10%

1–20% 21–40% 41–60%

It's increasingly important that we work in a cooperative way, particularly with companies in the semiconductor field, in order to foster a coming revolution where everybody is building systems on a chip, and all of the attendant software requirements that brings with it.

Craig Mundie, Chief Research and Strategy Officer, Microsoft Corporation

For technology, we must acknowledge that we have to look to America, which has much more sophisticated technology and, on the other hand to China, which creates simple technology that can be implemented immediately. These are what we will combine. Whichever is best for Indonesia.

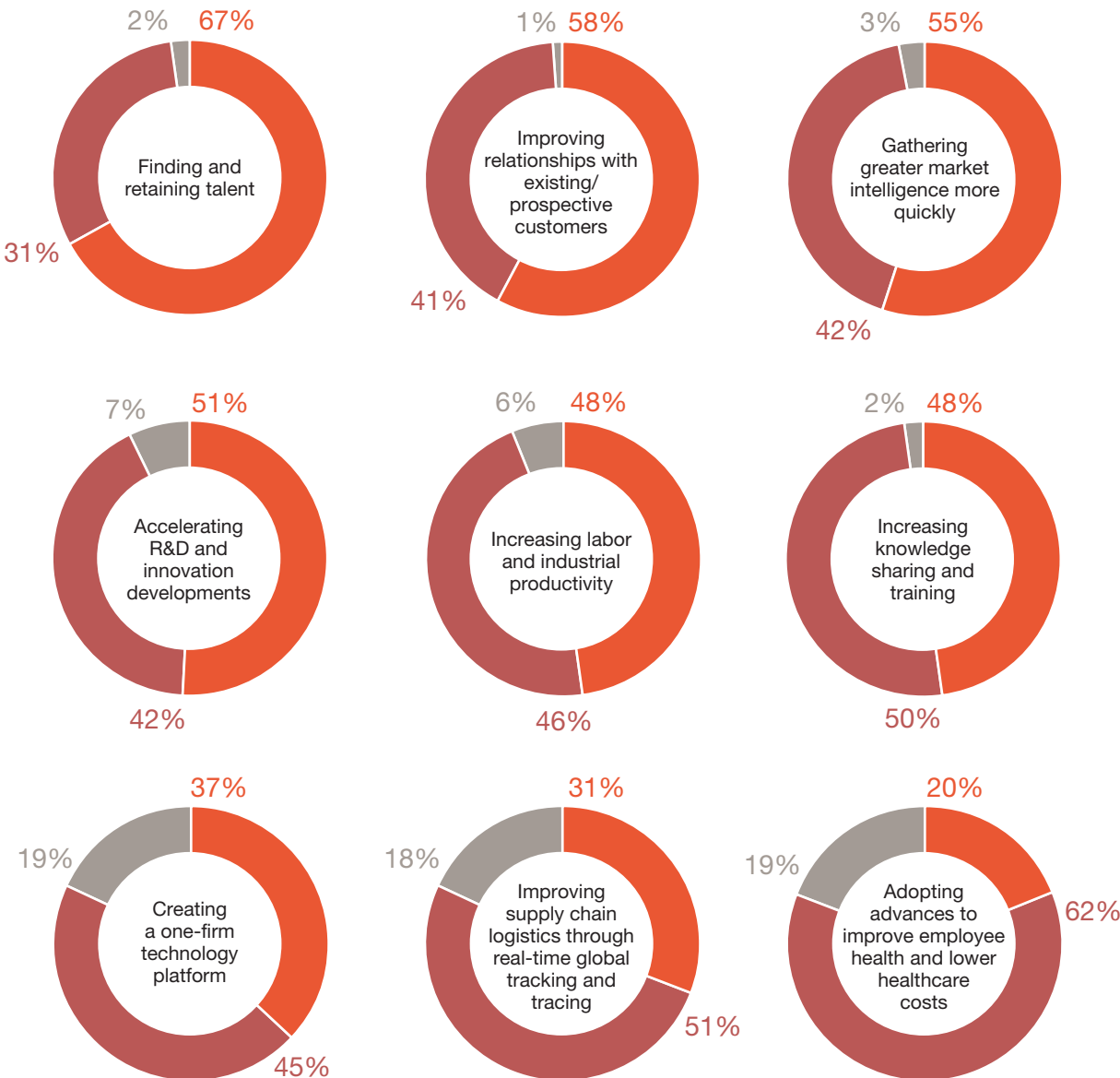
Garibaldi Thohir, President Director, PT Adaro Energy Tbk

CEOs identify where technology is most needed—talent and customer management are critical

How great is the need to significantly improve the following areas within your organization through technology and innovation?

Base: 339–364

● Critical and immediate need ● Some need ● No need at all



How has the Eurozone crisis impacted integration trends in APEC?

While the Eurozone crisis reveals the risks that can arise from deeper economic integration, more CEOs believe the drive toward deeper commercial links across Asia Pacific is on track, and in some ways accelerating.

For example, more CEOs expect impediments resulting from overly complex customs rules or conflicting legal frameworks will fall, as opposed to those who believe the outlook for smoother trade is deteriorating. According to more CEOs, significant barriers to expansion today lie with ‘behind the border’ issues that can tie up investments and raise the costs of doing business.

This year, as in last year’s *APEC CEO Survey*, more CEOs believe harmonizing standards in the region will do more to promote business growth than many other measures policy-makers can take.

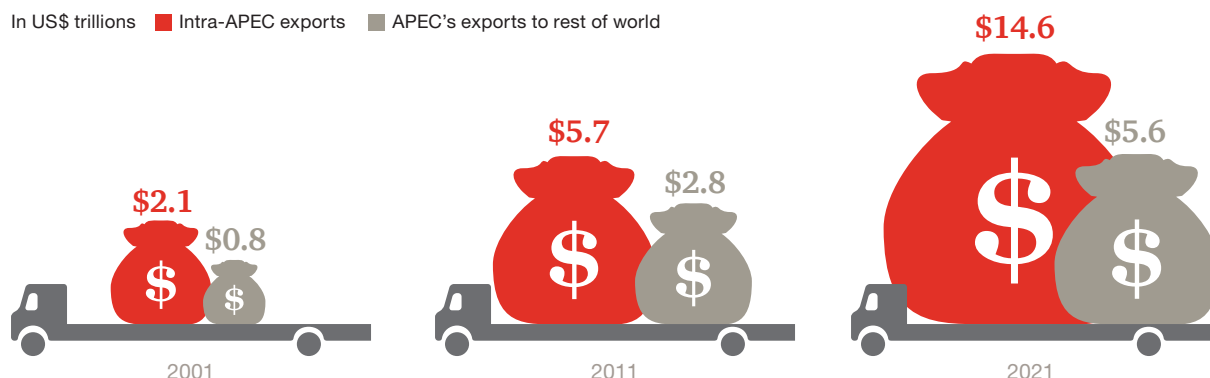
If anything, one major impact of the Eurozone crisis has been that the

resulting slower global growth has leaders contemplating what steps may be taken to accelerate growth in APEC. The agreement to begin negotiations on the FTA among China, Japan and South Korea is a sign that some regions might be starting to have new momentum to forge closer ties that has not been present before.

Some of the business leaders we interviewed expect some kind of centralized coordination in the region is needed to keep the momentum that started with the flowering of bilateral trade pacts going. They identify—as a weak link in the Eurozone—the institutional incapability to keep pace with the growth of goods and investments flowing across the region.

By 2021, intra-APEC trade is set to nearly triple

In US\$ trillions ■ Intra-APEC exports ■ APEC’s exports to rest of world



Source: PwC analysis based on various historical and forecast sources, including Oxford Economics

The Trans-Pacific Partnership would engage the US in the region with a high-quality FTA that really meets the needs of businesses, which would be good. Similarly, my wish is that the other free trade arrangements between Asia and China, and with Japan and Korea—remain at a high standard because businesses need these kinds of 21st-century agreements.

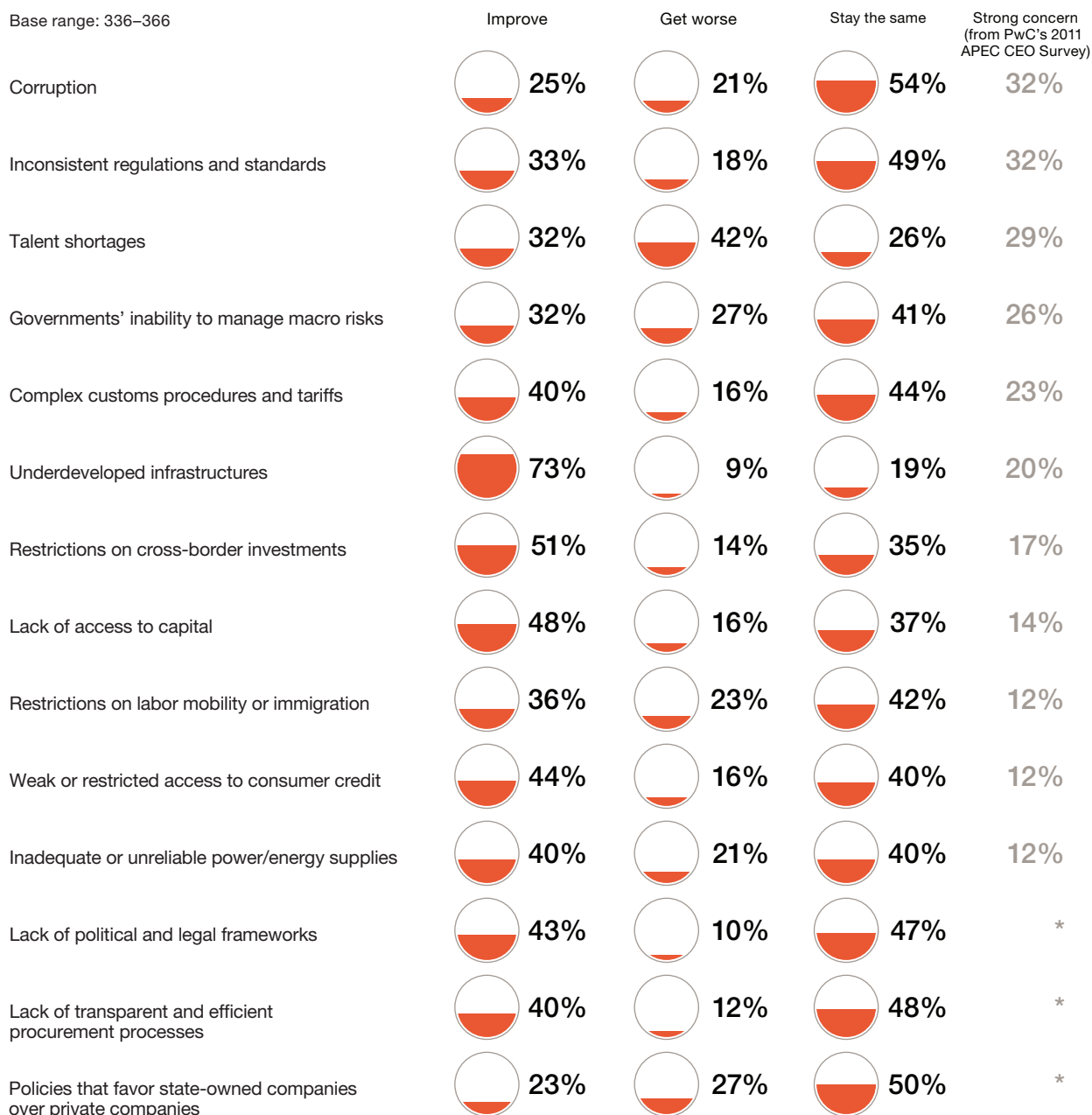
Ho Meng Kit, CEO, Singapore Business Federation

In striving toward economic resilience and inclusive growth, APEC should come together as a community to reshape the priorities for the global economy and do so in a way that addresses the needs for both developing and developed economies. This will be our underlying focus at ABAC and the APEC CEO Summit in 2013.

Wishnu Wardhana, Group Co-CEO and Vice President Director, PT Indika Energy Tbk

Growth barriers: Talent shortages concerns run deep

Thinking of the following barriers to your organization's growth within the APEC region, do you expect them to improve, get worse or stay the same over the next 3–5 years?



Note: Ordered by percentage of CEOs listing concerns that are barriers to their organization's growth to a 'great extent' in the 2011 APEC CEO Survey

*These topics are new in the 2012 survey.

APEC has never really resolved the question of whether regionalism means 'Asia-only regionalism' or 'Asia Pacific regionalism,' and that's now come to an acute point as both parts of that equation negotiate their own economic integration deals. At some point, they will either have to come together or they might wind up in conflict.

C. Fred Bergsten, Director, Peterson Institute for International Economics

What are CEO priorities for APEC to work on?

Trade pacts that reduce tariffs and improve access for goods still matter hugely—only a minority of CEOs believe successful Trans-Pacific Partnership or ASEAN+ talks won't affect their companies' prospects. Yet beyond promoting free trade, CEOs want APEC to continue to make the case for free-flowing investments and compatible standards and to work on skills mapping for the region.

Concerns today do not necessarily center on blunt protectionist instruments, but likely reflect changing industrial policies across the region as more policymakers pursue sustainable development and move their economies away from consequences of unbridled growth. Thus measures are being introduced that impact domestic and foreign businesses alike, whether it's setting caps on carbon emissions or requirements (often incentives) to source more R&D locally, for example, or changing benefits packages for employees.

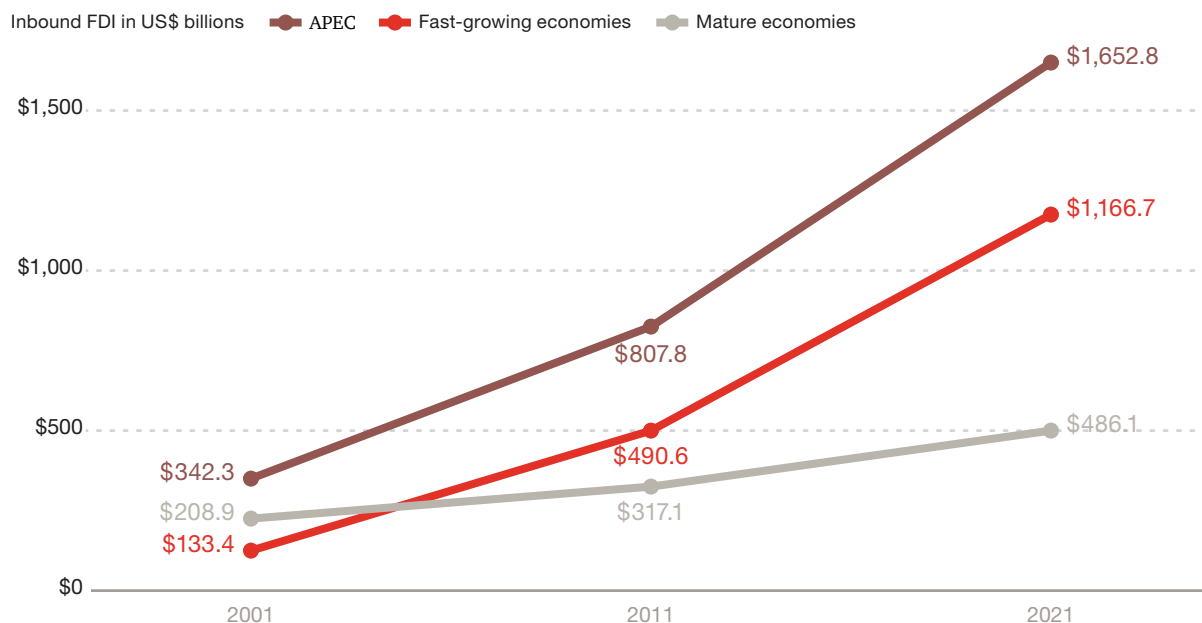
Few will begrudge the goals; nonetheless, the net effect from a business perspective is that the entry—and particularly the exit of capital—is becoming more challenging. And businesses based in fast-growing economies are also keen to have

equal access for assets outside of their economies for investment.

Does the cumulative weight of these issues play much of a role in the record levels of corporate cash? That must remain open for debate, but the uncertainty being created is a likely contributor to investor caution. Thus CEOs in 2012 are largely moving beyond defining advances in integration solely through tariff and other trade barrier reductions (although these have been largely steadfast and the goals continue to stretch). Instead they are also looking for greater access for services, harmonized standards and more clarity on international investment policymaking to fuel deeper economic integration.

Investment magnets—APEC's fast-growing economies

Fast-growing APEC economies are capturing more foreign direct investment than mature economies



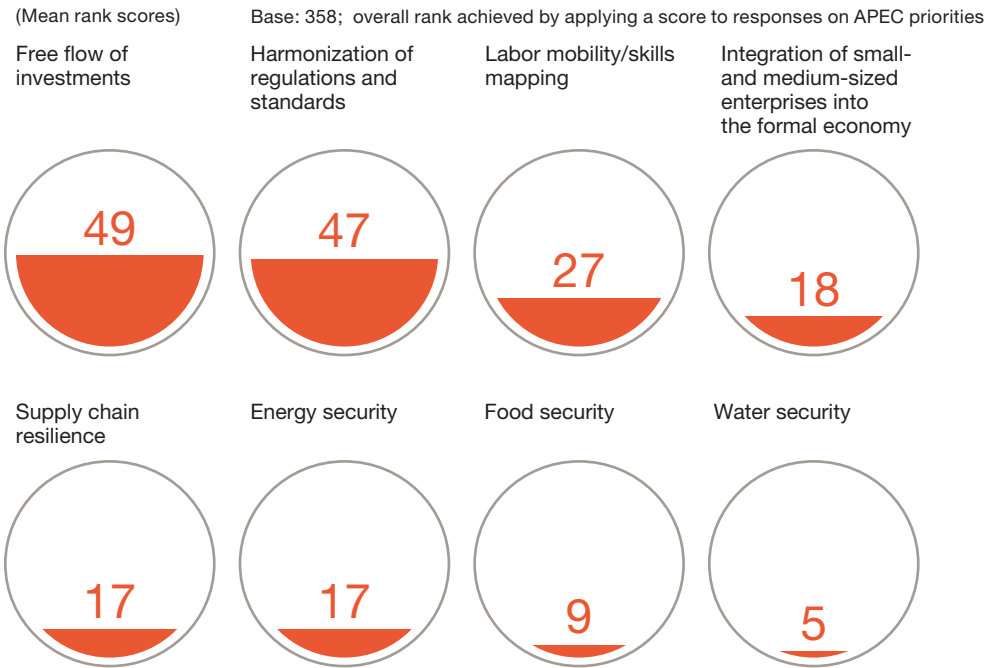
Source: PwC analysis based on various historical and forecast sources, including Oxford Economics

We'll face a new set of challenges as we deal with the cloud-connected computing environment. We have to get some integration in terms of the way we handle the free flow of information in that environment.

Craig Mundie, Chief Research and Strategy Officer, Microsoft Corporation

CEOs prioritize what APEC ought to focus on

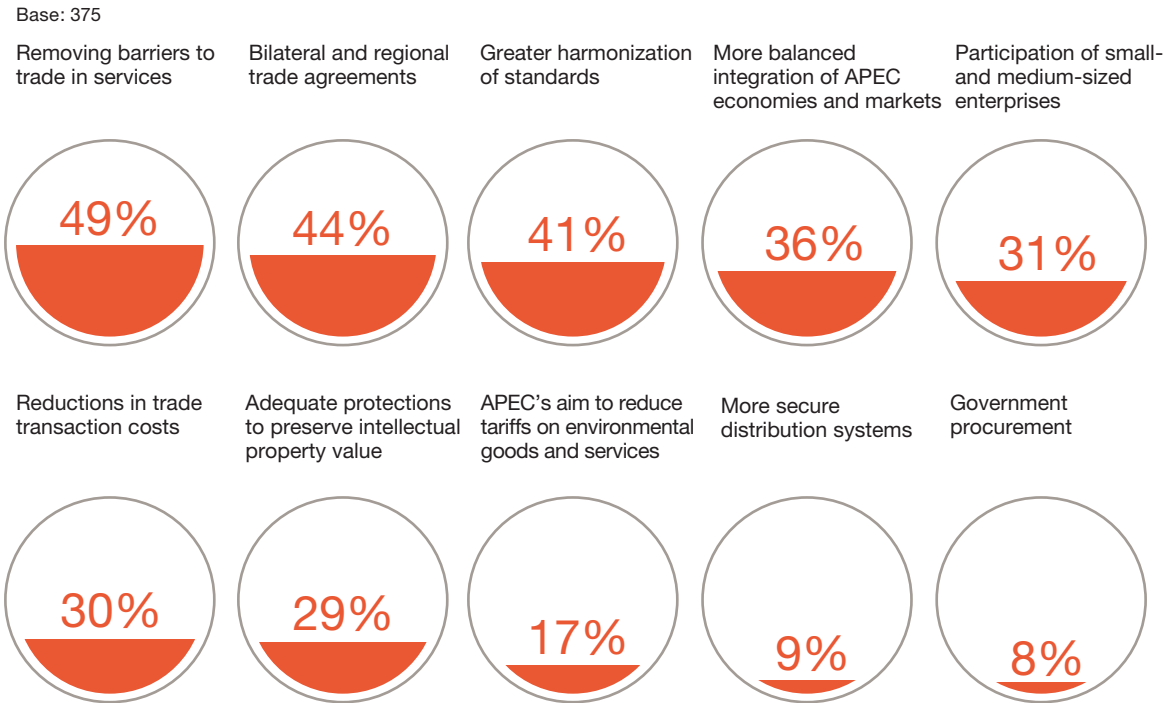
In addition to promoting free trade among APEC economies, please indicate the top 3 priorities that you would like APEC to work on:



Note: An overall rank order was produced for questions where respondents were asked to provide a ranked response in order from high to low. The overall rank was achieved by applying a score to each response.

What CEOs believe will promote greater economic integration within APEC—removing services trade barriers tops list

Please indicate the 3 most important factors for driving greater economic integration in APEC over the next 3–5 years:



Research methodology and key contacts

This is PwC's 2012 APEC CEO Survey

We surveyed industry leaders from June 14 to August 2, 2012, for the 2012 APEC CEO Survey. We also conducted 17 follow-on, in-depth interviews with CEOs and other top corporate officers and business specialists.

We used an online and paper methodology to achieve valid responses from 376 CEOs and industry leaders across 40 nations, including all 21 APEC economies. This multilingual survey was translated from English into 5 languages: simplified Chinese, Japanese, Korean, Russian and Spanish.

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 www.pwc.com, as is further information on the data and graphics.

Note: Not all figures add up to 100% due to rounding and to the exclusion of 'neither/nor' and 'don't know' responses. An overall rank order was produced for questions where respondents were asked to provide a ranked response in order from high to low. The overall rank was achieved by applying a score to each response.

Acknowledgements

Our coverage of the trends shaping APEC economies and businesses would not have been possible without the insights shared by industry leaders we interviewed. We are most grateful and would like to acknowledge their contribution.



C. Fred Bergsten
Director
Peterson Institute
for International
Economics
US



Stuart Dean
CEO
GE ASEAN
Malaysia



Enrique M. Gubbins
Chairman
Sudamericana de
Fibras S.A.
Peru



Ho Meng Kit
CEO
Singapore Business
Federation
Singapore



Le Cong
CEO
Military Bank
Vietnam



Li Sze Lim
Chairman
Guangzhou R&F
Properties Co.,
Ltd.
China



**Ziyavudin
Magomedov**
Chairman of the
Board of Directors
Summa Group
2012 Chair, ABAC
Russia



Darlene M. Miller
President and CEO
Permac Industries,
Inc.
US



Craig Mundie
Chief Research and
Strategy Officer
Microsoft
Corporation
US



Doug Oberhelman
Chairman and CEO
Caterpillar Inc.
US



John A. Prasetyo
Chairman
CBA Consulting
Indonesia



Garibaldi Thohir
President Director
PT Adaro Energy
Tbk
Indonesia



Artem Volynets
CEO
En+ Group
Russia



Wang Hongzhang
Chairman
China Construction
Bank Corporation
China



Wishnu Wardhana
Group Co-CEO and
Vice President
Director, PT Indika
Energy Tbk
APEC CEO Summit
2013 Chair, ABAC
Indonesia
Indonesia



B.J. Yang
President and CEO
Hyundai Energy &
Resources Co.,
Ltd.
Korea



Zhang Jindong
Chairman
Suning Appliance
Group
China

Acknowledgements

The following individuals and groups in PwC and elsewhere contributed to the production of this report.

Advisory group

Vladimir Androsik
Chairman and Executive Director
National Business Center for APEC

Gautam Banerjee
Executive Chairman, PwC Singapore

Karan Bhatia
Vice President and Senior Counsel,
Global Government Affairs &
Policy, GE
Chairman, National Center for APEC

Tom Craren
Partner in Charge of Brand and
Thought Leadership, PwC US

Vadim Khrapoun
Markets Leader, PwC Russia

Richard Lavin
Group President, Caterpillar Inc.

Frank Lyn
Markets Leader, PwC China

Craig Mundie
Chief Research and Strategy Officer,
Microsoft Corporation

D. Nick Reilly
Chairman, Asia Pacific, MSX
International
Former President, GM Europe and GM
Executive Vice President
Chairman-Emeritus, National Center
for APEC

Core editorial team

Cristina Ampil
Emily Church
Christopher Sulavik

Project management

Natalie Kontra
Anna Lai
Angela Lang
Anna Nakonechnaya
Christina Soon
Cynara Tan
Daniel Tan

Representing APEC

Matthew Doering
President and Senior Partner
Global Gateway Advisors

Allen Lai
Director
Asia Inc. Forum

Robert Modarelli
Executive Vice President
National Center for APEC

Monica Hardy Whaley
President
National Center for APEC

Marina Zazharskaya
Deputy Executive Director
National Business Center for APEC

Design

US Studio
Jeffrey Ginsburg
Amy Kunz
Chris Pak
Samantha Patterson
Tatiana Pechenik
Isabella Piestrzynska
Laura Tu
Adam West

For further information

**For further information on
PwC's 2012 APEC CEO Survey
content, please contact:**

Cristina Ampil
Managing Director,
Thought Leadership
+1 646 471 5003
cristina.ampil@us.pwc.com

Cynara Tan
Head of Marketing and
Communications, Asia Pacific
+852 2289 8715
cynara.sl.tan@hk.pwc.com

**For media inquiries, please
contact:**

Mike Davies
Director of Global Communications
+44 20 7804 2378
mike.davies@uk.pwc.com

**For inquiries about the research
methodology, please contact:**

Frances McVeigh
International Survey Unit
+44 28 9041 5483
frances.mcveigh@uk.pwc.com

**We'd like to thank the following organizations for their
generous logistical support in making
PwC's 2012 APEC CEO Survey a success.**

China Council for the Promotion of International Trade
The Federation of Korean Industries
Hong Kong General Chamber of Commerce
National Center for APEC (USA)
Pacific Basin Economic Council
Singapore Business Federation
Support Council for ABAC-JAPAN

