PwC *2013 APEC CEO Survey*

APEC CEO SUMMIT INDONESIA 2013

Towards resilience and growth

Asia Pacific business in transition

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Welcome

Wishnu Wardhana
APEC CEO Summit 2013, Chair
APEC Business Advisory Council (ABAC) 2013, Chair
PT Indika Energy Tbk, President Director and Group CEO

At this time of global economic uncertainty, it is imperative that business leaders with a stake in Asia-Pacific Economic Cooperation (APEC) economies voice interests and concerns about their business plans and the region's state of play. The *2013 APEC CEO Survey* of business leaders is one important step in this process, highlighting key messages for businesses and governments alike.

This year's APEC CEO Summit and the APEC Leaders Summit in Bali, Indonesia, target big and often difficult decisions that must be made in the Asia Pacific region while considering the larger global context. The key point is that nothing should be taken for granted. We all need to look carefully at the strength of our economic foundations, the effectiveness of our institutions, and the relevance of our business models. The summits provide a unique opportunity for frank discussion on these issues at the highest levels of government and business.

As the host of APEC 2013, Indonesia's focus on growth and resilience aims to direct our region's economies on a stronger trajectory for the long run. Despite our relatively strong economic performance driven by both investment and consumption, our priority continues to be establishing global benchmarks and nurturing a business environment that will attract high-quality investment and long-term business partners.

We look forward to welcoming global and regional CEOs to see first-hand the opportunities that Indonesia and the Asia Pacific region have to offer and learn how businesses and economies can work together to build a more innovative, sustainable, and dynamic environment.

About this report

Dennis Nally
PricewaterhouseCoopers International Limited, Chairman

The PwC *2013 APEC CEO Survey* report is a unique tool to better understand the views of business leaders across the APEC economies as they assess the forces changing the world and their business growth strategies.

While overall confidence in growth from Asia Pacific operations remains undiminished, we see many of the uncertainties associated with slow growth, previously limited to the more developed markets, now challenging developing economies as well. APEC business executives are also bracing for a major transformation within the Asia Pacific region—one driven by the gradual but steady rise in incomes and economic opportunities for millions of people. Resilience will likely be a continual theme as companies look to adapt their business strategies to maximise the opportunities associated with the rise in domestic consumption, rapid urbanisation, increasing mobile penetration, and much-needed investment in infrastructure.

Not surprisingly, business leaders have again identified inconsistent regulations and standards as the single biggest barrier to their company's growth in the Asia Pacific region. Different rules for products and services in different economies greatly increase the complexity of scaling operations across national borders. Achieving progress on numerous fronts across APEC's diverse group of economies is no easy task, but given the urgency of the transformation cited above, it is essential that we find common ground.

As business and government leaders convene this year in Indonesia to discuss issues and share priorities, what happens with APEC economies will hold profound implications for the wider world. I hope this report will help advance productive dialogue between the business and government participants of the APEC CEO Summit.

This effort would not have been possible without the participation of nearly 500 business leaders. Thank you for taking the time to share your opinions and insights in the PwC *2013 APEC CEO Survey*.

Contents

What stands out for 2013–14

Asia Pacific in transition ▸▸ Business in transition

Sources of growth in Asia Pacific are changing. Businesses are adapting. What worked 10 years ago in the region won't necessarily work in the years ahead. Decisions CEOs are making about where to invest and why reveals many businesses in transition—just like much of the region itself.

Export-led growth Produce goods →	**Domestic-led growth** Create services
Manufacturing centres Expand capacity →	**Urban centres** Expand distribution, innovation capabilities
Vertically-integrated supply chain Control processes, production →	**Fluid value chain** Co-develop, specialise, use service networks

Trends that favour future investment

Asia Pacific economies that CEOs believe could surprise and why

Sifting for future business opportunities can be a complex exercise in a region as diverse as Asia Pacific, which in this report spans to economies on either side of the Pacific Ocean. Expanding middle classes were an obvious attraction; ample natural resources drew others. But these aren't the only qualities that can set the stage for business investment. Increasing transparency; youthful populations; relative wage costs; infrastructure plans; and political stability were frequently cited as important qualities that create 'room to grow.'

We asked 478 business leaders with operations in Asia Pacific to share their 'dark horse'—that is, to tell us about the one economy in the region they believe could surprise with more opportunity than is currently expected. Indonesia leads the pack, but many others were offered. This is a sample of what they said.

19%
Indonesia

'Skilled labour force, growing resource-based economic activity, consolidation of democracy.'

11%
Myanmar

'The economy will open up much more quickly than many are anticipating.'

8%
China

'High productivity, competitive production costs, growing technological mastery.'

7%
The Philippines

'Transparency in business transformation and much-improved corporate governance.'

7%
Viet Nam

'The next round of growth will be more significant pending Vietnamese participation in the Trans-Pacific Partnership.'

5%
India

'Growing economy, rising living standards, increasing middle-class wealth, increasing exports, education focus, technology developments.'

4%
US

'The raw materials they so desperately need to compete are right under their nose.'

3%
Colombia

'This country has sensible politics and economic agendas and is poised for rapid gains.'

3%
Malaysia, Japan, Russia

'More positive upside surprise in (Japan's) policy direction.'

Note: CEOs were asked to select from a list of 35 Asia Pacific economies, which included 21 APEC economies and those seeking APEC membership, as well as others. Business leaders whose primary responsibility is Indonesia represent 12% of the total respondent pool. While many in this subset did indeed 'vote' for Indonesia, some also chose Myanmar, Macau, Mexico, or Viet Nam as the 'dark horse' most likely to surprise.

Source: PwC *2013 APEC CEO Survey*

Q: Which of the following Asia Pacific economies do you believe will be the 'dark horse' in the next 3–5 years? | **Base:** 478 (excludes 'none of the above' and 'no answer' responses)

Building the right model to prosper in a changing region

Asia Pacific business in transition

Say we found a crystal ball that actually could see into the future. What would a CEO want to know? Take someone in charge of investing millions of dollars today for growth in operations in the region tomorrow. Would she ask about the outcome of China's economic rebalancing or the shale gas boom in the US? What about the fruits of structural reform and trade pact efforts in Japan? Each is potentially momentous on its own; remarkably, all three are in play as 2013 draws to a close.

China, the US, and Japan are the three largest economies in APEC. Yet despite the manifest uncertainties created throughout the entire region as they transition, most business leaders we surveyed—close to 70%—are planning to increase their investments over the next year. Rapid urbanisation, rising middle-class demands, near-total mobile penetration, and a burgeoning demand for infrastructure are all potential sources of new growth for local and global businesses in many sectors.

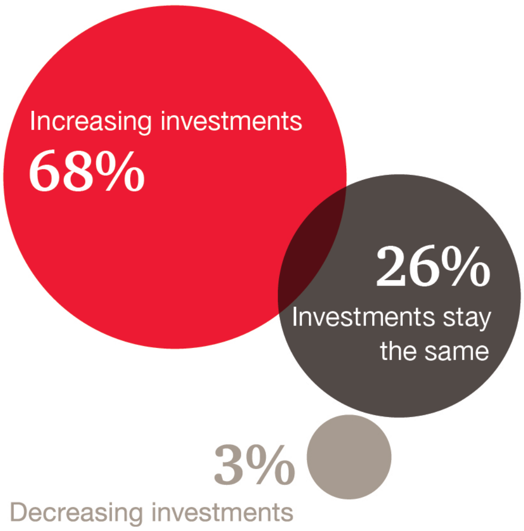
We polled 478 executives with operations in at least one of the 21 economies in APEC between 11 June and 9 August 2013 for their perspectives on Asia Pacific. More (42%) are 'very confident' in revenue growth for their company over the next 12 months than they were at this time in 2012 (36%).

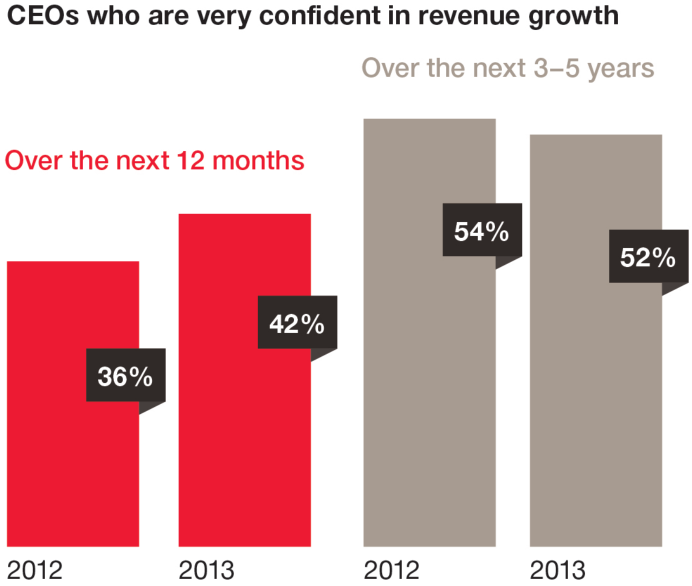
Building the right model for a changing Asia Pacific is at the heart of the matter for businesses. This involves making a number of decisions, including which economies (and customers) to concentrate on, where to innovate, how much to invest, and how to allocate those funds. This report explores some of the approaches that business leaders in the region are taking.

Asia Pacific economies have shown remarkable resiliency to global disruptions over the past five years. But which trade and development models will support regional growth in the future? This is at the heart of the matter for policymakers. The surge in potential trade pacts in the region over the past year shows the issue is far from settled. For their part, business leaders overwhelmingly welcome the momentum in trade negotiations, even as one in five recognise that the alternative tracks create administrative costs or increase the complexities involved with operating across the region.

Most CEOs increasing investments in Asia Pacific operations

In 2013, more are confident in revenue growth prospects over the next year.





Source: PwC *2013 APEC CEO Survey*; *2012 APEC CEO Survey*

Q: Considering your organisation's investments in APEC economies over the next 12 months, are you planning on…? | **Base:** 478 (excludes 'don't know' and 'no answer' responses)

Q: How confident are you about your organisation's prospects for revenue growth… Over the next 12 months? Over the next 3–5 years? | **Base:** 2013: 478; 2012: 356

We are most impressed with America's 'energy revolution', and it is very important to America. We can see that from our own industry.

Dr. Zhang Xiaogang, General Manager, Angang Group

China's the engine that drives things, and it's the market that we focus on the most.

Shane D. Fleming, Chairman, President and CEO, Cytec Industries Inc.

One of the key drivers for growth in Asia Pacific in the next three to five years will be the political systems in Asia. Asia is becoming a democratic region.

Jin Roy Ryu, Chairman & CEO, Poongsan Group

We believe in Indonesia's potential, with its young population… The challenge for Indonesia is losing its growth momentum. There's a need to address things like the current account deficit and infrastructure development so we can be more efficient.

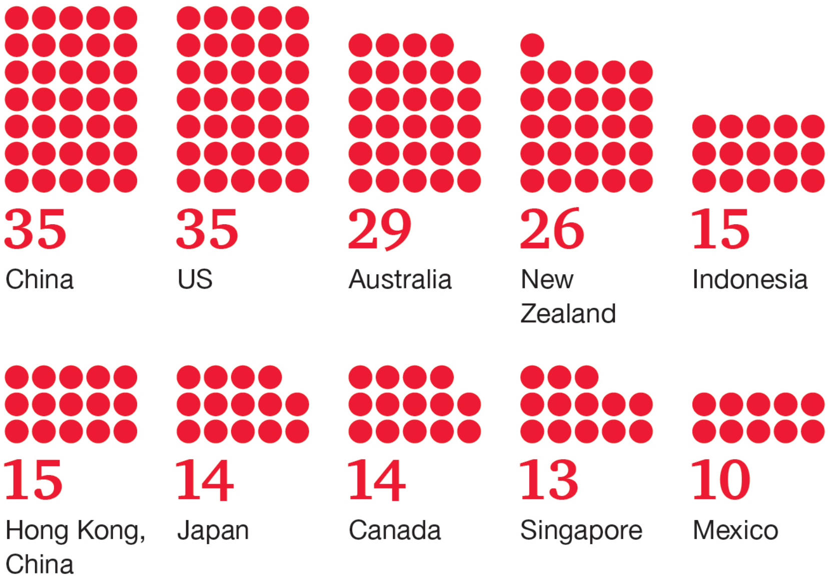
Wishnu Wardhana, President Director and Group CEO, PT Indika Energy Tbk

Asia Pacific: Where are CEOs increasing investments?

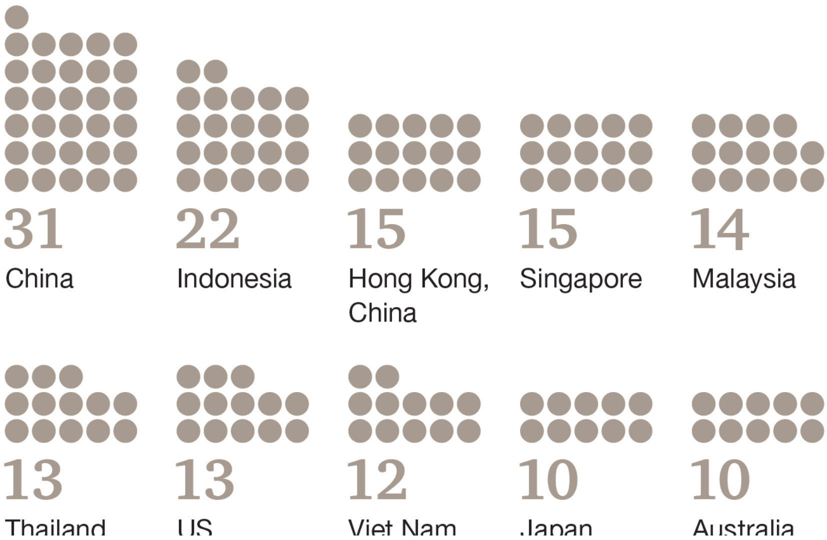
Investments are selective as businesses tune allocations for domestic-market growth potential over the next 3–5 years.

Investment destinations for mature APEC* economy CEOs

*Mature APEC: CEOs with 'primary responsibilities' for operations in Australia, Canada, Japan, New Zealand, US



CEOs focused on growth in the rest of APEC



Note: An overall rank was scored from responses ranked in order from economy with most increased investment.

Source: PwC *2013 APEC CEO Survey*

Q: Please select the top 5 APEC economies where your organisation is increasing investments over the next 3–5 years. | **Base:** 443 (excludes 'none of the above' and 'not answered' responses)

Innovation and services capabilities capture new investments

The promise of business growth from rising middle-income consumers has been clear for a decade. Now businesses are actively investing for a future of consumption-driven growth in Asia Pacific. Thus product development, services and distribution capabilities, and talent development are capturing over half of all increases in investment over the next year.

Nearly half of CEOs surveyed say middle-income consumers influence their growth strategies to a 'great extent.' This includes 36% of executives in industrial businesses. As Shane D. Fleming, Chairman and CEO of Cytec Industries Inc., a US-based specialty chemicals and materials company, puts it: "We're one step back from that trend. But it's a very important trend because as consumerism grows, as the middle class grows in countries like China, the demand for products that require our materials grows."

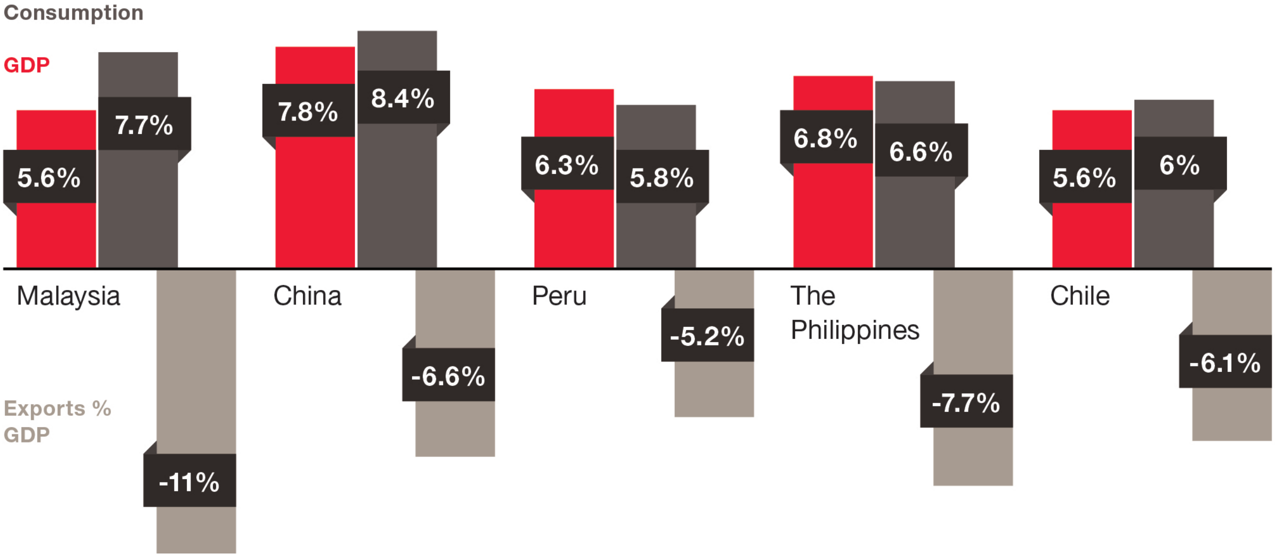
Expanding manufacturing capacity remains important—but it's not the investment driver of the past for businesses operating in the region. For example, just 13% of the total increase in investments by CEOs focused on China is for expanding manufacturing over the next 12 months. Like their peers elsewhere in APEC economies, business leaders responsible for growth in China operations are more likely to invest towards new products or expanding services.

One event spells out the important changes in the region: five selected APEC economies that grew more than 5% in 2012 have also experienced steep declines in exports relative to their GDP since the global financial crisis. In 2012, they also saw a rise in private consumption. One view of the data over one year does not make a trend, but for a region whose dynamism has been largely defined by its exports, it's a startling shift.

Decoupling from export-led growth in Asia Pacific

Resilience must come from within.

Change in exports as a percentage of GDP from 2008 to 2012 in selected Asia Pacific economies, and 2012 growth in private consumption (the volume of goods and services consumed by households), in local currency.

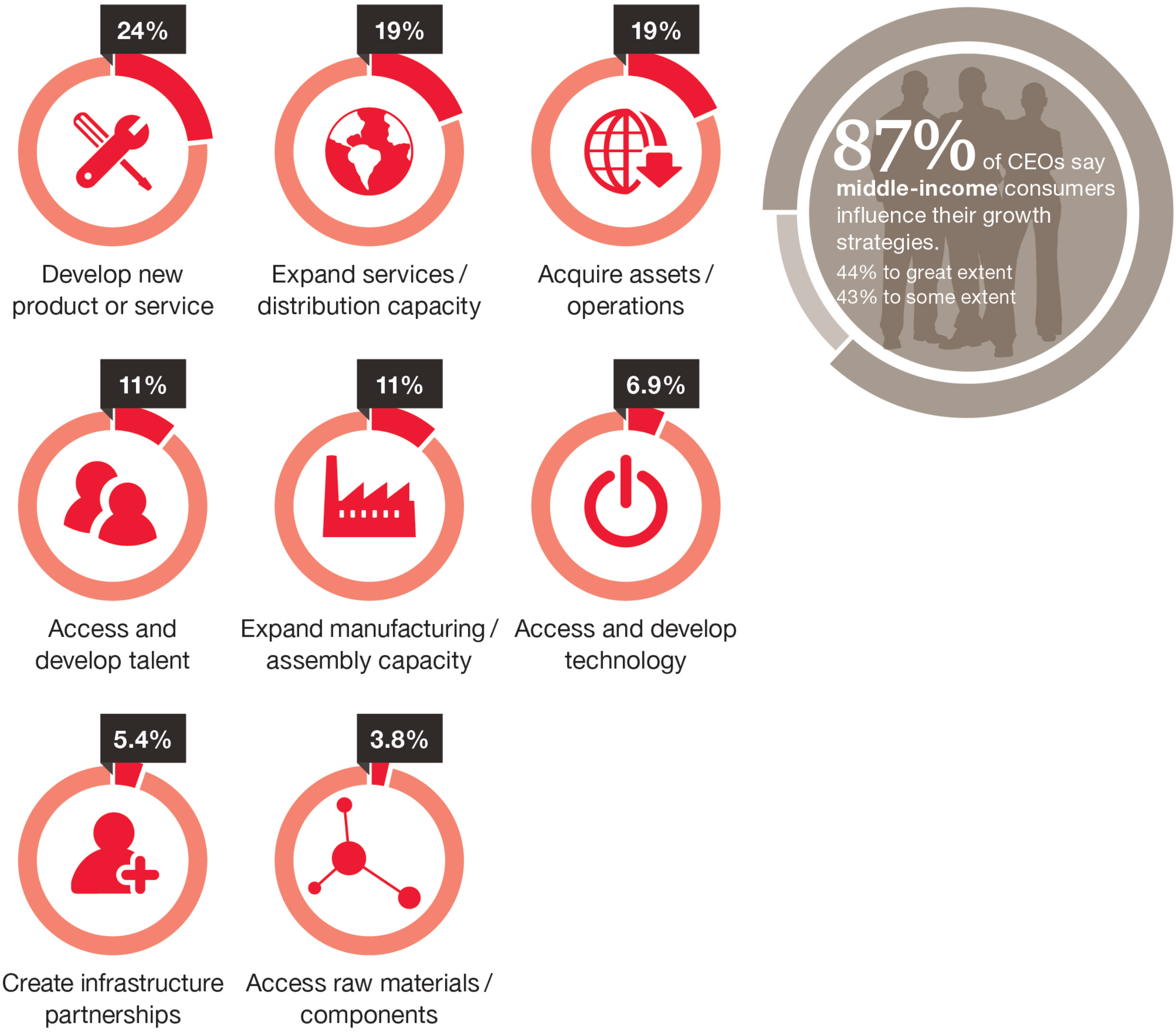


Source: Oxford Economics; PwC analysis

Middle-income consumers in Asia Pacific driving new business investment

The promise of business growth from rising middle-income consumers has been clear for a decade. Now businesses are actively investing for a future of domestic consumption-driven growth in Asia Pacific.

CEO investment allocations over the next year



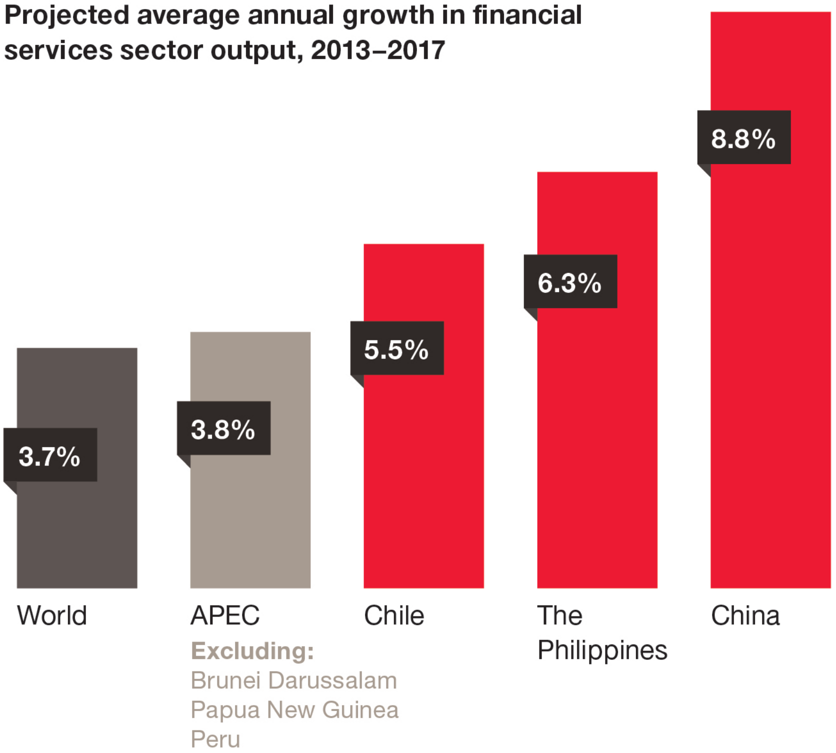
Source: PwC *2013 APEC CEO Survey*

Q: Thinking of those APEC economies where your organisation is increasing investment over the next 12 months, what proportion will be allocated to the following areas? | **Base:** 443

Q: Expanding middle-income consumption across much of Asia Pacific is expected to increasingly drive future economic growth for the region. To what extent is this trend influencing your organisation's growth strategies for the region? | **Base:** 478 (excludes 'not applicable,' 'don't know,' and 'no answer' responses)

Services sectors projected to benefit as Asia Pacific incomes rise

Projected average annual growth in financial services sector output, 2013–2017



Source: Oxford Economics; PwC analysis

We are restructuring, and we're moving now to much more of a commercial profile in our business in Asia. We still have manufacturing there, but we're probably doing more outsourcing today and spending more of our effort in the distribution part of the supply chain, working with customers and understanding their needs.

Tony Nowell CNZM, Chairman, Wellington Drive Technologies and New Zealand Forest Research

Can you imagine how many new financial products will be created in the process leading to Renminbi (RMB) internationalisation?

Dr. Jih-Chu Lee, Chairperson, Taiwan Financial Holdings Co., Ltd. and Bank of Taiwan Co., Ltd.

We want to create an experience attainable by most people even if they may have to save in order to achieve it. But that's better than it being something out of reach for most people. We find that our approach has allowed us to engage with the growing affluence of the growing middle class.

Claire Chiang, Senior Vice President, Banyan Tree Holdings Ltd.

Asia Pacific CEO

The winners in this industry, in any industry, will be the ones who really start to think end to end, all the way from their supply base through their company, out to their distributor network and to their end users.

Ed Rapp, Group President, Construction Industries, Caterpillar Inc.

Agent of change

Putting middle-income demand at the centre of business expansion plans is leading to different distribution strategies and new partnerships in many sectors. Retailers—local and global—know this best. Consumer markets in Asia are not completely liberalised and remain highly fragmented. Strong survivors are transforming operating models and product offers in order to adapt.[1]

Add to this the imperative to reach younger, urban consumers—the source of much business optimism and per capita income growth in faster-growing centres in Asia and Latin America. Personal networks carry huge weight in terms of whom to trust and what to buy. Affluent shoppers in developing Asia are twice as likely to seek help from their networks of friends and family compared to shoppers in developed countries.[2] Companies need to factor these differences in as they think about adapting existing marketing strategies to new areas.

1 2013 Outlook for the Retail and Consumer Products Sector in Asia, PwC, 2013

2 Experience Radar 2013: Lessons from Global Retail Apparel Industry, PwC (forthcoming)

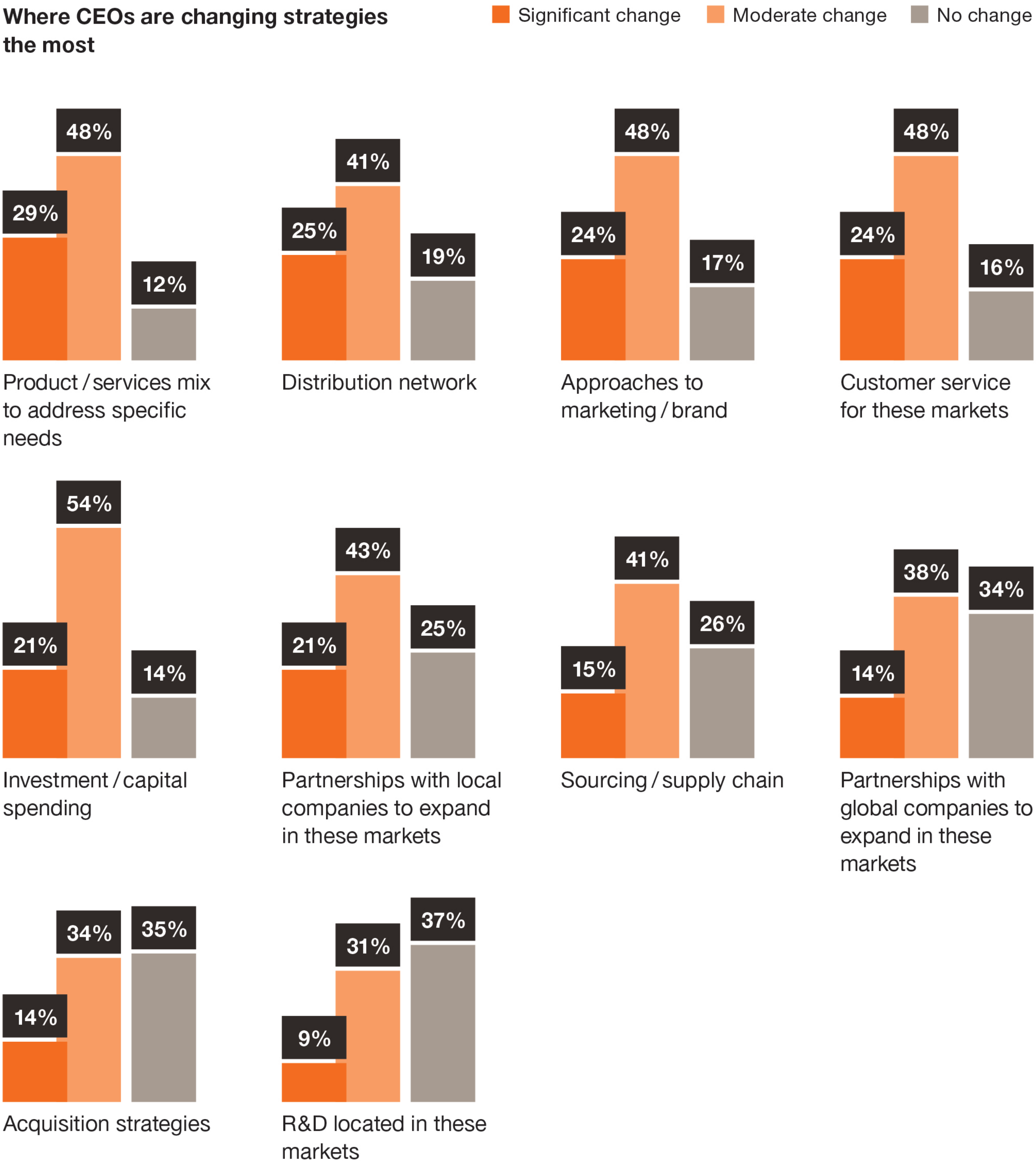
Thus distribution channels and partners are evolving in different ways. Over half of CEOs are changing strategies related to partnerships, recognising that going in with an established base in the local market and having local partners to work with in many of these markets is important. While more business leaders believe their chief competitors are multinational companies from developed economies, more would also rather partner with local companies than international ones to capitalise on local middle-income demand. In part, these partnerships can assuage skills shortages that CEOs say are concentrated at the top of the organisation. And partnerships in R&D can help fill technical gaps.

While CEOs orient their companies to stay relevant in a transitioning Asia Pacific, there are pressures within the organisation. R&D and HR operations are seen as among the least prepared, an apparent reluctance to rely on the talent pool for all that innovation. Separately, while customer service and marketing are two of the top areas flagged for strategic re-direction, more CEOs are confident in the ability of these operations to adjust.

Asia Pacific CEOs change strategies to sync with new consumers

Putting middle-income demand at the centre of business expansion strategies will likely lead to different distribution channels, new partnerships, and more innovation.

Where CEOs are changing strategies the most



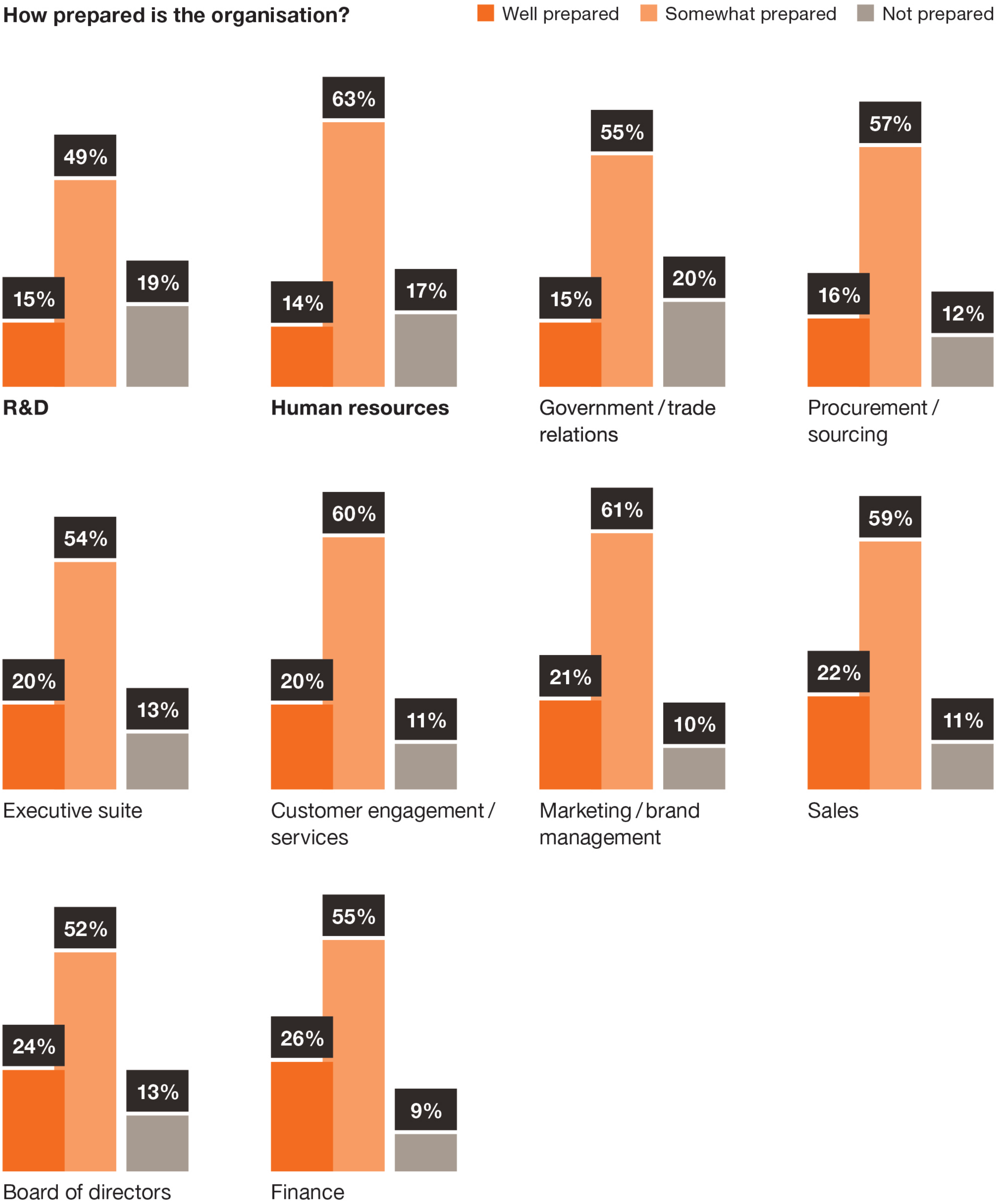
Source: PwC *2013 APEC CEO Survey*

Q: To what extent are you making, or will make, changes in the following areas to capitalise on this development (expanding middle-income consumption across much of Asia Pacific)? | **Base:** 412, CEOs who cite middle-income influence on growth strategy (excludes 'not applicable,' 'don't know,' and 'no answer' responses)

Stress points in R&D and HR as CEOs pivot for consumer demand

As CEOs orient for relevance in a changing Asia Pacific, R&D and HR are seen as among the least prepared.

How prepared is the organisation?



Source: PwC *2013 APEC CEO Survey*

Q: To what degree are the following areas of your organisation prepared to adjust to capitalise on the rise in middle-income consumers in Asia Pacific? | **Base:** 397, CEOs who cite middle-income influence on growth strategy (excludes 'not applicable,' 'don't know,' and 'no answer' responses)

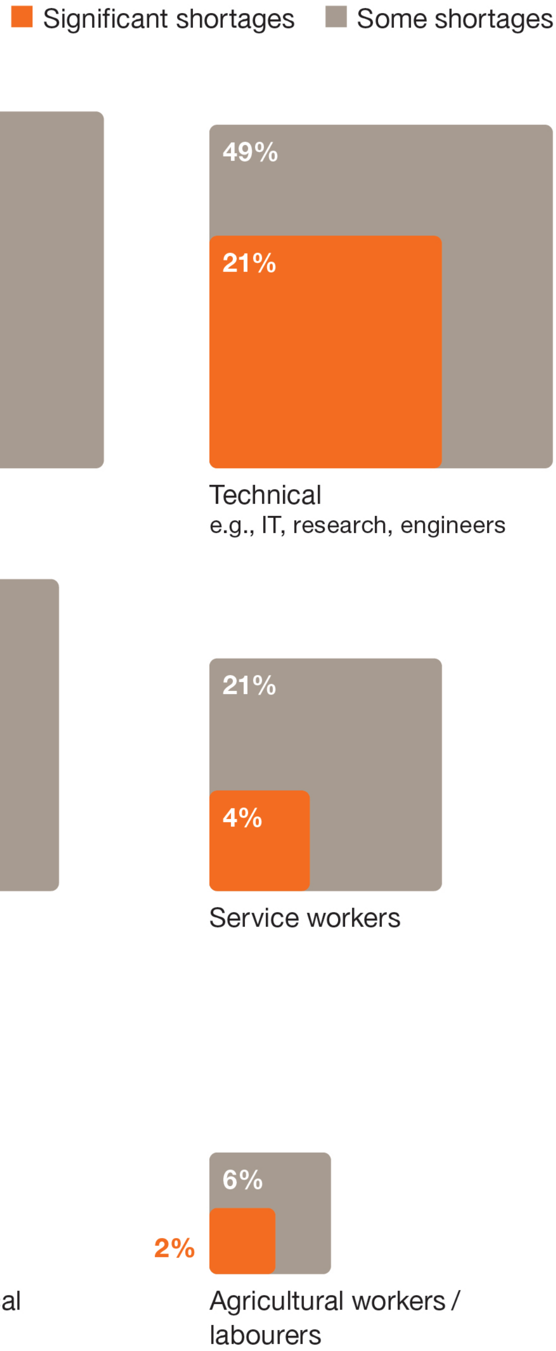
Collaboration will be where the important work is in the next three to five years... To build the capacity we need, we can share with two or three operators, and costs will be much lower.

Hasnul Suhaimi, CEO, PT XL Axiata Tbk

Where's the real talent crunch in Asia Pacific?

Biggest need for technical, managerial skills, and executives as CEOs set growth plans for the region.

Where skills are in short supply



Source: PwC *2013 APEC CEO Survey*

Q: Please indicate where your organisation is experiencing skills shortages in the APEC region. | **Base:** 334, CEOs who cite skills shortages as a barrier to business growth

Sizing up mobile opportunities and digital realities in Asia Pacific

With a growing share of global internet users in Asia—and smartphone penetration of over 60% in Korea and climbing in other APEC economies[3]—the region as a whole will play an important part in the evolution of digital business.

Asia Pacific is on the cusp of significant mobile disruption. PwC identifies mobile computing as one of four market forces that are individually and collectively redefining customer demand and business opportunity over the next five years.[4] The others are cloud computing, social technology and the emergence of intelligent devices. New capabilities could change how users interact with these devices and how these devices interact with the environment. Think of smartphones offering alternatives to credit cards or wearing sensors that can remotely monitor long-term health conditions, for instance.

Data is at the heart of much of the innovation around applications and thus, the emerging opportunities. By now every business is aware of the value their data assets can generate in the 'big data' environment. As more businesses consider collecting data and seek to apply them for new uses, inconsistencies in rules guiding data privacy and sharing can act as an impediment. Some 15% of business leaders identify current legal frameworks for cross-border data flows as an 'emerging barrier' for their company to benefit more from the digital economy.

Data control and sovereignty issues are not just a concern for technology companies. In fact, business leaders from this subset of CEOs surveyed were the least likely to believe the standards in place today around customer privacy are an emerging barrier to their business (6%) compared with leaders in financial services (31%) or the industrial sector (14%).

Mobile-savvy employees are a source of pride and potential as CEOs navigate new digital markets. Most CEOs surveyed believe their company's culture can open virtual doors for business growth. And with 39% viewing the integration of digital channels in their organisation as an 'emerging opportunity,' expect more emphasis on tools and practices that bring employees and partners together to collaborate in the digital world. "Rapid growth in mobile devices in many emerging markets in APEC is providing an impetus for organisations to find new ways of engaging with each other and importantly, with consumers," said Greg Unsworth, Technology, Media and Telecommunications Leader, PwC Singapore. "This will also enable many parts of the population to access services that were not previously available to them."

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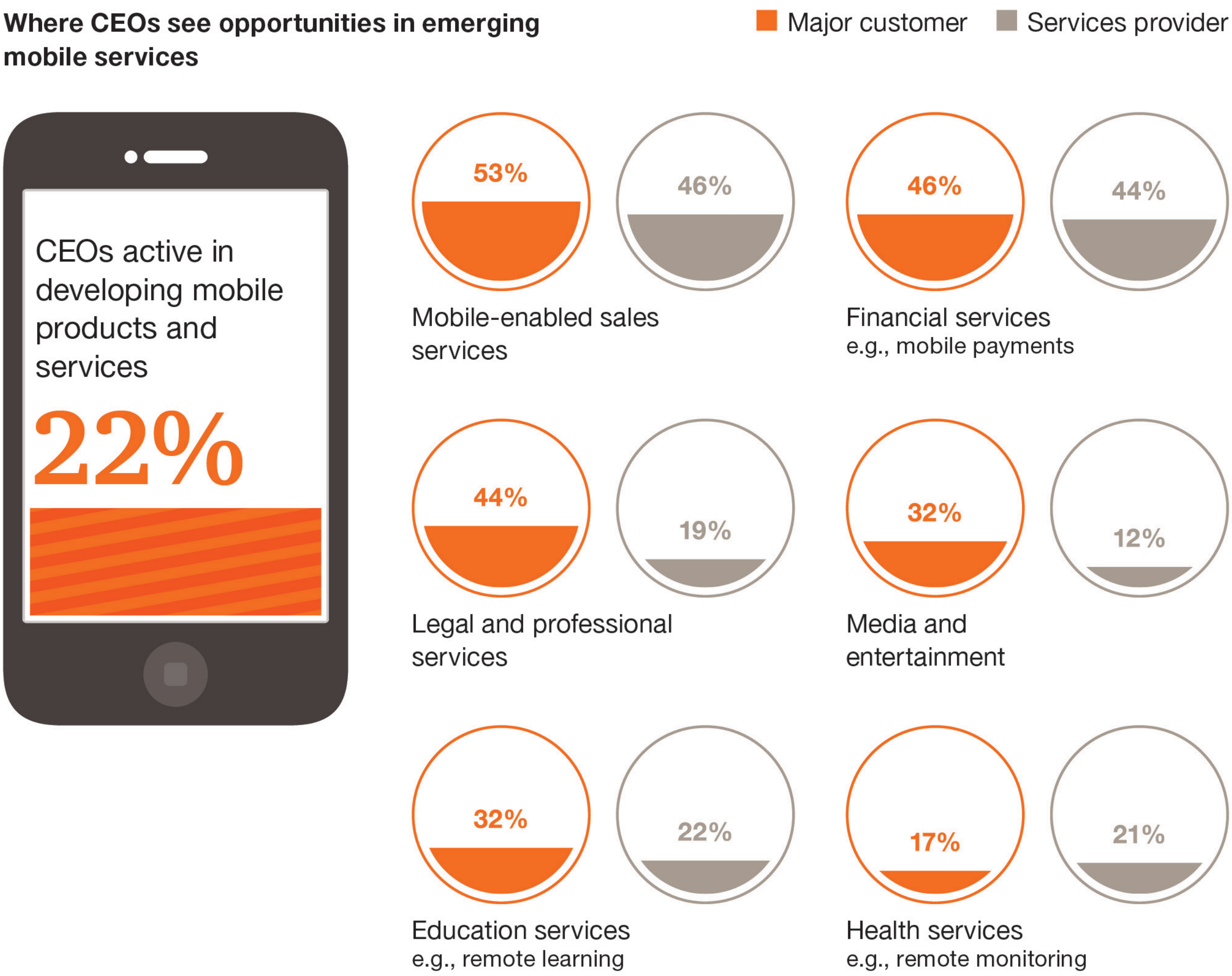
3 eMarketer, May 2013, based on survey and traffic data from research firms and regulatory agencies, historical trends, company-specific data, and country-specific factors.

4 Mobile Innovations Forecast, PwC, 2013

One in five Asia Pacific CEOs are pursuing mobile products and / or services

Mobile sales and payments are chief pathways to digital growth.

Where CEOs see opportunities in emerging mobile services



Source: PwC *2013 APEC CEO Survey*

Q: Thinking about opportunities in the digital economy, is your organisation active or planning to be active in…? | **Base:** 478 (includes 'not applicable,' 'don't know,' and 'no answer' responses)

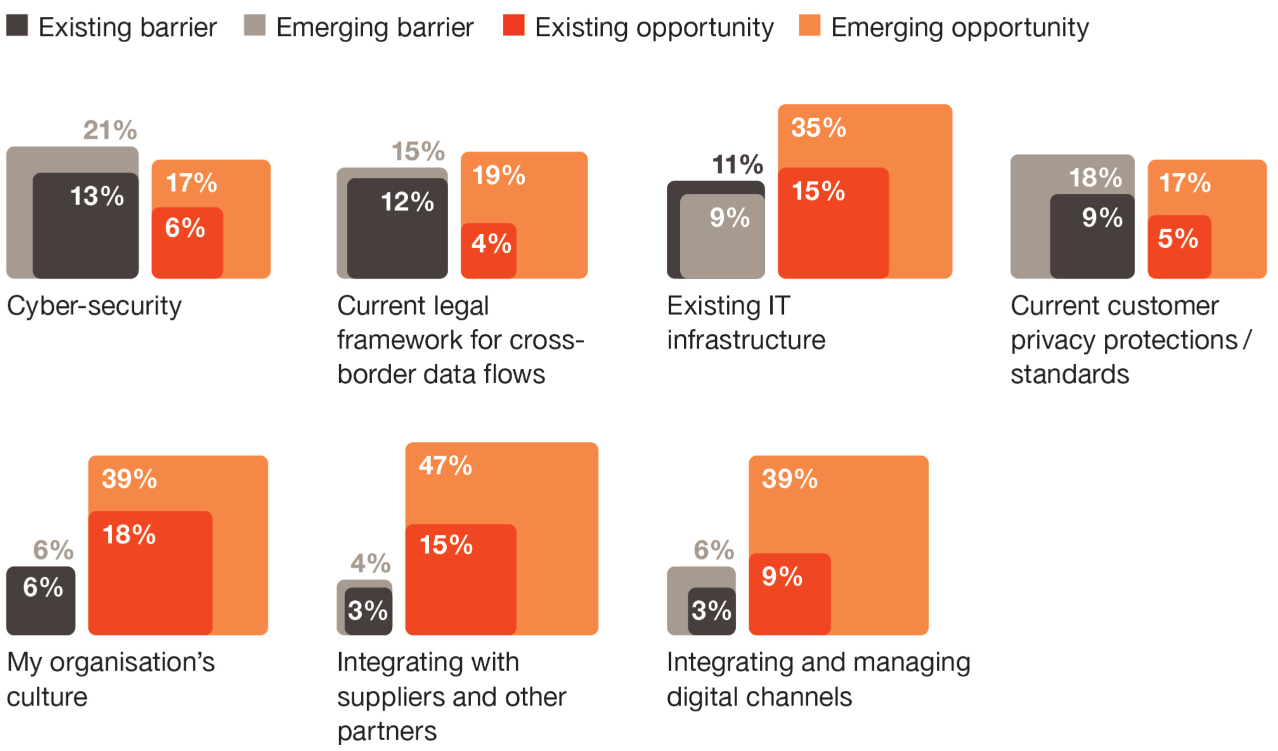
Q: Select the option that best describes your organisation's role as a services provider and / or major customer in the following emerging mobile services markets. | **Base:** Major customer: 133 (excludes 'other' response); Services provider: 218 (excludes 'other' response)

You're seeing a lot of innovation in the way people get things done on a computer, the emergence now of the ability to talk to the computer and even have it talk back to you, the ability for it to understand context from, for example, geographic localisation. All of these things are making a qualitative change in what people expect from these devices and the kinds of applications they can create for them.

Craig Mundie, Senior Advisor to the CEO, Microsoft Corporation

Uncertainties around standards for data sharing slowing digital expansion

Opportunities centre around connecting more closely within the company and with partners.



Source: PwC *2013 APEC CEO Survey*

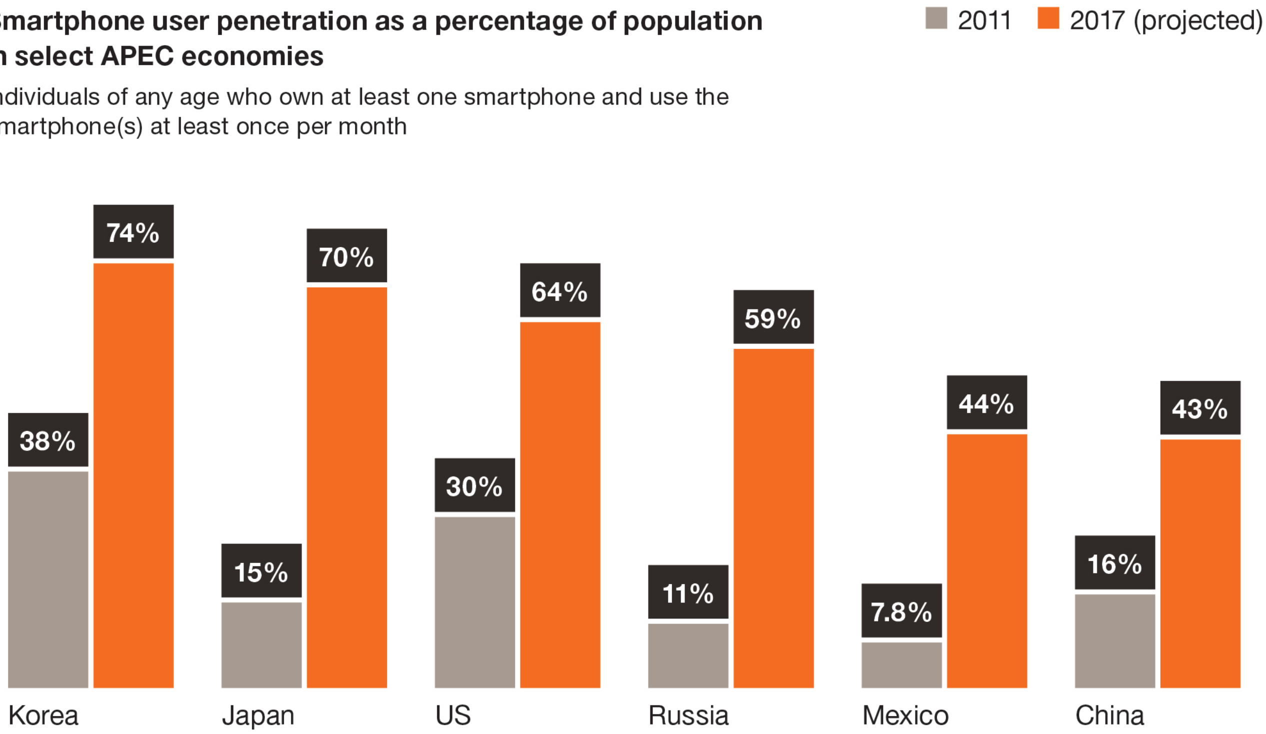
Q: Do you consider each of the following to be chiefly an opportunity or a barrier for your organisation to benefit from the digital economy? | **Base:** 478 (excludes 'neither / nor,' 'don't know,' and 'no answer' responses)

Smartphone penetration: The number to watch in mobile innovation

What happens as smartphone use hits critical mass? Mobile disruption in the form of new business models in health, automotive, and more.

Smartphone user penetration as a percentage of population in select APEC economies

Individuals of any age who own at least one smartphone and use the smartphone(s) at least once per month



Source: eMarketer (2013–2017 projected), based on survey and traffic data from research firms and regulatory agencies, historical trends, company–specific data, and country–specific factors

People are becoming more responsive than in previous years when we didn't have any of these gadgets.

Karen Agustiawan, President Director and CEO, PT Pertamina (Persero)

Our customers want to access us anytime and from anywhere. They want to be able to book a ticket from any place through any medium at any time, and this requires a restructure of our IT architecture to make it possible. This is a good thing though as it opens up opportunities.

John Slosar, Chief Executive, Cathay Pacific Airways Ltd.

Bridging the infrastructure gaps in Asia Pacific

How to finance infrastructure development?

Of all the different types of business investments, arguably the most important is the money that goes into infrastructure. Power, transport, communications, water, and sanitation are the foundations upon which an economy grows.

Mature economies like Australia, the US and Japan face demands as existing infrastructure starts to age and needs upgrading. Developing Asia has an infrastructure deficit. The Asian Development Bank estimates that the region needs to invest around US$8 trillion in infrastructure between 2010 and 2020 to maintain economic growth rates.

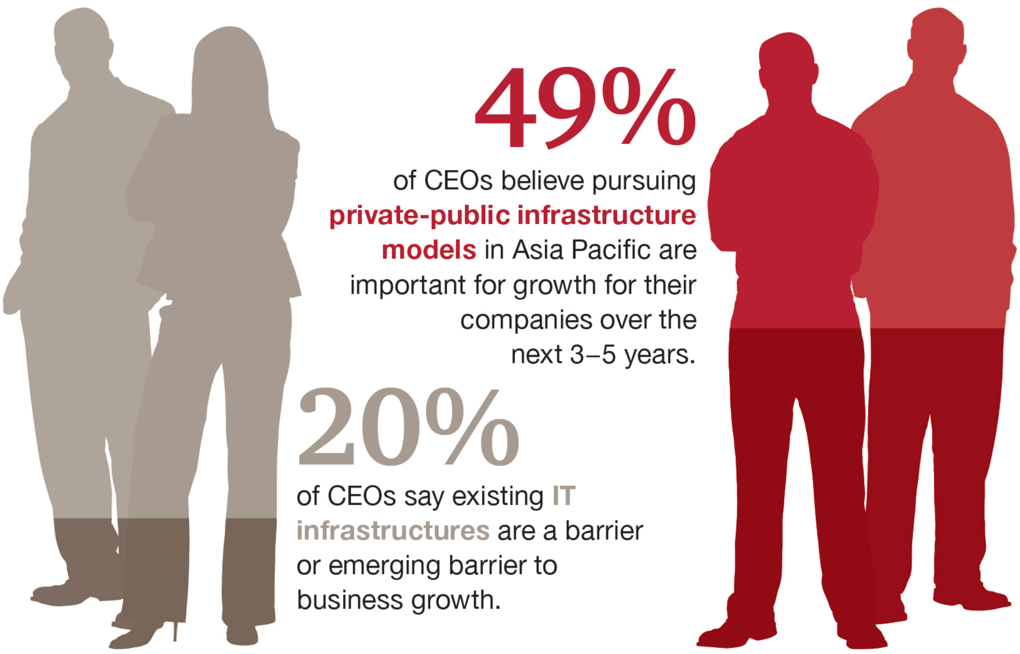
And yet, the Asia Pacific region has been under-investing in these assets.[5] Economic growth has been running at a faster speed than new investment in infrastructure, and many parts of Asia now struggle with gridlocked roads, clogged ports, unreliable power, and unsafe water. Public financing alone likely cannot meet the needs.

Asia generates an enormous amount of savings which could be funneled back into infrastructure development. So what is holding back private investors? Regulatory and legal regimes in many economies are a clear barrier. These range from uncertainties around tariff regimes to delays with land acquisition and a lack of transparency around the bidding process. Governments can also assist by working to develop and facilitate financial products that are suited to investment in long-term infrastructure assets.

5 Foundations of the Future, 2013, prepared for the APEC Business Advisory Council (ABAC) by PwC in its capacity as the Knowledge Partner of the APEC CEO Summit 2013

Open to new ways of investing and developing infrastructure

Asia Pacific has a great need for direct investment into infrastructure. Public financing alone likely cannot meet the demand.



Source: PwC *2013 APEC CEO Survey*

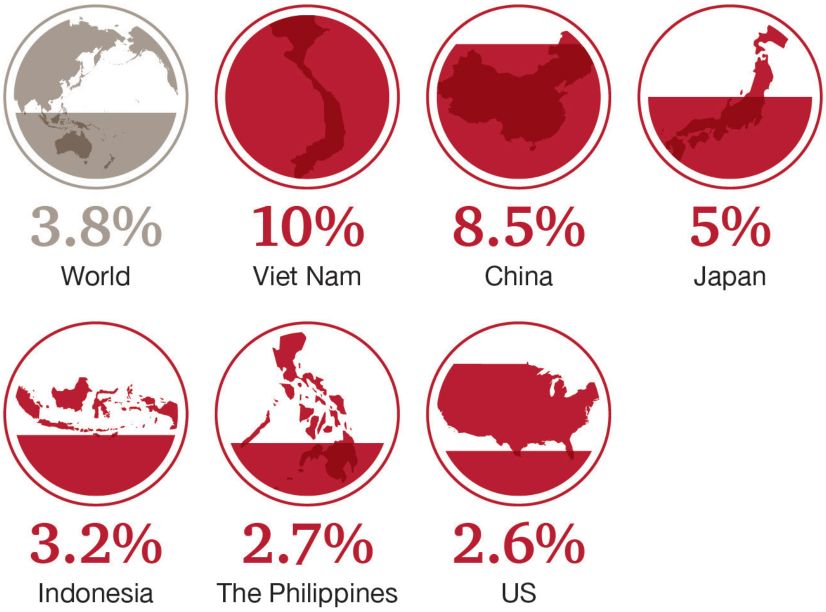
Q: To what extent is your organisation pursuing business relationships in the following areas, because they are important to your organisation's growth over the next 3–5 years?—Private-public infrastructure models | **Base:** 478 (excludes 'not applicable,' 'don't know,' and 'no answer' responses)

Q: Do you consider each of the following to be chiefly an opportunity or a barrier for your organisation to benefit from the digital economy?—Existing IT infrastructure | **Base:** 478 (excludes 'neither / nor,' 'don't know,' and 'no answer' responses)

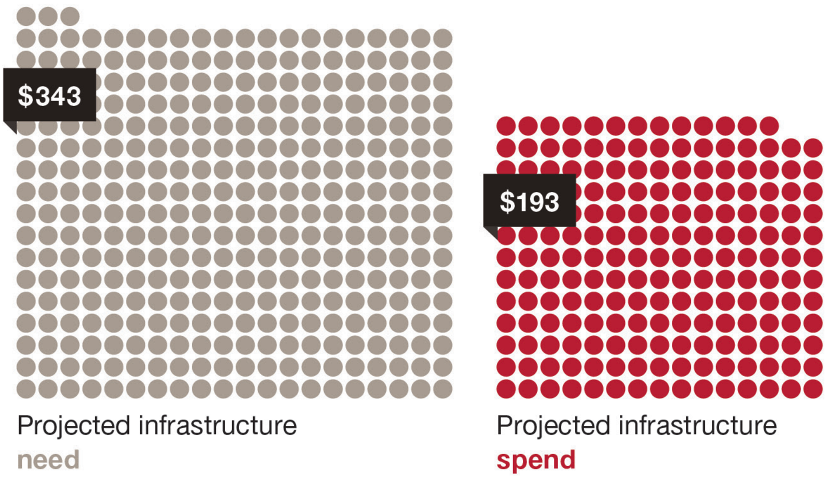
Room to invest in infrastructure in Asia Pacific

Infrastructure development is needed to support rising prosperity.

Infrastructure investment as a percentage of GDP
(latest data available)



Indonesia's infrastructure funding requirements (2013–2017)
In US$ billions



Source: Economist Intelligence Unit, based on research from World Bank, McKinsey Global Institute; PwC estimates

The region is developing a large amount of savings every year. Quite a lot of those savings are leaving the region, being intermediated away into Europe or America. We need mechanisms to make sure that those funds can be accumulated well in Asia and used inside Asia for infrastructure projects.

Anthony Nightingale, Director, Jardine Matheson Holdings Limited

Peru requires US$200 billion of infrastructure over the next few years in order to face the challenges that the future will bring. This is almost twice the country's gross domestic product.

Juan Francisco Raffo, Honorary Chairman, Raffo Group

We cannot ignore the current economic growth, which means more of our people will be able to access energy. And as Pertamina is an energy company, we have to supply efficient and sufficient energy to the people.

Karen Agustiawan, President Director and CEO, PT Pertamina (Persero)

Governments in APEC need to improve infrastructure development, and infrastructure investment, as regional connectivity is very important for APEC members. With the political stability in the region, we can improve the investments and connections between each member of the region.

Erwin Aksa, CEO, Bosowa Corporation

CEO priorities for infrastructure development

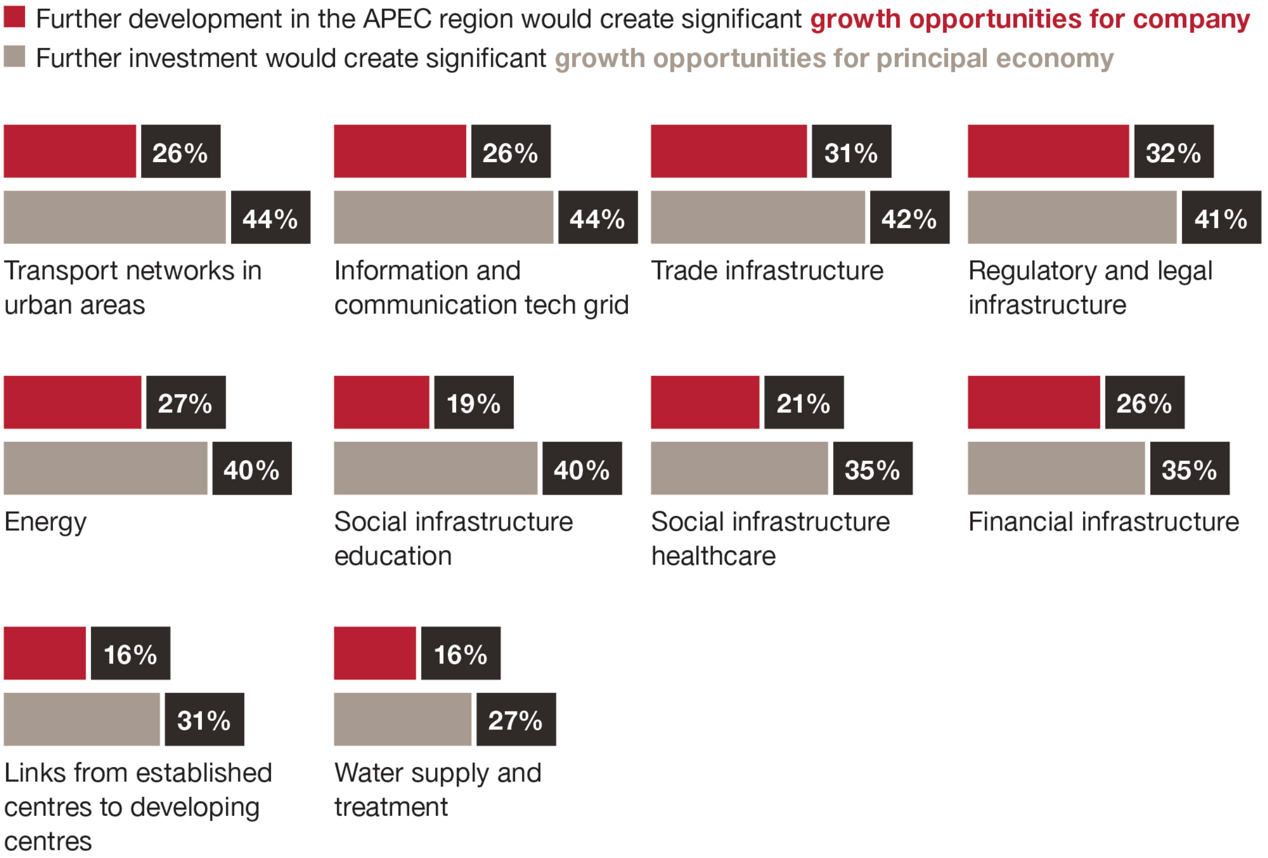
There are clear cases where further improvements in infrastructures will fuel business growth. CEOs identify power supplies as an area where development translates into greater opportunities for more businesses. Above all, more CEOs believe lifting regulatory barriers that raise costs and uncertainties around trade and long-term investments can directly support business growth.

Yet no business operates in isolation. When asked where improvements could create opportunities for the economies where they are based, more CEOs pointed to clogged transit networks in many Asia Pacific urban centres as a priority. They also expect the extending of broadband access (and lowering the costs) to more people will create 'significant opportunities' for growth in their countries. Note the gap between the percentage of CEOs who believe further development of the tech grids will create significant opportunity for their companies (26%) and for the economies where they operate (44%). This is the 'digital divide': for the most part, businesses have satisfactory access but worry not enough people do.

Believing that cellular technologies are going to provide progress is not enough, says Craig Mundie, senior advisor to the CEO at Microsoft Corporation. "As broadband becomes more of an imperative, particularly in education and small businesses, and as cloud service connectivity becomes the way people access these facilities, the pressure is going to become intense on connectivity and its cost."

Where is infrastructure needed most?

CEOs believe changes to regulatory and trade infrastructures are most crucial for business. When it comes to their economies, developing the tech grids and urban transport are the paths to growth.



Source: PwC *2013 APEC CEO Survey*

Q: To what degree would further development in the following infrastructure categories in the APEC region create growth opportunities for your organisation? | **Base:** 478 (excludes 'not applicable,' 'don't know,' and 'no answer' responses)

Q: To what degree would further investment in the following infrastructure categories create growth opportunities for your principal economy? | **Base:** 478 (excludes 'not applicable,' 'don't know,' and 'no answer' responses)

> *Japan is willing to help with infrastructure improvements in Asia Pacific, but how to finance them is a huge issue. We are promoting the idea of establishing a bond market as well as using Public Private Partnerships for ASEAN infrastructure development.*
>
> *Hiromasa Yonekura, Chairman, Keidanren and Sumitomo Chemical Co., Ltd.*

Where business and regional policy priorities intersect in Asia Pacific

We have our own port in Indonesia... We also have rail, barge and our own hauling roads. So what we need to invest more in, in terms of expansion, is better utilisation or synchronisation as well as optimisation.

Chanin Vongkusolkit, CEO, Banpu Public Company Limited

Many relatively small sellers...are engaging with international customers in a way that's much more straightforward, with much lower costs and much safer and more reliable transactions than ever before. That's been a huge benefit, where the technology got ahead and the policies are waiting to catch up.

Scott Miller, Senior Advisor and Scholl Chair in International Business, Center for Strategic and International Studies (CSIS)

Post-WTO world in two words—Value chain

For the third year in a row, business leaders have flagged inconsistent regulations and standards as the single biggest barrier to their company's growth in Asia Pacific. Different rules for products and services in different economies raise the cost of doing business and greatly increase the complexity of scaling operations across national borders to a 'great extent' for close to a third of respondents.

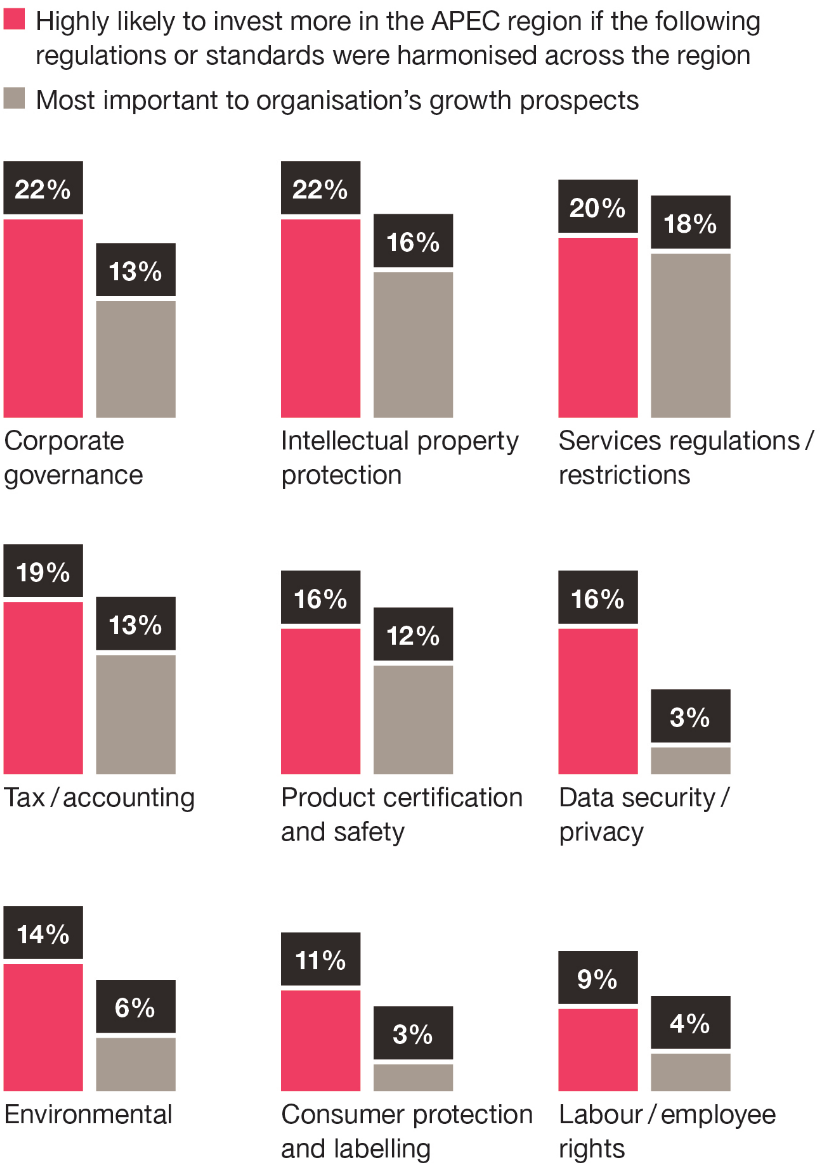
Services are an integral part of today's global supply chains. Think of a freight forwarder or back office processes or trade finance. Services in intermediate inputs represent over 30% of the total value added in manufactured goods, according to OECD estimates.[6] Yet while trade deals have effectively reduced tariffs on many goods, services are less impacted. For example, consider an equipment maker who wants to extend financing to customers but cannot as those types of services are restricted to banks in certain economies.

As services become more intensive, the more coherent and transparent regulations matter for businesses. Regulatory consistency around intellectual property and corporate governance in particular could unlock further investment in APEC economies, CEOs say.

6 Trade Policy Implications of Global Value Chains, OECD, 2013

What's holding back more business investment in Asia Pacific economies?

Regulatory consistency could unleash more investment in the region. Corporate governance, intellectual property protection, and services top the list.



Source: PwC *2013 APEC CEO Survey*

Q: How likely or unlikely would your organisation be to invest more in the APEC region if the following regulations or standards were harmonised across the region? | **Base:** 478 (excludes 'not applicable,' 'don't know,' and 'no answer' responses)

Q: And of these, where is the goal of uniform standards or regulations across the region most important to your organisation's growth prospects, if at all? | **Base:** 478 (excludes 'not applicable,' 'don't know,' and 'no answer' responses)

If you've got regional agreements that cover 10 or 12 or hopefully one day, 21 economies, you take a great deal of complexity away. That reduces costs. It reduces waste. It makes things more available because companies will make the products more available if there's less complexity to deal with.

Tony Nowell CNZM, Chairman, Wellington Drive Technologies and New Zealand Forest Research

Harmonised regulations would help us access markets more easily. Basically, we would know what we need to do to get our products across borders.

Dr. Vijaya Rajendram, Founder & Managing Director, Neptune Bio-Innovations

What we need from national and international bodies is commitment to sustainable growth. Our ability to create value for our guests and for our host communities will hinge upon the management of the overall destination, including what is beyond our property line. Air pollution, oil spills at sea, and the health of the host ecosystem are topics wider than our resort property line, and require collective and aligned action between business, communities, and regulators.

Claire Chiang, Senior Vice President, Banyan Tree Holdings Ltd.

What qualities make an economy—or a region—resilient?

With global trade talks in idle, regional and bilateral trade negotiations are filling the void. These alternate pathways to deeper economic integration have stepped up notably in Asia Pacific. In 2012 alone, Trans-Pacific Partnership (TPP) negotiations expanded; negotiations commenced between China, Japan and Korea; and ASEAN set its plans for a Regional Comprehensive Economic Partnership (RCEP).

When it comes to trade deals, the default position of many CEOs has long been that '100 are better than none'. This still holds: the proliferating number of trade negotiation tracks in the region aren't dampening their enthusiasm for trade talks. Most CEOs (69%) believe the evolving trade paths create more opportunities even as one in five sees higher administrative costs or more complexities with operating across borders in Asia Pacific as a result.

The potential configurations for greater market access aren't easy for business leaders to follow. Yet the impact on economies could be sizable, particularly for the smaller developing economies in the region with fewer bilateral agreements already in place, such as Viet Nam.

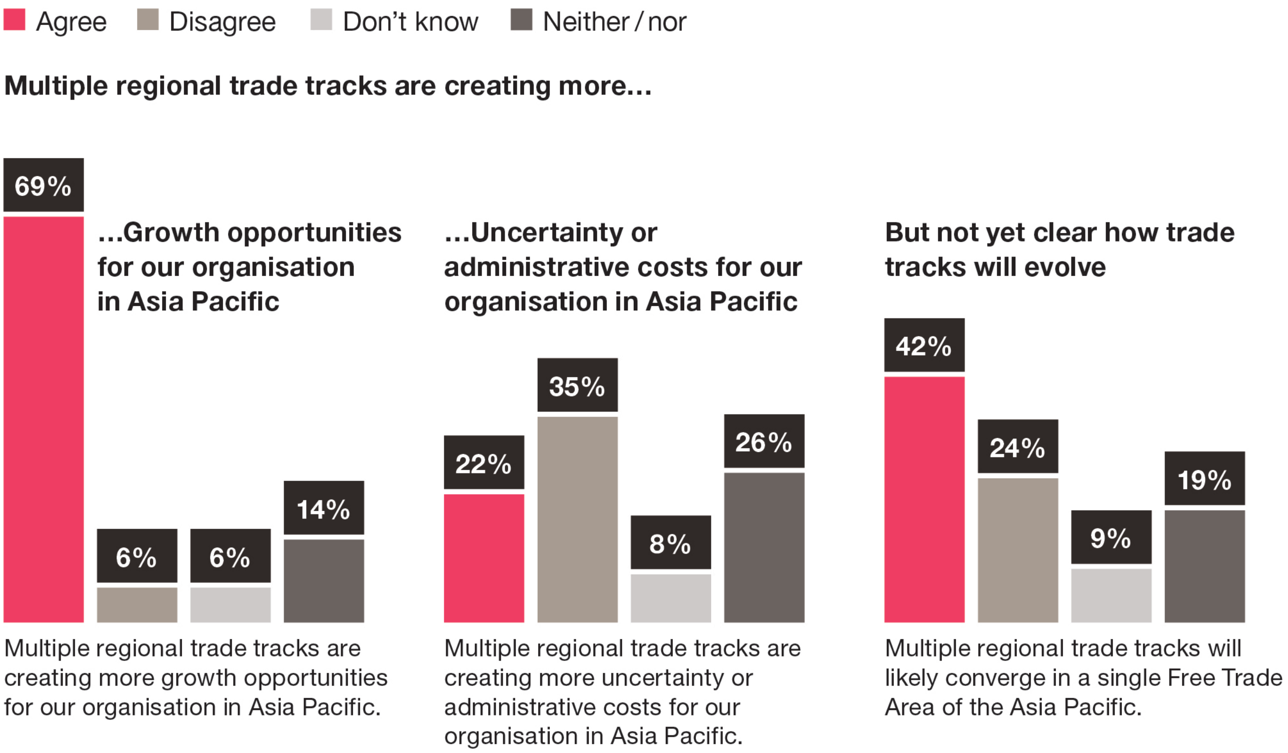
If any (or all) come to fruition, the largest gains in GDP would likely accrue to smaller ASEAN economies. Benefits would also increase as more economies join either the TPP or ASEAN tracks, a recent analysis on the TPP and RCEP negotiations shows.[7] Interestingly, China (a RCEP participant) and the US (TPP talks) stand to gain the least from these two major tracks. China and the US would likely benefit far more by greater access to each other's markets through a free trade pact that encompassed the entire region.

What's less clear to CEOs is whether today's evolving trade paths are a step towards APEC's goal of a region-wide free trade zone. A slight minority of those surveyed have strong views on either side of the issue. Most CEOs are in the middle. It's a question of timing and, at this point, no one is quite sure where today's multiple trade talk paths are headed.

7 Peter Petri, Michael Plummer and Fan Zhai, The Trans-Pacific Partnership and Asia Pacific Integration: A Quantitative Assessment 2012, amended to add Japan and Korea to the study as signatories in the following addendum: Peter Petri, Michael Plummer and Fan Zhai, Adding Japan and Korea to the TPP, 7 March 2013.

CEOs welcome momentum on Asia Pacific's many evolving trade negotiation tracks

Even as one in five believe costs, complexity for their business are rising as a result.



Source: PwC *2013 APEC CEO Survey*

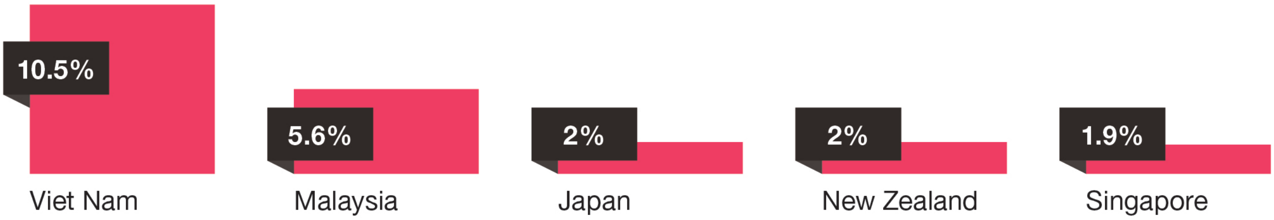
Q: To what extent do you agree or disagree… Multiple regional trade tracks are creating more growth opportunities for our organisation in Asia Pacific? Multiple regional trade tracks are creating more uncertainty or administrative costs for our organisation in Asia Pacific? Multiple regional trade tracks will likely converge in a single Free Trade Area of the Asia Pacific? | **Base:** 478 (excludes 'not applicable,' and 'no answer' responses)

Who benefits? Asia's potential trade paths

GDP percentage gains by 2025 above 'business-as-usual' baseline depending on the implementation of proposed trade paths.

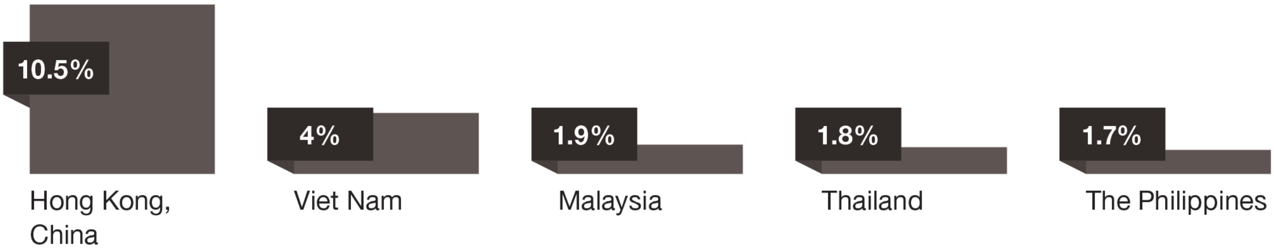
Trans-Pacific Partnership 12 Track

This path assumes TPP is successfully implemented with the following 12 economies: Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, US, and Viet Nam



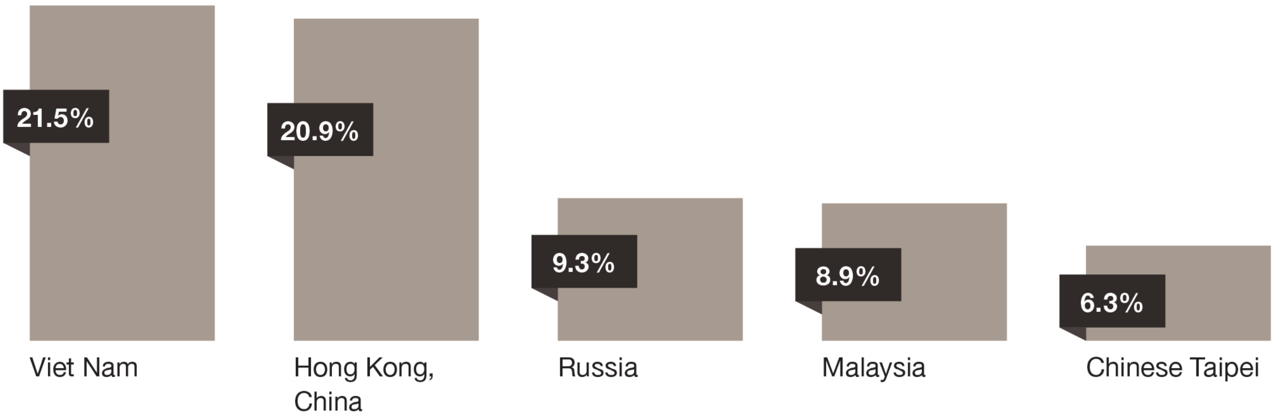
Asian Track

This path assumes Regional Comprehensive Economic Partnership is successfully implemented; RCEP includes 10 ASEAN nations plus Australia, China, India, Japan, New Zealand, and Korea



Free Trade Area of the Asia-Pacific Track

The FTAAP includes various bilateral trade pacts among all 21 APEC members



Source: The data included is based on studies in 'The Trans-Pacific Partnership and Asia-Pacific Integration: A Quantitative Assessment' by Peter A. Petri, Michael G. Plummer, and Fan Zhai, Peterson Institute for International Economics, 'Policy Analyses in International Economics No. 98,' November 2012. Please note that the authors amended the study to add Japan and Korea as signatories in the following addendum: 'Adding Japan and Korea to the TPP' by Peter A. Petri, Michael G. Plummer, and Fan Zhai. http://www.asiapacifictrade.org

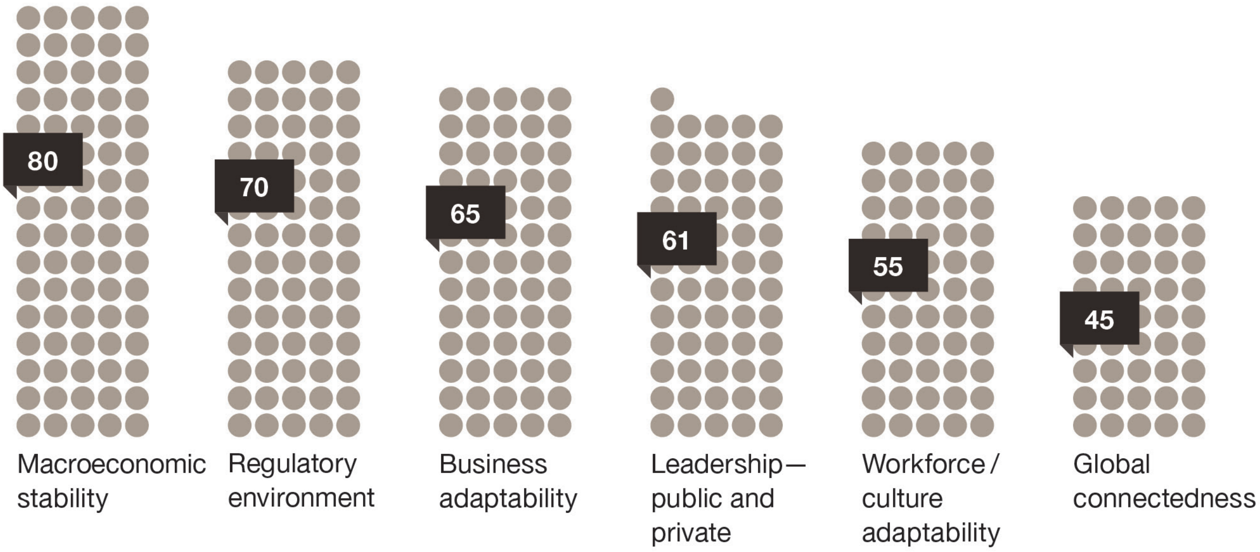
The development of cooperation between APEC economies is essential for our company and some of our projects, which are currently under discussion within METALLOINVEST and are aimed at tapping future growth within the region.

Eduard Potapov, Chief Executive Officer, Management Company METALLOINVEST LLC

What makes an economy or a region resilient?

Global connectedness seen as less important than other qualities that help an economy bounce back from disruption. Macroeconomic stability and regulatory consistency matter most for CEOs in Asia Pacific.

Mean ranked score of resilience qualities



Three models of resiliency

Economies CEOs think are best prepared to handle change

Source: PwC *2013 APEC CEO Survey*

Q: We'd like your view on what makes one economy more resilient for your business growth and operations. | **Base:** 478 (excludes 'not applicable,' 'don't know,' and 'no answer' responses)

Q: From the following list, please select the top 3 APEC economies which you consider to be the best prepared to capitalise on change and / or bounce back from disruption over the next 3–5 years. | **Base:** 478 (excludes 'not applicable,' 'don't know,' and 'no answer' responses)

Research methodology

This is the PwC *2013 APEC CEO Survey*.

We surveyed industry leaders from 11 June to 9 August 2013 for the PwC *2013 APEC CEO Survey*. We also conducted 20 in-depth interviews with CEOs and other top corporate officers and business specialists.

We used an online and paper methodology to achieve 478 valid responses from CEOs and industry leaders across 40 nations, including all 21 APEC economies. The 21 APEC member economies are: Australia, Brunei Darussalam, Canada, Chile, China; Hong Kong, China; Indonesia, Japan, Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, The Philippines, Russia, Singapore, Chinese Taipei, Thailand, US and Viet Nam. The questionnaire was translated from English into four languages: Bahasa Indonesia, Simplified Chinese, Japanese and Korean.

Responses to the survey were given in private and on an unattributable basis. In addition, we conducted in-depth face-to-face and on-camera interviews with business leaders. Insights from these interviews are quoted in this report, and video selections are available at www.pwc.com, as is further information on the data and the 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.

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Cover image

The Perahu Jukung or Jukung Boat, a traditional wooden boat widely used by the Balinese, has continued to adapt to its dynamic environment. Once a fisherman's tool and a means of transport, today it supports the vibrant local tourism equally well, bringing in income for community development and economic growth. Its ability to safely navigate the wind and waves has enabled its resilience to changing times.

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