

APEC Business Advisory Council Report to APEC Economic Leaders

Partnership, Resilience
Bridges to Growth

Indonesia 2013

APEC Member Economies

Australia
Brunei Darussalam
Canada
Chile
China
Hong Kong, China
Indonesia
Japan
Korea
Malaysia
Mexico
New Zealand
Papua New Guinea
Peru
Philippines
Russian Federation
Singapore
Chinese Taipei
Thailand
United States
Viet Nam



Batik, Indonesia's traditional wax-resistant fabric dyeing technique, evolved over centuries to become part of the economy's resilient cultural legacy. Different areas and traditions are associated with different motifs, ranging from classic patterns to modern and contemporary designs. Regardless of its provenance, all batik draws a common heritage and embodies deep meaning.

The beautiful and intricate Batik Parang motif (*cover*) is one of the most powerful patterns with its strong and continuous diagonal lines. It was worn by soldiers after a battle to communicate good news to their king.

**APEC Business Advisory Council
Report to APEC Economic Leaders**

2013



APEC Business Advisory Council





His Excellency

Dr. H. Susilo Bambang Yudhoyono

Chair, Asia-Pacific Economic Cooperation &
President of the Republic of Indonesia
Jakarta, Indonesia

Your Excellency:

We have the pleasure to convey to you our priorities and recommendations for 2013. Our theme this year is Partnership, Resilience and Building Bridges to Growth.

While economic conditions have improved this year, ABAC remains concerned over the continuing uncertainty that pervades the global economy, including volatile capital flows and unstable financial markets in the Asia-Pacific region. There is still much to be done to underpin the resilience and openness of our economies so that our region can become a more secure engine of global growth. We support APEC's multi-year commitment to a major infrastructure and connectivity agenda to strengthen growth and deepen regional integration. We believe that APEC should also develop a more ambitious agenda on trade, investment and services and continue to strengthen our financial markets to build foundations for more resilient and inclusive growth. We urge APEC Leaders to stand firmly behind the economic imperative of empowering women and unleashing their potential to achieve prosperity for all.

Major infrastructure investment across APEC is needed to sustain growth and to open new opportunities to integrate our economies into regional and global markets. APEC economies will not be able to fund the region's massive infrastructure deficits without private sector investment. We will need to utilize more APEC savings and develop more innovative financing arrangements. The lack of ready infrastructure projects and slow implementation of Public-Private Partnerships (PPPs) are a real concern to investors. ABAC is prepared to contribute to this effort through the development of an infrastructure investment checklist and through engagement with the Asia-Pacific Infrastructure Partnership (APIP). We remind Leaders of the availability of the expertise of APIP whose members stand ready to advise economies on all aspects of PPP development.

More liquid, integrated and stable financial markets are needed to underpin economic growth in the region. Last year, ABAC proposed the establishment of the Asia-Pacific Financial Forum (APFF) to serve as a regional platform for enhanced collaboration among regulators, officials, the financial industry and multilateral, standard-setting and capacity building bodies to enhance the development of the region's financial markets. We call on APEC economies to endorse the launch of APFF.

New financial solutions to address the credit gap for small, medium and micro-enterprises (SMMEs) are urgently needed. More than three quarters of SMMEs are underserved with a credit gap of US\$1.3 - \$1.6 trillion. ABAC calls on APEC to expand efforts to support SMMEs through the growth of non-bank lending instruments including angel and venture capital, facilitating remittance flows, promoting full-file and comprehensive credit information systems, and strengthening the legal and institutional architecture for secured lending.

New value chains, embodying increasingly higher levels of services and investment, are one of the most significant developments in the 21st century business landscape and in global connectivity. We believe that it is vital for APEC economies to respond to these developments by improving regulatory coherence at every stage of the value chain. The biggest gains for APEC economies will come from enhancing competitiveness in services through domestic regulatory reform, more openness to investment and by liberalizing cross-border trade in services. SMMEs stand to gain most from such reforms. Inefficient and highly priced services in many economies pose real constraints to growth and impede the

ability to compete effectively in international markets. ABAC also calls for further steps to reduce transaction costs and improve supply chain performance by at least 10% by 2015. We are certain that the adoption of common global data standards will help economies achieve this goal and we urge Leaders to direct Ministers to incorporate global data standards into their plans for enhancing supply chain connectivity.

In the face of shrinking global foreign direct investment (FDI), we encourage APEC Leaders to take the lead in ensuring that their economies remain open to cross-border investment and promote broad understanding of the benefits of FDI as a driver of sustainable growth and employment. We believe the increasing contribution of private sector-led sustainability and inclusive growth efforts should be acknowledged as part of promoting the benefits of investment. We further support APEC's work to explore ways that economies can promote job creation, competitiveness and economic inclusion without implementing protectionist measures such as local content requirements.

ABAC welcomes APEC's strategic, results-oriented roadmap on food security which aims to set up a food system structure by 2020. This will require significant public-private collaboration. We urge APEC Leaders to take concrete steps to ensure the roadmap's effective implementation.

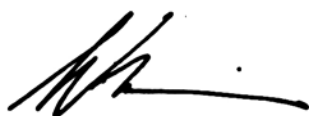
We welcome the proposed multi-year APEC Framework on Connectivity. We see this as a way to deepen regional integration to the benefit of business and our communities, even after attaining the Bogor Goals. We look forward to working closely with APEC on key priorities and implementation. The ultimate expression of regional connectivity will be the achievement of a Free Trade Area of the Asia-Pacific (FTAAP). ABAC is pleased with the progress in the leading pathways towards an FTAAP, namely the Trans Pacific Partnership, the Regional Comprehensive Economic Partnership and the Pacific Alliance. We encourage APEC economies in these negotiations to ensure that the agreements remain compatible with the ultimate goal of achieving an FTAAP and with the spirit of APEC cooperation and inclusion and deliver meaningful benefits for business.

ABAC remains committed to the World Trade Organization (WTO) as the cornerstone of the global trading system, despite the lack of progress in the Doha negotiations. We urge APEC to take the lead in garnering global support for achieving a meaningful package of deliverables at the 9th WTO Ministerial Conference in Bali in December, to build business confidence in the WTO and to pave the way for a successful conclusion of the Doha Round.

ABAC applauds Indonesia's success this year in bringing together APEC's trade and investment stream with the APEC Finance Ministers' process as a means to address our most pressing challenges. We encourage APEC to continue to build on these synergies. We appreciate APEC's openness to ABAC contributions and to the increasing interaction we have with Ministers and officials throughout the year.

We look forward to discussing these issues in greater detail with you and our APEC Leaders during our dialogue in Bali in October.

Yours sincerely,



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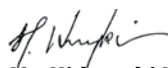


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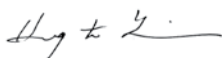

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Executive Summary

Executive Summary

The following is a summary of the key messages contained in this report:

■ **Accelerate trade and investment liberalization.**

ABAC continues to believe that the World Trade Organization (WTO) remains the cornerstone underpinning global and regional trade. However, to maintain confidence of the business sector in the WTO, it is vital that the 9th WTO Ministerial Conference in Bali in December 2013 agree to a tangible package of Doha-related decisions. ABAC urges APEC to show leadership in developing and promoting this Doha package as well as in supporting the conclusion of the WTO Information Technology Agreement expansion negotiations. APEC must also show the way to the global community by accelerating trade and investment liberalization in the region. ABAC calls for substantive progress to be made towards a Free Trade Area of the Asia-Pacific (FTAAP), including through the broadest possible participation in FTAAP initiatives. ABAC urges APEC economies to continue to engage in focused capacity building activities to address barriers to foreign direct investment (FDI) and to strengthen the implementation of good regulatory practices in order to reduce or eliminate barriers to free trade and investment. We further support APEC's work to address trade-distorting local content requirements by agreeing on alternative best practices to promote job creation and economic growth such as by creating an environment conducive to FDI with fair, predictable, transparent and unified regulations and tax systems. To ensure effective monitoring of progress towards the Bogor Goals, ABAC recommends that APEC undertake the APEC Dashboard exercise on an annual or bi-annual basis.

■ **Promoting regulatory coherence.** ABAC firmly believes that regulatory coherence strengthens and deepens regional economic integration, prevents barriers to trade from occurring, as well as leads to increases in trade and economic growth. A 2012 study by the Pacific Economic Cooperation Council (PECC) cited lack of transparency in regulations as the most pressing issue for Asia-Pacific free trade agreements, and lack of transparency in regulatory practices as the most serious challenges to doing business in the Asia-Pacific region. Modern supply chains are global; regulators must take into account that components are

sourced across the world. Inefficient regulations in just one economy can impact the entire supply chain and impose significant costs to business. For businesses, and in particular small, medium and micro-enterprises (SMMEs), higher compliance costs hinder international competitiveness and complicate the most efficient deployment of economic resources. ABAC encourages the exploration of additional good regulatory practices for implementation beyond 2013, including transparent and equitable implementation/enforcement of regulation as well as voluntary alternatives to regulation, in order to reduce or eliminate barriers to free trade and investment. The APEC Life Sciences Innovation Forum (LSIF) Regulatory Harmonization Steering Committee (RHSC) and APEC Harmonization Center (AHC) are examples of how APEC economies can create multi-year public-private partnerships and advance these vital regulatory issues and future trade flows through targeted sectoral regulatory reforms.

■ **Initiate the new services agenda.** Given the significant potential for growth and benefits to be had from trade in services, APEC economies should seek new opportunities to liberalize services trade and investment, starting with a commitment to improve the region's official statistics on services, removing regulatory barriers that exist behind-the-borders and addressing mobility issues. ABAC calls on APEC to complete and implement the APEC skills mapping project and encourage input into and uptake of the skills mapping tool by all APEC economies. ABAC encourages APEC economies to commit to full participation in, and the smooth operation of, the APEC Business Travel Card scheme, in particular by addressing the priority issues identified by business.

■ **Enhance supply chain connectivity.** ABAC applauds APEC's efforts to enhance competitiveness in the region by making it easier, cheaper and faster to conduct trade in goods and services across borders. To help meet APEC's 10% target for improving supply chain performance in terms of time, cost and uncertainty by 2015, ABAC urges APEC to advance the systematic approach to improving supply chain performance and undertake targeted, focused capacity building initiatives. ABAC encourages APEC to work with experts from multilateral institutions and the private sector, particularly in identifying the

best tools and methodologies that will help economies improve their supply chain performance. Due to the significant potential economic gains, ABAC sees a greater role for APEC in the leadership, governance and oversight of improving supply chain performance in the Asia-Pacific. Specifically, ABAC urges APEC to develop a region-wide framework for global data standards to target specific supply chain chokepoints.

- **Strengthen food security.** ABAC welcomes the development of a strategic, results-oriented roadmap to achieve the long-term goal of setting up a food system structure by 2020 sufficient to provide lasting food security to economies in the region. ABAC urges APEC Leaders to develop policies and to take concrete actions to ensure the roadmap's effective implementation, including by: facilitating the dissemination and absorption of food-related technology; enhancing collaboration and investment in R&D for sustainable agriculture; reducing food losses and increasing food safety through more effective use of cold chain technology, among others; eliminating export bans on food products and enhancing market access and eliminating non-tariff barriers to trade; enhancing supply chain connectivity for food, including through the use of global product data standards to increase the efficiency, transparency and safety of food trade; and facilitating and reducing the cost of private sector investment in food-related infrastructure.
- **Address energy security.** ABAC urges APEC economies to take further steps to address energy security, including by: creating a conducive legal and regulatory environment for trade and investment in the energy sector; facilitating the development of renewable energy infrastructure to meet green growth targets; expediting the identification and removal non-tariff barriers for environmental goods and services; and supporting the efficient regional trade of energy through transmission infrastructure and domestic and regional power grids. ABAC commends APEC for the groundbreaking agreement on the APEC List of Environmental Goods in 2012 and urges APEC economies to implement the agreed tariff reductions on the 54 items included in the list. ABAC encourages greater public-private partnership and dialogue on non-tariff measures in order to ensure that trade in environmental goods and services flows unimpeded.

- **Encourage infrastructure investment and development.** APEC economies need to take deliberate steps to evaluate and improve their ability to attract foreign direct investments in infrastructure. Inter-agency coordination is required to address the diverse areas of policy needed to facilitate successful infrastructure projects. Governments need to address barriers to private sector FDI and create an environment conducive to infrastructure finance, public-private partnerships and transparent government procurement processes. ABAC recommends that APEC establish a regional framework under a multi-year initiative to coordinate capacity building and sharing of best practices in infrastructure finance with the collaboration of the Asia-Pacific Infrastructure Partnership. ABAC encourages APEC economies to utilize its "Enablers of Infrastructure Investment Checklist" as a self-assessment tool as part of APEC's long-term work plan on the development of infrastructure.
- **Facilitate technology dissemination and innovation.** Numerous barriers exist that prevent businesses from bringing cutting-edge technologies and business processes to new markets through cross-border trade and investment. ABAC applauds APEC's work to implement the 14 non-discriminatory, market-driven innovation policies agreed to by APEC Leaders in 2011. ABAC is exploring the potential of an APEC Open Innovation Platform to facilitate the development and commercialization of cutting-edge technology intellectual property for SMMEs throughout the region. It urges APEC Leaders to enhance opportunities for SMMEs to benefit from the development and application of cutting-edge technologies by simplifying legal and regulatory barriers.
- **Foster the development of SMMEs.** ABAC urges APEC to adopt a comprehensive approach to foster SMME growth and development. New financing solutions are needed to close the credit gap for SMMEs in the region. According to the International Finance Corporation (IFC), at least 45% of formal SMMEs in emerging markets are unserved and 21% are underserved. Globally, the credit gap is roughly US\$1.3 - \$1.6 trillion. ABAC calls on APEC to expand the growth of both banking and non-bank lending instruments including angel, venture and seed capital funding; enhance remittance flows; support full-file credit bureaus, common accounting standards, and well considered financial regulations,

such as appropriate refinement to the Basel rules on risk weighting for trade finance to reflect its low risk feature. In addition, ABAC calls for policies that promote entrepreneurship and the creation of new businesses as well as policies that promote innovation and new forms of businesses. APEC economies should promote the use of internet technologies to enhance SMME access to international markets and to promote SMME growth. Capacity building initiatives such as APEC SME Summits are particularly helpful in this respect and we urge APEC economies to encourage and support the holding of such summits.

■ **Engage Women in the Economy.** Engaging women in the economy is a fundamental element of the inclusive growth that APEC strives to promote and is vital to future competitiveness. The United Nations estimates that various limitations on the economic participation of women cost the Asia-Pacific region US\$89 billion a year. The business community in particular has a vested interest in a diverse, skilled and engaged workforce. ABAC calls on APEC economies to take further steps to implement the key policy pillars of the San Francisco Declaration, in particular by promoting access to capital for women, improving women's ability to access markets, encouraging capacity and skill building programs, including science, technology, engineering and mathematics (STEM) education for women, and addressing barriers that discourage women from assuming leadership positions in the public and private sectors. Each APEC government should consider appointing at least one woman to ABAC.

■ **Accelerating regional financial market integration.** Following widespread support at the symposium held in Sydney for the concept and objectives of the Asia-Pacific Financial Forum (APFF), ABAC recommends that APEC economies endorse the launch of APFF, which would serve as a regional platform for enhanced collaboration among regulators, officials, the financial industry and multilateral, standard-setting and capacity building bodies in developing our region's financial markets. APFF can add value to ongoing initiatives under various

fora by bringing the private sector to work with public officials to identify crucial gaps not yet being addressed and unintended consequences of new regulations, as well as to help financial authorities take a more active role in shaping global financial regulatory standards.

■ **Mobilizing regional savings for long-term investments.** To enhance investment flows across the region, ABAC is supporting an initiative involving a three-year program to encourage greater predictability and transparency in investment decision-making. An aspect of the program is to encourage institutional savings held in sovereign wealth funds (SWFs), superannuation, insurance and others to be invested in domestic and cross-border long-term infrastructure projects that are economically viable and sustainable, subject to prudent investment principles. Open market investment principles require a competitive environment for all investors, including SWFs and state-owned enterprises (SOEs). Research is presently being undertaken on the project and a dialogue involving officials, business, academia and representatives of SWFs and SOEs will be convened in Beijing in September 2013. The outcomes and recommendations from the Beijing dialogue will be reported back to the Finance Ministers.

■ **Facilitating internationalization of emerging economies' currencies.** ABAC notes the development of emerging economies' currencies in trade and investment has captured the attention of the corporate sector and financial community worldwide. As these currencies become increasingly interwoven into the fabric of international finance and trade, it is important that the public and private sectors step back and take a holistic view of the internationalization of emerging economies' currencies, working in collaboration and avoiding unilateral actions that could disrupt the path towards sustainable growth. Harmonization and transparency are necessary attributes for emerging economies currencies to become truly international. Two main areas where concrete measures can be taken to promote continued growth are improving liquidity and operations.



Dep

Kirwa Nakya

BANDUNG

Main Report

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- A ABAC Letter to APEC Ministers Responsible for Trade (6 April 2013)

- B ABAC Letter to APEC SME Ministers (18 July 2013)

- C ABAC Letter to APEC Transportation Ministers (18 July 2013)

- D ABAC Letter to APEC Health Ministers (18 July 2013)

- E ABAC Letter to APEC Finance Ministers (2 August 2013)

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Main Report

I. Introduction

Global financial and market conditions in the region have improved notably on the back of deeper policy commitments, renewed monetary stimulus, and continued liquidity support through the first half of 2013. Despite reduced tail risks and enhanced confidence, global economic prospects remain subdued. The International Monetary Fund warns a three-speed global recovery, highlighting that the prolonged debt crisis in the euro area has spilled over and affected not only the peripheral but also several core economies. The World Bank revised down its global growth outlook, warning that the large developing economies will not experience the same boom as before and will have to focus on structural reforms to keep expanding. The recent volatility of capital flows and financial markets in the Asia-Pacific region is a cause for concern. Across the region, further policy actions are required to sustain continued economic recovery.

Against this background, ABAC adopted the theme “Partnership, Resilience and Bridges to Growth” which addressed the following priorities:

- deepening regional economic integration
- promoting infrastructure growth and sustainable development
- fostering small, medium and micro-enterprise (SMME) development and entrepreneurship
- promoting the development and integration of financial markets

ABAC believes that regional economic integration and the achievement of the Bogor Goals of free and open trade and investment remain critically important in addressing current challenges. In this report, we outline specific actions which APEC economies should take to deepen regional economic integration and promote resilience and sustained economic growth and recovery in the region.

II. Regional Economic Integration

Regional economic integration provides the means to deliver APEC’s hopes for economic recovery and growth, job creation and financial stability. ABAC has long championed the need

for deliberate steps towards regional economic integration and is encouraged by the progress that is being made. ABAC encourages APEC Leaders to ensure their economies stay on track with their Individual Action Plans (IAPs) in pursuit of the Bogor Goals. ABAC endorses the APEC Dashboard approach to monitoring progress towards the Bogor Goals but in order for it to be truly effective it cannot be a one-off exercise. ABAC would like to see the Dashboard exercise repeated regularly in the lead up to 2020. The IAPs would be improved by the adoption of a negative list approach to remaining barriers to liberalization and by addition of reporting on trade facilitation measures. We also welcome ongoing efforts by APEC to address key non-tariff measures (NTMs), as a critical aspect of its work to achieve the Bogor Goals.

Recommendations:

- Undertake on an annual or bi-annual basis until 2020 the APEC Policy Support Unit’s Dashboard exercise to ensure effective monitoring of progress towards the Bogor Goals.
- Adopt a negative list approach in the IAPs and incorporate reporting on trade facilitation.

A. Accelerating trade and investment liberalization

The goal of regional economic integration cannot be achieved without ongoing liberalization of trade and investment. APEC can play an important role in pursuing trade and investment liberalization on several tracks including the multilateral, regional, bilateral and unilateral levels.

ABAC continues to believe that the World Trade Organization (WTO) institution must be the cornerstone for underpinning global and regional trade. The rules-based trading system helps the world to resist protectionist pressures, and must be preserved. To maintain business confidence in the WTO, it is vital that the 9th WTO Ministerial Conference in December 2013 agree to a tangible “package” of Doha-related decisions. We urge APEC to show leadership in developing and promoting this Doha package and pushing it to a successful outcome so as to pave the way for the multilateral conclusion of the Doha Round in accordance with its mandate.

1. Enhancing pathways to the Free Trade Area of the Asia-Pacific

ABAC believes that a Free Trade Area of the Asia-Pacific (FTAAP) will provide the best mechanism for sustaining regional economic integration. We have been heartened by the progress made in the leading pathways towards an FTAAP – the Trans Pacific Partnership (TPP), the Regional Comprehensive Economic Partnership (RCEP) and the Pacific Alliance (PA). We encourage APEC economies involved in these sets of negotiations to ensure that the respective agreements remain compatible with the ultimate goal of achieving an FTAAP and the spirit of APEC-wide cooperation.

Recommendations:

- Ensure that substantive progress continues to be made towards an FTAAP as a means for achieving regional economic integration and the Bogor Goals of free and open trade and investment in the region.
- Urge the broadest possible participation in pathway to FTAAP initiatives among APEC economies that can meet the standards set for each agreement.

2. Attracting growth-producing foreign direct investment

With deeper economic integration and the rapid development of new value chains, a more complex business landscape is emerging in APEC, driven increasingly by foreign direct investment (FDI). FDI flows are a critical enabler of growth in the APEC region that creates substantial benefits for recipient economies such as the creation of more and higher value jobs, capital formation, dissemination of skills and technology and the development of infrastructure. In order to remain competitive, the APEC region will need to attract substantial flows of FDI through diligent efforts to improve its regulatory environment. ABAC applauds APEC's efforts to build capacity in the region through measures such as implementing the APEC Investment Facilitation Action Plan (IFAP).

We call upon APEC Ministers to take the lead in ensuring that their economies remain open for FDI and to increase their focus on ways of facilitating and encouraging further growth in FDI, while explaining the benefits of FDI as a driver of sustainable growth and employment for governments, businesses, and communities in economies receiving such investment.

Recommendations:

- Continue to engage officials and private sector experts in focused capacity building activities to address barriers to FDI.
- Take further measures to highlight the benefits of FDI to government, business and communities in recipient economies, enabled by business-friendly, fair, predictable, transparent and unified regulatory policies.
- Implement IFAP fully across all APEC economies.

3. Promoting good regulatory practices

ABAC firmly believes that consistent implementation of good regulatory practices (GRPs) by APEC economies strengthens and deepens regional economic integration, prevents barriers to trade from occurring, and helps increase trade and economic growth. GRPs are neither about less regulation nor about more regulation. GRPs improve the process by which economies develop regulations and best practices. The trade costs that result from divergent regulations are significant. For consumers, regulatory divergence is tantamount to a concealed "inefficiency tax" that citizens pay on everything they purchase. This tax is the sum of the costs of divergent regulations, cross-border administration delays and fees, and other regulatory impediments.

A 2012 study by the Pacific Economic Cooperation Council (PECC) cited lack of transparency in regulations as the most important issue for Asia-Pacific free trade agreements, and lack of transparency in regulatory practices as most serious challenges to doing business in the Asia-Pacific region. Regulatory impediments to business were also identified as a priority issue for APEC. Modern supply chains are global; regulators must take into account that components are sourced across the world. Substandard regulatory practices in just one economy can impact the entire supply chain and impose significant costs to business. For businesses, and in particular SMMEs, higher compliance costs hinder international competitiveness and complicate the most efficient deployment of economic resources.

Recommendations:

- Strengthen the implementation of GRPs identified by APEC Leaders in the Honolulu Declaration and encourage the exploration of additional GRPs for implementation beyond 2013, including transparent and equitable

implementation/enforcement of regulation as well as voluntary alternatives to regulation, in order to reduce or eliminate barriers to free trade and investment. Specifically, APEC economies should:

- Encourage regulators in APEC economies to use international standards as a reference for their domestic regulations and consider using performance-based rather than design-based regulations.
- Design regulatory institutions that promote trade-friendly regulations and increase domestic and regional coordination through strengthening internal (domestic) and regional cooperation as well as addressing unnecessary costs of regulation.
- Implement regulatory impact assessments to prevent discriminatory or protectionist practices, improve transparency, preclude multiple requirements, as well as decrease costliness of demonstrating compliance.
- Strengthen public-private cooperation through the use of public consultation mechanisms to enhance accountability, promote mutual learning, and encourage best practices. Encourage regulators in APEC economies to take comments from stakeholders on proposed regulations into account when developing regulations.
- Create fair and consistent enforcement mechanisms to promote transparency, equity, and stability.
- Improve efficiency by identifying alternatives to regulation that offer administrative simplicity, flexibility, efficiency, certainty and equity.
- Strengthen public-private cooperation on the development of best practices and capacity building to help APEC economies implement effective regulatory design which achieve intended regulatory objectives at the least cost to businesses, citizens, and government.
- Support sectoral public-private partnerships (PPPs) for addressing industry specific regulatory issues.
- Expand support for the APEC Life Sciences Innovation Forum (LSIF) Regulatory Harmonization Steering Committee (RHSC)'s efforts to achieve Regulatory Convergence for Medical Products by 2020.

- Support the establishment of an APEC Center of Excellence for Regulatory Sciences in Multi-Regional Clinical Trials.

4. Expanding the Information Technology Agreement

Since its launch in 1996, the Information Technology Agreement (ITA) has not been updated and, consequently, product coverage has not been expanded, though the same period has seen unprecedented technological innovation in the Information Communication and Technology (ICT) sector and a growing number of ITA participants. ABAC welcomes the leadership role of APEC in supporting the WTO ITA negotiations and its declaration in Vladivostok in 2012, followed by the APEC Ministers Responsible for Trade's statement in 2013, calling on ITA participants to swiftly conclude negotiations to expand the product coverage of the ITA by the middle of this year and seek expanded membership in the Agreement. ABAC strongly expects this final stage will lead to the completion of the negotiations as soon as possible.

Recommendation:

- Play a leadership role once again to support the completion of a commercially significant expansion of the ITA's product coverage to reflect dynamic technological developments and an increase in the number of participating members in the Agreement.

B. Pursuing the new services agenda

The pursuit of liberalized trade and investment in services remains one of ABAC's key priorities given the huge importance of the services sector to APEC economies. Trade in services has significant potential for growth. The WTO estimates that 50% of world trade will be in services by 2020. As was highlighted in the 2012 report "Trade in Services in the APEC Region" by the University of Southern California's Marshall School of Business, current levels of trade in services within the APEC region are surprisingly low, and the associated benefits of regional services trade are potentially being lost. In 2010, only 6 percent of total services produced within APEC were exported, compared with 63 percent of total goods.

Regulatory barriers continue to have a chilling effect on services trade. There are many examples where domestic standards and regulations have become non-tariff barriers for foreign services firms. The Marshall School report found that the cumulative impact of different regulations and standards across economies creates a level of heterogeneity

which raises transaction costs to levels that discourage trade. A 10% reduction in trade costs could result in US\$100 billion of additional services-related Gross Domestic Product (GDP) within APEC.

Recommendations:

- Seek new opportunities to liberalize services trade and investment including via the WTO and in regional trade agreements such as TPP and RCEP.
- Commit to improve the region's official statistics on services, in collaboration with relevant international organizations.
- Seek opportunities to remove regulatory barriers that exist behind-the-borders.
- Encourage trade and investment in the services sector by addressing labor mobility issues.

1. Promoting the efficient movement of temporary workers around the region

Trade in services will be enhanced if the movement of skilled labor around the region can be made more efficient. ABAC looks forward to seeing the final results of the APEC Skills Mapping project.

Recommendations:

- Complete and implement the APEC skills mapping project in order to create a pool of more readily available information on skills and labor shortages across the region.
- Encourage take up of the skills mapping tool by all APEC economies.

2. Improving business mobility

The APEC business community has long regarded the APEC Business Travel Card (ABTC) as one of the most significant and material business facilitation initiatives in the region. ABAC appreciates the APEC Business Mobility Group (BMG)'s and individual economies' continuing efforts to improve the operation of the ABTC. However, ABAC still encounters various difficulties. ABAC has identified those issues within the program that representatives of business feel are most important and on which it would like APEC economies to focus

on to ensure full participation in, and the smooth operation of, the ABTC program. ABAC urges APEC economies to address the priorities identified by business.

Recommendations:

- Encourage transitional economies to accelerate efforts towards complete membership in the program, including the actual issuance of cards.
- Urge APEC BMG to extend the validity period of ABTC from three (3) to five (5) years.
- Simplify the renewal/re-application process for current ABTC holders.
- Consider linking passport information with ABTC to avoid expiration of the card when holder's passport expires; otherwise, consider issuing a temporary card to cover the period between passport expiration and the issuance of the new card.
- Consider additional benefits for ABTC holders, e.g. expanding the area of usage of ABTC beyond APEC economies, especially to include the European Union.

C. Enhancing supply chain connectivity

ABAC applauds APEC's efforts to enhance competitiveness in the region by making it easier, cheaper and faster to conduct trade in goods and services across borders. A University of Southern California Marshall School of Business 2011 Report on APEC Supply Chains estimates that improvements in connectivity could save up to US \$1,307 and 5.6 days per container in transportation costs and time between APEC economies. A 2013 report by the World Economic Forum estimates that raising all countries' supply chain performance halfway to global best practices on border administration as well as transport and communications infrastructure would increase global GDP by approximately US \$2.6 trillion and exports by US \$1.6 trillion.

1. Promoting greater use of global data standards

The benefits of an efficient, reliable and secure global supply chain are tremendous for both the business sector and APEC economies as a whole. ABAC advocates greater use of global data standards to address supply chain connectivity and complexity challenges, such as a common global standard for pharmaceutical product serialization and verification. ABAC has identified a need for new forms of public-private partnership

to create more connected, efficient, safer and sustainable supply chains. ABAC has partnered with the GS1 not-for-profit organization to develop a regional framework for global data standards, starting with a number of capacity building activities in which global data standards are deployed to target specific supply chain chokepoints. ABAC believes this will help APEC to meet its 10% target for improving supply-chain performance in terms of time, cost and uncertainty by 2015.

Recommendations:

- Establish six pilots to build capacity and overcome supply chain chokepoints, as identified in APEC’s Supply Chain Connectivity Framework during 2013-2014.
 - Use the pilot results to develop a region-wide framework to facilitate a coherent deployment of global product data standards by December 2014.
2. Promoting a systematic approach to improving supply chain performance

Due to the significant potential economic gains, ABAC sees a greater APEC role in the leadership, governance and oversight of standardization initiatives within supply chains. ABAC supports the systematic approach to improving supply chain performance, starting with inventories of policies and best practices that APEC economies should have in place as part of the Supply Chain Connectivity Framework.

Recommendations:

- Complete inventories of policies and practices, and commence diagnostic reports to measure variances between existing domestic policies and regional best practices in order to guide the drafting and implementation of targeted capacity building plans.
- Engage with ABAC and the private sector as a source of expertise on targeted, focused, and economy-specific capacity initiatives that include relevant tools and methodologies that will help economies adopt the policies and best practices in the inventories and meet the APEC Leaders’ 10% improvement goal by 2015.

3. Achieving a balanced approach to trade security and facilitation

Facilitating a better trade environment is a key requirement for improving supply chain connectivity. Towards this goal, ABAC continues to advocate for a coordinated and holistic approach

to facilitating the development of a mutual recognition scheme for Authorized Economic Operator (AEO) programs in APEC economies alongside the APEC-wide AEO program. However, the challenge is how to address the specific security needs in recent customs environment with the other trade security programs in place, while strengthening procedures to facilitate the movement of goods across borders.

ABAC acknowledges the importance of the trade security feature of the AEO Program. However, ABAC believes that specific benefits should be granted for AEOs meeting minimum security requirements in order to further promote trade in the region.

Recommendations:

- Develop an AEO certification system for AEO-qualified corporations in economies where AEO programs do not exist and promote mutual recognition of AEOs.
- Encourage efforts to develop the APEC-wide AEO program’s mutual recognition scheme based on existing AEO programs designed for trade security and using common principles and application processes developed from the World Customs Organization (WCO) Framework of Standards to Secure and Facilitate Trade.
- Avoid redundancy with other supply chain security programs while balancing the need for trade facilitation and trade security.
- Explore ways to include benefits identified by ABAC in its 2011 recommendations to APEC Leaders in the AEO Action Plan.
- Waive pre-departure/pre-arrival data requirements by “24-hour rule” available in several economies and the “10+2 rule” as part of benefits granted to AEO-certified operators.

III. Sustainable Development

Sustainable development is a fundamental objective of APEC to achieve human prosperity and a healthy environment. In line with this objective, ABAC addressed the following themes in 2013: strengthening food security by overseeing the implementation of the APEC Policy Partnership on Food Security (PPFS) Action Plan for 2013; promoting blue economy growth and sustainability; promoting green growth by improving energy efficiency and facilitating trade

in environmental goods and services; facilitating technology dissemination by developing an effective approach, mechanism and platform; and accelerating infrastructure development by improving the investment environment.

A. Strengthening food security

This year, ABAC focused on strengthening food security by overseeing the implementation of the PPFS Action Plan for 2013. PPFS has developed a strategic, results-oriented roadmap to achieve the long-term goal of setting up a food system structure by 2020 sufficient to provide lasting food security to economies in the region. Successful implementation of the roadmap will require public-private collaboration and parallel cooperation action. ABAC urges APEC Leaders to develop policies and to take concrete actions to ensure the roadmap's effective implementation.

Recommendations:

- Facilitate the dissemination and absorption of food-related technology.
- Enhance collaboration and investment in R&D for sustainable agriculture.
- Reduce food losses and increase food safety through more effective use of cold chain technology and increasing awareness of food safety standards.
- Strengthen APEC's commitment to eliminate export bans on food products and enhance market access and eliminate non-tariff barriers to trade.
- Enhance supply chain connectivity for food, including through the use of global product data standards to increase the efficiency, transparency and safety of food trade.
- Facilitate and reduce the cost of private sector investment in food-related infrastructure.

B. Addressing energy security

ABAC urges APEC economies to take further steps to address energy security, including by: creating a conducive legal and regulatory environment for trade and investment in the energy sector; facilitating the development of renewable energy infrastructure to meet green growth targets; expediting the identification and removal non-tariff barriers for environmental goods and services; and supporting the efficient regional trade

of energy through transmission infrastructure and domestic and regional power grids. ABAC commends APEC for the groundbreaking agreement on the APEC List of Environmental Goods in 2012 and urges APEC economies to implement the agreed tariff reductions on the 54 items included in the list. ABAC encourages greater public-private partnership and dialogue on NTMs in order to ensure that trade in environmental goods and services flows unimpeded.

ABAC believes that APEC can complement existing energy security efforts, such as those in the East Asia Summit and ASEAN, by leveraging the existing work streams that are relevant to efforts to promote energy security. Further, the diversity of APEC economies in a range of issues, including states of development; economic growth rates; scale and mix of the primary energy resource; scale, mix and rate of growth of energy supply and demand; structure and ownership of the energy industry, and the nature of energy markets, especially with respect to energy pricing; and energy intensity and scale of carbon dioxide emissions make it well-placed to tackle energy security from a variety of perspectives. ABAC will examine the potential benefits of energy market integration in the region.

Recommendations:

- Create an energy connectivity framework that includes the following elements:
 - Identify how preferential trade agreements, particularly those under negotiation, and trade liberalization initiatives can be leveraged to promote energy security and energy diversification.
 - Leverage APEC's effectiveness in addressing trade facilitation issues.
 - Identify effective approaches to project financing, particularly for cross-border projects.
 - Improve energy-related infrastructure and promote the adoption of a legal and regulatory environment that promote infrastructure investment.
 - Monitor implementation of APEC political commitments related to energy, specifically on energy intensity and elimination of inefficient fossil fuel subsidies.

- Provide greater attention to policies to facilitate the development of renewable energy infrastructure to meet green growth targets.
- Adopt an accelerated timetable to implement the tariff reductions on the 54 EG items.
- Encourage public-private dialogue on Environmental Goods and Services to address NTMs impacting trade on these products.

C. Ensuring water security

Water is invaluable to human life. Yet, as population grows and urbanization expands, many in the region remain without access to improved water source. Enhancing water security is critical to sustainable growth and towards that end, ABAC recommends the actions outlined below, in addition to promoting public-private partnerships and establishing an APEC forum dedicated to water issues as proposed in its 2012 Report to APEC Economic Leaders.

Recommendations:

- Recognize that water conservation is the least expensive way of promoting water security.
- Promote the introduction of conservation-enhancing tariff schemes (i.e., volume-based rate for agricultural water use and punitive tariff rate to discourage excessive municipal water use); water conservation incentives; use of water-saving equipment and ICT, including policies designed to encourage their proliferation and to facilitate their trade; use of recycled water; and leak prevention technology.

D. Encouraging infrastructure investment and development

ABAC sees infrastructure investment as a critical element to sustainable and inclusive economic growth in the Asia-Pacific region. A recent report by McKinsey estimates that as much as US\$57 trillion in infrastructure investment will be required globally over the next 18 years to sustain economic growth. In order to compete globally for finite FDI flows, APEC economies will need to take deliberate steps to evaluate and improve their investment environments. As noted in ABAC's "Enablers of Infrastructure Investment Checklist", successful infrastructure investment outcomes are enabled by bringing together a diverse set of critical policy elements that require a

multi-disciplinary and inter-agency approach. Governments not only need to address barriers to private sector FDI but also effectively harness it through measures such as creating an environment conducive to infrastructure finance, emphasizing long-term planning and cooperation through PPPs and facilitating transparent government procurement processes.

Recommendations:

- Continue to create opportunities for multi-disciplinary public-private discussions on infrastructure that incorporate expertise in relevant areas such as Financing, PPP structures and FDI.
- Encourage economies to utilize ABAC's "Enablers of Infrastructure Investment Checklist" as a self-assessment tool as part of APEC's long-term work plan on the development of infrastructure.

E. Promoting transparency and efficiency in government procurement

Government procurement of goods and services, including essential public services such as clean water, education, healthcare, and infrastructure typically accounts for 10-15% of Gross Domestic Product (GDP) for developed economies, and up to as much as 20% of GDP for developing economies. This amounts to between US\$8-12 trillion annually on a global basis. Discriminatory and inefficient procurement practices can have a marked impact on international trade patterns. Elimination of government barriers will lead to a more efficient allocation of resources through increased competition, reduced opportunities for corruption, higher quality procurement and budgetary savings to government.

Recommendations:

- Ensure open, transparent bidding processes supported by consultations with the private sector.
- Provide effective mechanisms for resolving disputes relating to investment, government actions and other commercial matters, including private arbitration services and mechanisms for the enforcement of arbitral awards and the recognition and enforcement of overseas judgments and awards.
- Seek a provision requiring economies to create a review body independent of any procuring entity. An independent review body would dissuade

reservations regarding the dispute settlement process and increase transparency.

- Award contracts on the basis of objective criteria, such as lifecycle costing, which ensure compliance with the principles of transparency, non-discrimination and equal treatment and which guarantee that tenders are assessed in conditions of effective competition.
- Limit the qualification and screening of commercial operators to factors essential to performance of government procurement bids.
- Simplify international bidding on procurement contracts by making it easier for firms to identify potential cross-border contracts. APEC economies should identify a threshold, or level of purchase, which is subject to the rules governing procurement.

F. Promoting technology dissemination and innovation

ABAC has identified numerous barriers across APEC that prevent businesses from bringing cutting-edge technologies to new markets through cross-border trade and investment. To address these issues, ABAC welcomes APEC's work to assist economies in implementing the Leaders' 2011 commitment to promote effective, non-discriminatory and market-driven innovation policy. ABAC is also exploring the potential of an APEC Open Innovation Platform to facilitate the development and commercialization of cutting-edge technology intellectual property (IP) for SMMEs throughout the region. We encourage Leaders to enhance opportunities for SMMEs to benefit from the development and application of cutting-edge technologies by simplifying legal and regulatory barriers that prevent businesses from bringing technologies to new markets through cross-border trade and investment.

Recommendation:

- Continue to take concrete steps to implement the 14 non-discriminatory market-driven innovation policies endorsed by APEC Leaders in 2011.

IV. SMME & Entrepreneurship

SMMEs have a leading role in economic growth and development as they represent a crucial source of employment and innovation. However, there are still major barriers for

their sustained development and internationalization. This year, ABAC has prepared recommendations on what we have identified as impediments that SMMEs face in the APEC region. We hope these recommendations would help to promote the creation of new businesses, SMME internationalization, facilitate SMME access to finance and foster the participation of women and young entrepreneurs in business.

A. Promoting the creation of new businesses and new business models

Supporting the APEC Start-up Accelerator Initiative

APEC economies should promote innovation supporting start-up programs as a mechanism to create incentives for entrepreneurship development. In this regard, ABAC recommends pushing forward initiatives such as the APEC Start-up Accelerator (ASA) Initiative which is an event platform that strengthens SMME skills through mentorships from managerial, financial, and technical experts in the private sector. The Initiative builds on existing early stage APEC start-up programs and provides support for more matured start-ups in the global markets. The ASA Initiative is a public-private collaboration dedicated to the business development of APEC start-ups. The ASA Initiative was launched in Taipei in August 2013 and will rotate annually among participating APEC member economies.

Recommendations:

- Support the APEC Start-up Accelerator Initiative and promote the participation of public sector representatives and high-level experts in future start-up accelerator programs.
- Create an enabling environment to promote SMME innovation.
- Support domestic start-up programs.

B. Promoting the sustainability of businesses, in particular in access to finance

Addressing the financing gap for SMMEs

New financing solutions are needed to close the credit gap for SMMEs in the region. According to the International Finance Corporation (IFC), at least 45% of formal SMMEs in emerging markets are unserved and 21% are underserved. Globally, the credit gap is roughly US\$1.3 - \$1.6 trillion. ABAC urges

a comprehensive approach which includes both banking and non-banking instruments to close this gap. To this end, ABAC will develop an APEC Framework for SMME Financing which includes recommendations on angel and seed funding, venture capital, bank lending, collaboration between large corporations and SMMEs, government support policies, and capital market developments.

(a) Debt lending

Many APEC economies lack simple, transparent systems for filing security interests in collateral, and in searching the availability of prior interests. APEC should promote and implement reforms to ensure a clear legal infrastructure for lending. Credit information systems are also often limited to negative information and segmented, not reflecting a borrower's full credit file. Fully transparent credit information systems will create incentive for lenders to significantly expand more affordable credit to SMMEs in the region. When this activity takes place across international boundaries, it is important that economies work together to ensure regulatory regimes do not hinder cross-border credit information flows.

Recommendations:

- Support dialogue on International Financial Reporting Standards (IFRS) as part of the proposed Asia-Pacific Financial Forum (APFF) to align IFRS principles with the interests of SMMEs.
- Follow up on G20 and Basel III and ensure that these issues do not have a negative impact on the availability of trade finance, cost of finance, and the behavior of the banking sector in lending for SMMEs.
- Develop promotion policies to get a wider range of non-bank financial institutions. These companies can minimize the danger of overburdening the banking system and play an important role in lending to higher risk credits such as SMMEs.

(b) Equity financing

Equity financing can support business activities across various stages of innovation. The overall financing ecosystem includes angel and venture capital in the early stages, progressing to bank and trade financing as companies emerge. An effective overall ecosystem can play an important role in the development of local, regional and global innovation; however, angel and venture capital frameworks are at present relatively

underdeveloped in most APEC economies. Developed venture ecosystems have established funds specializing in the various sectors of the economy and technological innovation critical for driving innovation and technological progress.

Evidence suggests that sustainable angel and venture capital could considerably benefit from close cooperation between government and the private sector, along with government support in seeding the development of a private sector-led venture capital ecosystem that can then specialize in the key economic sectors and technological innovations needed in the APEC region.

Recommendation:

- Develop government-encouraged funds-of-funds within APEC for seeding and growing a private sector-led angel and venture capital ecosystem in the region and that interested economies and multilateral institutions collaborate with ABAC and interested private sector firms to initiate this process.

C. Facilitating the use of information technology to empower SMME access to international markets

Developing "All in one" electronic Supply Chain Financing platforms

ABAC considers it important to promote existing ICT platforms to bring SMMEs closer to international markets, and enable their access to more competitive prices. Nowadays, e-commerce plays a crucial role for SMME growth and internationalization, with lower transaction costs than traditional mechanisms. However, compared with traditional trading, there are fewer trade financing solutions available for SMMEs in the finance market. Moreover, existing solutions are not tailored to support the online trading methods taking place on e-marketplaces. There is large scope for financial institutions to collaborate with e-marketplaces to drive trade financing innovation; this will greatly benefit SMME development and further drive the adoption of e-commerce.

From our discussions on e-commerce, we have found that controlling the flow of trade information from end-to-end (production to logistics) would allow us to further improve SMME trade financing practices. Traditional trade financing requires high credit history and extensive order delivery information and documentation. These requirements are not suitable for most of SMMEs and could be avoided by using an integrated platform for Supply Chain Financing. We call this an "All in one" solution.

Recommendations:

- Facilitate the development of “All in one” electronic Supply Chain Financing platforms.
- Promote the development of ICT platforms, such as the APEC Next Generation Interactive Tariff Database and the Services Trade Access Requirements (STAR) Database, to help SMMEs take advantage of export opportunities.

D. Supporting SME Summits

ABAC has been supporting the development and holding of SME Summits since 2007. APEC SME Summits have turned into an efficient tool for education, exchange of best practices and contribute to policy decision-making. This year, five SME Summits were held in Manila, Philippines (20 January); Singapore (3 April); Kyoto, Japan (8 July); Lima, Peru (27 August), and Bali, Indonesia (5 October). ABAC will share the recommendations of these summits with APEC officials in due course.

Recommendations:

- Promote organization of more SME Summits.
- Follow up on the topics and recommendations of the different APEC SME Summits.

E. Promoting the participation of women and young people in business

For many years, we have witnessed the major role played by women in our economies. In both public and private sectors, female representatives are leading major reforms and contributing to the growth and sustained development of APEC economies. Because of this, ABAC has decided to prepare a Report on Women and the Economy as an efficient way to convey the interests of the business community to leaders and policy makers. This Report, which will be presented at the APEC CEO Summit in Bali, covers fundamental issues such as: APEC’s potential to contribute to the policy discussion; the need to collect economic data and measure performance; the impact of encouraging women to pursue science, technology, engineering and mathematics (STEM) education; factors that promote success for SMMEs owned by women; and steps companies can take to facilitate a diverse workforce.

Young people are a crucial source of innovation and entrepreneurship and, given the way business is being conducted in this modern and globalized world, they will

certainly continue to contribute innovative ideas which should help our economies achieve sustained economic growth and prosperity. ABAC supported the organization of the second APEC Young Entrepreneurs’ Summit (YES) in China in May 2013. Under the theme “Care, Share, Inspire”, it sought to brief young entrepreneurs on useful tools for their businesses’ development and to share successful entrepreneurs’ testimonies with them.

Recommendations:

- Support the recommendations of the Report on Women and the Economy.
- Lead by example by committing to appoint at least one woman member to ABAC per economy.

F. Implementing voluntary codes of ethical business practice for SMMEs

ABAC applauds APEC’s continued efforts to strengthen ethical standards for business conduct through implementation of APEC principles for voluntary codes of business ethics in sectors of export interest to SMMEs. Three sets of APEC principles were developed on a public-private partnership basis in 2011 for the medical device sector (The Kuala Lumpur Principles), the biopharmaceutical sector (The Mexico City Principles) and the construction and engineering sector (The Hanoi Principles). ABAC welcomed the endorsement of these principles by APEC Leaders, Ministers, and SME Ministers and is encouraged by industry’s progress to develop and implement codes of ethics aligned with APEC principles. ABAC applauds all 21 APEC economies for contributing to this multi-year APEC SME Working Group initiative that, in 2013, will expand the number of ethics champions and compliance trainers for all three sectors as well as build awareness among key healthcare stakeholders in support of the KL and Mexico City principles.

Recommendations:

- Urge government regulatory and anti-corruption authorities, as well as relevant professional organizations (i.e., hospital, physician groups, industry associations) to advance ethical collaborations consistent with the APEC principles.
- Support the enforcement of these principles through effective anti-corruption legislation or regulation.
- Institutionalize the “Business Ethics for APEC SMEs Initiative” and consider the creation of a permanent forum

to deliver ongoing capacity building, share best practices, support additional sectors interested in developing codes of ethics, and identify new and emerging ethical issues.

V. Finance & Economics

This year, ABAC has prioritized the following finance-related objectives: launching APFF to assist in developing regional financial market integration and in harmonizing and optimizing regulations; developing strategies to achieve balanced and innovative growth and stronger financial market integration; promoting public-private partnership and infrastructure finance; and promoting practical solutions to encourage financial inclusion to benefit low-income households and SMEs.

A. Launching the Asia-Pacific Financial Forum

In 2012, APEC Finance Ministers welcomed ABAC's proposal to explore the creation of an APFF, a regional platform for public-private collaboration to help accelerate the development of integrated financial markets. A symposium was co-organized by ABAC and hosted by the Australian Government in Sydney for this purpose in April 2013. The Symposium was attended by 98 representatives from public and private sectors across APEC and concluded with wide support for the concept and objectives of APFF, underscoring the importance of such collaboration in promoting financial market development to support the needs of the real economy and regional aspirations for sustained, balanced, inclusive and innovative growth. APFF can add value to ongoing initiatives under various fora by bringing the private sector to work with public officials to identify crucial gaps not yet currently being addressed and unintended consequences of new regulations, as well as to help financial authorities take a more active role in shaping global financial regulatory standards.

Recommendation:

- Endorse the launch of APFF based on the work program priorities proposed in the report of the Sydney Symposium.

B. Promoting strategies to achieve balanced and innovative growth and stronger financial integration

1. Mobilizing regional savings for long-term investments

Sovereign wealth funds (SWFs) are growing in size world-wide, although relatively small in terms of total global financial

assets, they exist in a number of APEC economies, including: Australia; Russia; Brunei; USA; Canada; Malaysia; Singapore; China; Hong Kong, China; Korea; Chinese Taipei; and Chile.

Transparency about the operations of SWFs is often obscure and there is uncertainty about accountability. Some funds are invested on strategic grounds, as distinct from commercial investments; this is the cause of uncertainty in decision-making on potential investment by some recipient economies. Open market investment principles require a competitive environment for all investors, including SWFs and state-owned enterprises (SOEs). APEC's Investment Action Plan calls for greater transparency in decision-making around investment and improved dialogue between governments and businesses, including SWFs and SOEs.

To enhance investment flows across the region, ABAC is supporting an initiative involving a three-year program to encourage greater predictability and transparency in investment decision-making. An aspect of the program is to encourage institutional savings held in SWFs, superannuation, insurance and other vehicles to be invested in domestic and cross-border long-term infrastructure projects, subject to prudent investment principles. Research is presently being undertaken on the project and a dialogue involving officials, business, academia and representatives of SWFs and SOEs will be convened in Beijing in September 2013. The outcomes and recommendations from the Beijing dialogue will be reported back to the Finance Ministers.

Recommendation:

- Endorse this three-year initiative to enhance decision-making, transparency and predictability to promote investment flows in the region and to promote a framework aimed at mobilizing institutional savings to be invested in domestic and cross-border long-term infrastructure investments that are economically viable and sustainable, in a transparent and market-based manner.

2. Promoting Asia-Latin America financial cooperation and integration

Intra-regional collaboration is crucial for promoting trade among APEC economies. However, ABAC needs to consider the differences in levels of development between each of the sub-regions, even as we encourage progress towards the FTAAP through various pathways, including TPP, RCEP and the recently established Pacific Alliance.

Focusing on Asia-Latin America sub-regional collaboration from the view of the Pacific Alliance, Trans-Pacific economic ties between Asia and Latin America have deepened. Trade between both sides has steadily increased, mainly in terms of commodity-for-manufactured goods. Compared with the economic ties between other sub-regions, the collaboration and linkage of these two markets still needs to be developed further with respect to trade in goods and services, investment and capital and financial market transactions.

ABAC notes the necessity of enhancing regional financial integration by expanding collaboration between Latin America and Asia. Unless addressed, the underdevelopment of this collaboration will pose a constraint to future growth.

Recommendations:

- Encourage closer economic ties between Latin America and Asia and enhanced policy coordination.
- Develop trade finance programs between Asia and Latin America through collaboration with institutions such as the Asian Development Bank and the Inter-American Development Bank.

3. Mitigating the unintended consequences of new financial regulations

ABAC understands the importance of sound financial regulation in maintaining sustainable growth and stable financial systems. We note, however, that given the high-level of connectivity among today's markets, the extraterritorial impact of financial regulations can spread quickly, deeply and extensively across multiple financial markets.

Although ABAC has issued letters to relevant authorities highlighting the unintended consequences of new financial regulations last year, we have become increasingly concerned about the serious extraterritorial impact of new financial regulations being introduced in certain jurisdictions on market activities in the rest of the world.

We believe this to be particularly the case in the Asia-Pacific region, where the impact of such regulations on investment may hinder the prospects of its further development as a much-needed engine of growth for the global economy at this critical point in time. We are still urging the relevant authorities to address these concerns, and sent letters highlighting the following issues to APEC Finance Ministers, G20 and the Basel Committee on Banking Supervision in May 2013:

- In relation to the potential negative impact on other markets of the US Dodd-Frank Act and the EU Financial Transaction Tax, ABAC urged relevant authorities to collaborate with each other in addressing their cross-border and extraterritorial effects.
- Given the current unstable and uncertain economic circumstances, ABAC recommended careful consideration of new financial regulations to address their negative effects on trade finance.

Recommendations:

- Undertake regular global dialogues on financial regulatory and supervisory policy and support a global minimum regulatory standard, which would allow domestic authorities in the region flexibility in dealing with particular domestic circumstances.
- Consider the potential negative impact of Basel III on the availability and cost of trade finance and bank lending to SMMEs. Review the risk of Loss Given Default (LGD) and the specific impact of the regulation on SMMEs.
- Take appropriate measures to ensure that financial regulations facilitate SMMEs' access to trade finance.

4. Facilitating the internationalization of emerging economies' currencies

With emerging economies' growing economic importance, their currencies will play more important roles in global and regional markets, particularly for trade settlement and investment. Promoting the internationalization of their currencies could help accelerate financial and economic development in the region, reduce foreign exchange risks, and contribute to economic growth and recovery.

From the perspective that harmonization and transparency are necessary attributes for emerging economies' currencies to become truly international, two main areas where concrete measures can be adopted for promoting continued growth are improving liquidity and operations.

Recommendations:

- Promote the expanded role of emerging economies' currencies in trade and investment flows.

- Consider the following measures to improve liquidity and operations:

Liquidity:

- Ensure a consistent definition of eligible trades, with greater transparency and flexibility on the eligibility to conduct foreign exchange transactions at on-shore or off-shore rates.
- Encourage more and greater cross-currency swap lines.
- Harmonize reporting, recordkeeping and settlement procedures
- Improve the fungibility of liquidity pools.

Operations:

- Enhance straight-through-processing.
- Adopt enhanced platforms for longer operating hours to cover various time zones and lower the amount and cost of liquidity required to support the transactions.
- Ensure that the needed market infrastructure is in place, in conjunction with global standardization, efficiency and a faster clearing and settlement system.

5. International Financial Reporting Standards

The global proliferation of IFRS has been one of the biggest single developments in accounting over the past decade. In ABAC's 2010, 2011, and 2012 Report to APEC Economic Leaders, we expressed our strong support for the adoption of IFRS throughout the APEC region as part of APEC's goal of encouraging regulatory coherence and of promoting regional economic integration. The introduction of robust and common accounting brings with it the potential to enhance development of capital markets in the APEC region, improve financial transparency and market certainty as well as to promote sustainable economic growth and increase cross-border trade. IFRS is an important means of converging financial standards, regulations and practices as well as shaping global financial regulatory reforms in support of the region's financial development goals. These objectives constitute a core component of the proposed APFF, which

will enhance regional public-private collaboration with the aim of helping the region develop sound, efficient and integrated financial markets.

However, ABAC has consistently voiced concerns that some of the newly-proposed accounting standards may result in potential negative business and economic impact. ABAC has noted that the improper implementation of IFRS in lease accounting will reduce the ability of businesses, particularly SMMEs, to access funding. ABAC is also concerned that IFRS for insurance contracts will subject insurance companies in the region to possible negative impacts, including non-economic volatility in earnings and shareholder equity along with a lack of transparency in the reported results of insurance companies in the region. Finally, harmonized international standards for reporting revenue are in need of improvement, and as a result, regulatory bodies are attempting to clarify principles for recognizing revenue from contracts with customers. ABAC is concerned that replacing all of the existing industry-specific guidance with a single general principle will fail to address many unique, industry-specific matters and this is a significant step away from these rules. ABAC has an obligation to underscore at a policy level that financial regulatory standards be implemented in a way that does not impair APEC's overarching themes of Inclusive Growth.

Recommendations:

- Establish a task force to study the smooth introduction of IFRS to ensure appropriate communication among the International Accounting Standards Board (IASB), the Financial Accounting Standards Board (FASB), APEC and ABAC and undertake an impact study on certain provisions, such as those related to lease financing and insurance contracts, and make suitable adjustments to avoid negative business and economic impact.
- Support a dialogue between business groups and IASB/FASB as part of the proposed APFF on ways that would align IFRS principles with the interests of SMMEs and other business groups, such as insurance companies, that will be affected.

C. Promoting public-private partnership and infrastructure finance

Public-private partnerships have significant potential to help finance the region's enormous infrastructure needs, as well as to improve the quality and lower the costs of services. This requires the right environment, however, and despite

continuing improvements in infrastructure-related policies, key constraints remain in many economies. These include lack of capital market depth, lack of good quality projects, inadequate regulatory frameworks and the need for better understanding of allocating various types of risk between public and private sectors.

Structures enabling parties to frankly and objectively discuss the complex matters involved can help create conducive environments for successful PPPs. In 2010, ABAC initiated the Asia-Pacific Infrastructure Partnership (APIP), bringing together high-level officials, experts from multilateral bodies and private sector panelists actively involved in infrastructure projects from a wide range of relevant fields. Since its establishment, APIP has held dialogues with six economies (Mexico, Peru, Philippines, Vietnam, Indonesia and Thailand) and actively participated in five regional forums.

Dialogues with several economies undertaken by APIP have highlighted key elements: coordination and collaboration among agencies; deeper understanding of risks and which parties are best positioned to assume each of them; strong, credible and creditworthy public institutions; capacity for policy reforms, planning, transactions and viability gap finance; clearly communicating priority sectors and projects; and long-term local currency finance.

Recommendation:

- Establish a regional framework under a multi-year initiative to coordinate capacity building and sharing of best practices in infrastructure finance, with the collaboration of APIP.

D. Promoting practical solutions to financial inclusion

Harnessing innovation to advance financial inclusion

The past two decades have seen an expansion of financial inclusion driven by the adoption of innovations and new technologies that have significantly reduced the costs and increased the efficiency of offering financial services to low-income households, traditionally unbanked or under-banked individuals, and SMMEs.

During the past few years, the development of mobile and branchless banking, improvements in credit information systems and risk analytics, and improvement in electronic data security have made considerable progress in developing economies. This has enabled a growing number of such

households and enterprises to gain access to finance, and has expanded the prospects of improving people's standard of living and increasing the opportunities for economic growth.

In order to continuously promote financial inclusion, ABAC co-organized the 2013 Asia-Pacific Financial Inclusion Forum in Batam, Indonesia. This ongoing forum is designed to promote best practices sharing for policy, regulatory and supervisory agencies, and will enhance institutional capacities in the public and private sectors to continuously promote financial inclusion in the region's banking and securities systems.

Recommendations:

- Commit to policy reforms to facilitate the delivery of mobile and branchless banking and remittances.
- Improve the market infrastructure, particularly payment and credit reporting systems and secured lending frameworks.
- Undertake capacity building to promote innovative approaches and effective financial education and consumer protection regimes.

VI. Industry Dialogues

A. APEC Life Sciences Innovation Forum

ABAC welcomes Indonesia's decision to organize a High-Level Meeting on Health and the Economy as a joint initiative of the APEC Life Sciences Innovation Forum and the APEC Health Working Group, and applauds the inclusion of finance ministers in the discussion along with industry leaders and health ministers. As employers, the business community has an interest in a healthy and productive work force. High impact investments by governments and business in prevention and wellness, early diagnosis, early intervention and disease management will help ensure that the APEC region remains competitive.

ABAC supports APEC's decision to prioritize efforts to prevent counterfeit and substandard products from entering distribution by promoting supply chain integrity and measures to ensure access to safe medicines. Putting in place a supply chain product verification system to guard against falsified, fake and substandard medicines is critical to assuring the safety and efficacy of medical products in the supply chain. In that regard, ABAC urges Leaders to encourage APEC

economies to adopt a global standard for product verification; welcomes the planned cooperation between APEC medical product regulators, industry and INTERPOL (International Criminal Police Organization) on ways to promote information sharing along the supply chain from a secure database; and strongly supports cooperative efforts by industry, law enforcement officials, and regulators to shut down illegal internet pharmacies, which are responsible for the distribution of substandard, fake, falsified and counterfeit medicines to consumers. ABAC also supports an urgent focus by economies on policies that would result in the reduction and eventual elimination of health care associated infections, which create significant health care cost escalations along with increases in disability and death.

APEC applauds ongoing efforts and new initiatives in LSIF, including the “Principles for Developing the Health and Life Sciences Sector in APEC Economies” to address barriers to investment and further promote innovation in the health and life sciences sector. Measures to address barriers to FDI, including through government self-assessments, promoting public-private research collaboration and the creation of a regulatory environment that incentivizes and leverages innovation in the Life Sciences sector, will be vital to ensuring that APEC economies are able to both attract sufficient FDI and leverage new technologies to create positive economic and health outcomes.

B. APEC Chemical Dialogue

With the rapid expansion of overlapping bilateral, regional and international trade agreements increasingly affecting

the daily operation of globalized chemical supply chains, the Chemical Dialogue’s prominent role as a forum to convene regulators and industry from across the region has never been more important. ABAC supports the Chemical Dialogue’s continued leadership in promoting and enhancing regulatory cooperation within the Asia-Pacific region by serving as a forum for economies and industry to collaboratively identify, manage and mitigate any unnecessary divergences. Diverging regulatory oversight of chemicals is increasingly imposing costs on both the chemicals sector and on downstream industries, such as electronics, aviation and health, including on the implementation of the Globally Harmonized System for Classification and Labeling of Chemicals (GHS). ABAC applauds the implementation of the GHS, promotion of regulatory convergence through the Best Practice Principles for Chemical Regulation and the formation of the Regulator’s Forum, a dedicated working group focused on promoting Regulatory Convergence and Cooperation.

VII. Conclusion

This report has sought to outline ABAC’s priorities and recommendations for 2013, which are aimed at deepening regional economic integration and promoting resilience and sustained economic growth and recovery in the region. It augments and reinforces the contributions already made by ABAC through stepped up interaction and engagement with the various sectoral ministerials, Senior Officials and APEC fora/sub-fora. ABAC hopes that APEC Leaders, Ministers and officials would find the recommendations useful as they map out APEC’s strategies for 2014 and beyond.



Annexes



APEC Business Advisory Council



6 April 2013

His Excellency

Mr. Gita Irawan Wirjawan

Chair, Meeting of APEC Ministers Responsible for Trade
Minister of Trade
Indonesia

Dear Minister Wirjawan:

On behalf of the APEC Business Advisory Council (ABAC), I am pleased to share with you and your fellow APEC Ministers Responsible for Trade (MRT) some of our priorities and initial recommendations as we prepare to report to APEC Leaders later in the year.

Our recommendations are made against the backdrop of a global economy that remains fragile. And while global growth is expected to strengthen gradually in 2013 as the constraints on economic activity start to ease, we expect the recovery to be slow. This highlights the need for policies to bolster and sustain growth in the APEC region.

This year, we have adopted the theme “Partnership, Resilience and Building Bridges to Growth”. Our priorities are to deepen regional economic integration, promote infrastructure growth and sustainable development, foster small, medium and micro-enterprise (SMME) development and entrepreneurship, and promote the development and integration of financial markets. With these priorities, we believe that APEC should stay the course on its path of regional economic integration in response to these economic and financial challenges.

ABAC continues to believe that the World Trade Organization (WTO) must be the cornerstone for underpinning global trade and the regional economic integration of APEC. To maintain business confidence in the WTO, it is vital that the 9th WTO Ministerial Conference in December 2013 agree to a tangible “package” of Doha-related decisions. We urge APEC Ministers Responsible for Trade, led by Indonesia as host of both WTO and MRT meetings this year, to take the lead in developing this Doha package and pushing it to a successful outcome so as to pave the way for the multilateral conclusion of the Doha Round in accordance with its mandate. In the lead up to the WTO Ministerial Conference, ABAC will continue to support APEC Ministers with global and regional advocacy on the primacy of the WTO’s rules- based mechanism.

Over the long-term, ABAC believes that a Free Trade Area of the Asia-Pacific (FTAAP) provides the best mechanism for sustaining regional economic integration. We have been heartened by the progress made in the leading pathways to FTAAP – the Trans Pacific Partnership and the Regional Comprehensive Economic Partnership and also by the emerging Pacific Alliance. We encourage Ministers involved in these sets of negotiations to ensure that the respective agreements remain compatible with the ultimate goal of achieving an FTAAP and the spirit of APEC-wide cooperation.

With deeper economic integration and the rapid development of new value chains, a more complex business landscape is emerging in APEC, driven increasingly by foreign direct investment (FDI). This holds great opportunity for stronger regional growth and higher value jobs. We urge APEC Ministers to increase their focus on ways of facilitating and encouraging further growth in FDI, while convincing public stakeholders that openness to FDI brings important benefits for government, business and communities in the economies receiving such investment. We call upon Ministers to take the lead in ensuring that their economies remain open for FDI while explaining the benefits of FDI as a driver of sustainable growth and employment. We further support APEC’s work to explore ways by which economies can promote job creation and economic growth without implementing protectionist measures such as local content requirements. For our part, we are developing recommendations on reducing barriers to FDI growth and on improving public perceptions of FDI, to share with APEC Leaders later this year.

The services sector is emerging as a vital part of the new business landscape in both trade and investment. ABAC is therefore keen to see progress on trade and investment liberalization in the services sector to reflect these developments. We are following with interest news from Geneva regarding new plurilateral negotiations on trade in services, which may not only address services market access but also develop new rules in a way that would be complementary to the Doha Round. ABAC is very supportive of these and other efforts to remove barriers to services trade and investment, given the great importance of the services sector to APEC economies. APEC SOM and ABAC will be holding a Dialogue on Services at SOM II to discuss the importance of the services sector and to encourage an active APEC work program on services. We encourage Ministers to consider forming a Services Experts' Group drawn from the public, private and academic sectors to make recommendations on ways to improve the global governance of services trade and investment.

ABAC supports the APEC 2013 Chair's leadership in promoting a holistic and coordinated approach to improving connectivity encompassing the physical movement of goods, people-to-people connections and institutional development. This requires bringing together a complex set of trade, investment and services issues, including soft and hard infrastructure, as well as promoting consistency in regulation. ABAC stands ready to work with APEC in mapping out a multi-year agenda to support this initiative and to offer ways to maximize private sector participation, investment and innovation. As a key component of this approach, ABAC recommends greater use of global product data standards and supply chain infrastructure technologies to enhance the efficient flow of goods.

ABAC's work program also includes a number of other initiatives in progress that are relevant to improving the business environment across APEC. An update on these initiatives is provided in the attachment.

We look forward to participating at your meeting in Surabaya to present these recommendations in greater detail.

Yours sincerely,



Wishnu Wardhana
ABAC Chair 2013

Progress Report to APEC Ministers Responsible for Trade – Other Issues

- 1. Expanding the WTO Information Technology Agreement.** Since its launch in 1996, the Information Technology Agreement (ITA) has not been reviewed and, consequently, product coverage has not been updated, though the same period has seen unprecedented technological innovation in the Information Communication and Technology (ICT) sector and a growing number of ITA participants. ABAC welcomes the leadership role of APEC in supporting the WTO ITA negotiations and its declaration in Vladivostok in 2012 to “work in earnest in order to swiftly achieve a good outcome of the negotiations.” With the support from APEC, there have been frequent WTO ITA informal negotiations held in Geneva. Since September last year, major economies participating in the ITA have joined these informal negotiations and a concrete negotiation on the ITA product list has been launched and is now underway. Given the recent favorable progress in the negotiations, ABAC strongly requests APEC to play a leadership role once again to support (a) the commercially significant expansion of the product coverage and the increase in number of participating members in the ITA, and (b) the successful completion of the WTO ITA expansion negotiations in Geneva by the first half of this year.
- 2. Promoting regulatory coherence.** ABAC firmly believes that regulatory coherence strengthens and deepens regional economic integration, prevents barriers to trade from occurring, as well as leads to increases in trade and economic growth. APEC should continue to focus on strengthening the implementation of the three good regulatory practices (GRP) endorsed by APEC Leaders in the 2011 Honolulu Declaration, including internal coordination of rule-making, assessing the impact of regulations, and public consultations. ABAC encourages APEC economies to report on the progress they are making in each of these areas. APEC should encourage the exploration of additional GRPs for implementation beyond 2013, including transparent and equitable implementation of regulation as well as voluntary alternatives to regulation, in order to reduce or eliminate barriers to free trade and investment. The APEC Life Sciences Innovation Forum (LSIF) Regulatory Harmonization Steering Committee (RHSC) and APEC Harmonization Center (AHC) are examples of how APEC economies can create multi-year public-private partnerships and advance these vital regulatory issues and future trade flows through targeted sectoral regulatory reforms. Specifically, a center of excellence proposed to facilitate the approval of clinical research in APEC economies will bolster near-term investment.
- 3. Enhancing supply chain connectivity.** ABAC applauds APEC’s efforts to enhance competitiveness in the region by making it easier, cheaper and faster to conduct trade in goods and services across borders. A University of Southern California Marshall School of Business 2011 Report on APEC Supply Chains estimates that improvements in connectivity could save up to US\$1,307 and 5.6 days per container in transportation costs and time between APEC economies. A 2013 report by the World Economic Forum estimates that raising all countries’ supply chain performance halfway to global best practices on border administration as well as transport and communications infrastructure would increase global Gross Domestic Product (GDP) by approximately US\$2.6 trillion and exports by US\$1.6 trillion. Due to the significant potential economic gains, ABAC sees a greater APEC role in the leadership, governance and oversight of standardization initiatives within supply chains. ABAC supports the systematic approach to improving supply chain performance, starting with inventories of policies and best practices that APEC economies should have in place as part of the Supply Chain Connectivity Framework. ABAC urges the completion of these inventories at SOM II, and the commencement of diagnostic reports to measure variances between existing domestic policies and regional best practices in order to guide the drafting and implementation of targeted capacity building plans. We encourage APEC to engage with ABAC and the private sector as a source of expertise on targeted, focused and economy-specific capacity building initiatives to help enable economies to meet the APEC Leaders’ 10 percent improvement goal by 2015.

- 4. Fostering the development of SMMEs.** SMMEs are the key drivers of economic growth in the APEC region. They are the main generators of employment, represent more than 95% of total private establishments, contribute about 25% of total exports in each of the APEC economies and represent more than 45% of the region's GDP. ABAC supports efforts to further liberalize trade as these enhance market access opportunities for SMMEs and promote SMME development. ABAC calls for policies that promote entrepreneurship and the creation of new businesses as well as policies that promote innovation and new forms of businesses. APEC economies should promote the use of internet technologies to enhance SMME access to international markets and to promote SMME growth. Capacity building initiatives such as APEC SME Summits are particularly helpful in this respect and we urge APEC Ministers Responsible for Trade to encourage and support the holding of such summits. Steps should also be taken to enhance SMME access to finance as this remains a significant barrier to SMME expansion. ABAC recommends that banking regulators add an appropriate refinement to the Basel rules on risk weighting for trade finance to reflect its low risk feature.
- 5. Engaging Women in the Economy.** Engaging women in the economy is a fundamental element of the inclusive growth that APEC strives to promote and is vital to future competitiveness. The United Nations estimates that various limitations on the economic participation of women cost the Asia-Pacific region US\$89 billion a year. The business community in particular has a vested interest in a diverse, skilled and engaged workforce. ABAC encourages Ministers Responsible for Trade to call on their economies to take further steps to implement the key policy pillars of the San Francisco Declaration by taking steps to promote access to capital and markets for women in the private sector, encouraging capacity and skill building programs, including science, technology, engineering and mathematics (STEM) education for women, and taking steps to address barriers that discourage women from assuming leadership positions in the public and private sectors.
- 6. Strengthening food security.** This year, ABAC is focusing on strengthening food security by overseeing the implementation of the APEC Policy Partnership on Food Security Action Plan for 2013. The latter envisages the development of a strategic, results-oriented roadmap to achieve the long-term goal of setting up a food system structure by 2020 sufficient to provide lasting food security to economies in the region. The roadmap should involve public-private collaboration and parallel cooperation action. ABAC urges Ministers to develop policies and to take concrete actions to ensure the roadmap's effective implementation. In particular, ABAC urges APEC economies to: (a) facilitate the dissemination and absorption of food-related technology; (b) enhance collaboration and investment in R&D for modern farm management; (c) enhance market access and eliminate non-tariff barriers to trade; (d) enhance supply chain connectivity for food including through the use of global product data standards to increase the efficiency, transparency and safety of food trade; (e) reduce food losses and increase food safety through more effective use of cold chain technology; and (f) facilitate and reduce the cost of private sector investment in food-related infrastructure.
- 7. Addressing energy security.** ABAC commends APEC for the groundbreaking agreement on the APEC List of Environmental Goods (EG) in 2012 and urges economies to implement the Leaders' commitment and build on this important achievement. ABAC firmly believes that facilitating trade on the 54 items on the List will contribute to reducing the energy intensity of the region. ABAC requests that APEC take steadfast actions to reduce the applied tariff rates for the 54 items to 5% or less by the end of 2015 as agreed by APEC Economic Leaders in the 2012 Vladivostok Declaration. ABAC recommends: (a) an accelerated timetable to implement the tariff reductions on the 54 EG items; (b) a conducive legal and regulatory environment for trade and investment in the energy sector; (c) greater attention to policies to facilitate the development of renewable energy infrastructure to meet green growth targets; (d) the identification and removal of non-tariff trade barriers for environmental goods and services; and (e) continuing support to efficient regional trade of energy through integrated transmission infrastructure and domestic power grids.
- 8. Ensuring water security.** Water is indispensable to human life. Efforts should therefore be made to ensure water security. ABAC notes that the conservation of water resources is the most inexpensive way of promoting water security and recommends the following measures to encourage water conservation: (a) introduction of

conservation-enhancing tariff schemes such as shifting from a flat rate to a volume-based rate for agricultural water use and introduction of a punitive tariff rate to discourage excessive water use by municipalities; (b) introduction of water conservation incentives; (c) promotion of the use of water-saving equipment, including through policies designed to encourage their proliferation and to facilitate trade on such equipment in the future; (d) use of recycled water; (e) promotion of leak prevention technology; and (f) establishment of a forum dedicated to water issues within APEC.

- 9. Encouraging infrastructure investment.** Infrastructure investment is a critical element to sustainable and inclusive economic growth in the Asia-Pacific region. A recent report by McKinsey estimates that as much as US\$57 trillion in infrastructure investment will be required globally over the next 18 years to sustain economic growth. In order to compete globally for finite FDI flows, APEC economies will need to take deliberate steps to evaluate and improve their investment environments. Successful infrastructure investment outcomes are enabled by bringing together a diverse set of critical policy elements that require a multi-disciplinary approach.

Governments not only need to address barriers to private sector FDI but also effectively harness it through measures such as creating an environment conducive to infrastructure finance, emphasizing long-term planning and cooperation through public-private partnerships (PPP) and facilitating transparent government procurement processes. To bring these multi-disciplinary elements together and encourage further inter-agency dialogue, ABAC is developing a unique infrastructure investment checklist that will serve as an important self-assessment tool for economies. We invite APEC Ministers Responsible for Trade to build on Indonesia's APEC 2013 theme of connectivity by collaborating with ABAC on the development of the checklist.

- 10. Improving the environment for PPPs through public-private dialogues.** Public-private partnerships have significant potential to help finance the region's enormous infrastructure needs, as well as to improve quality and lower costs of services. This requires the right environment, however, and despite continuing improvements in infrastructure-related policies, key constraints remain in many economies. These include lack of capital market depth, dearth of good quality projects, inadequate regulatory frameworks and need for better understanding of allocating various types of risk between public and private sectors.

Structures enabling parties to frankly and objectively discuss the complex matters involved can help create conducive environments for successful PPPs. In 2010, ABAC initiated the Asia-Pacific Infrastructure Partnership (APIP), bringing together high-level officials, experts from multilateral bodies and private sector panelists actively involved in infrastructure projects from a wide range of relevant fields. Since its establishment, APIP has held dialogues with six economies (Mexico, Peru, Philippines, Vietnam, Indonesia and Thailand) and actively participated in five regional forums. ABAC invites APEC economies to effect further improvements in the environment for PPPs, especially through active engagement with APIP.

- 11. Promoting technology dissemination and innovative growth.** ABAC has identified numerous barriers across APEC that prevent businesses from bringing cutting-edge technologies to new markets through cross-border trade and investment. To address these issues, ABAC is exploring the potential of an APEC Open Innovation Platform to facilitate the development and commercialization of cutting-edge technology intellectual property (IP) for SMMEs throughout the region. We encourage Ministers to enhance opportunities for SMMEs to benefit from the development and application of cutting-edge technologies by simplifying legal and regulatory barriers that prevent businesses from bringing technologies to new markets through cross-border trade and investment.

The private sector has an essential role in shaping policies that encourage innovation in the APEC region. ABAC welcomes the business community's role in the newly-formed APEC Policy Partnership on Science, Technology and Innovation and will work with the private sector, government and academic stakeholders to promote effective public-private collaboration in joint scientific research and development of effective innovation policy, which are critical to continued economic growth in the region. Building on this effort, ABAC supports concrete measures to implement the 14 non-discriminatory market-driven innovation policies endorsed by APEC Leaders in 2011.

- 12. Promoting transparency and efficiency in government procurement.** Government procurement of goods and services, including essential public services such as clean water, education, healthcare, and infrastructure typically accounts for 10-15% of GDP for developed economies, and up to as much as 20% of GDP for developing economies. This amounts to between US\$8-12 trillion annually on a global basis. Discriminatory and inefficient procurement practices can have a marked impact on international trade patterns.

APEC economies should establish efficient, transparent, predictable and non-discriminatory government procurement processes that account for lifecycle costs to ensure effective allocation of government resources. Elimination of government barriers will lead to a more efficient allocation of resources through increased competition, reduced opportunities for corruption, higher quality procurement and budgetary savings to government.

- 13. Accelerating financial market development to promote growth.** The significant impact on economic activity in the region of disruptions in trade and project finance as a result of recent crises underscores the central role of financial systems in the growth of trade and investment. Most Asia- Pacific financial markets remain inadequately developed to support the region's considerable needs for financing infrastructure, trade and the growth of enterprises, and those needs created by demographic pressures on health, education, ageing and retirement. Unless addressed, the underdevelopment of these markets will pose a serious constraint to future growth, not only in the region but globally as well.

Channeling the region's abundant savings to finance its enormous needs in coming years requires accelerating the development of sound and efficient financial markets across member economies. This should go hand in hand with efforts to promote convergence and greater mutual recognition of standards, regulations and practices as well as to develop market infrastructure and regulatory frameworks for facilitating cross-border transactions. To this end, ABAC has proposed the establishment of the Asia-Pacific Financial Forum (APFF) to serve as a regional platform for enhanced collaboration among regulators, officials, the financial industry and multilateral, standard-setting and capacity building bodies in developing the region's financial markets. Through a symposium hosted by the Australian Treasury in Sydney, ABAC will develop a work program and initial structure for APFF.



APEC Business Advisory Council



18 July 2013

His Excellency

Dr. Syarifuddin Hasan

Chair, APEC SME Ministerial Meeting

Minister of Cooperatives and SMEs

Indonesia

Dear Minister Hasan:

On behalf of the APEC Business Advisory Council, I would like to share our key recommendations related to small, medium and micro-enterprises (SMMEs) and entrepreneurship. ABAC believes that SMMEs are the backbone of our economies, and recognizes the need to develop policies that foster their growth and development and promote entrepreneurship in the APEC region. In this regard, ABAC has prioritized areas such as entrepreneurship and innovation, access to finance, and access to international markets as crucial factors to enhance APEC SMMEs' global competitiveness.

First, **ABAC supports efficient policy development to promote the creation of new businesses.** APEC economies should promote innovation and, in this regard, **support start-up programs as a mechanism to create incentives for entrepreneurship development.** ABAC supports the APEC Start-up Accelerator (ASA) Initiative – a public-private sector collaboration and a platform that strengthens access to finance, investments and international markets for innovative SMMEs and start-ups through mentorships from managerial, financial, and technical experts in the private sector. The Initiative builds on existing early-stage APEC start-up programs and provides support for more matured start-ups in the global markets. The ASA Initiative will be launched in Taipei in August 2013 and will rotate annually among participating APEC member economies.

On our second priority, **ABAC has prioritized the need for new policy development to promote the sustainability of businesses, in particular in access to finance.** SMMEs are recognized as the drivers of economic activities in the APEC region and easing SMMEs' access to trade finance is crucial for their growth. ABAC is concerned that the application of current Basel III regulations will have a negative impact on the availability of trade finance, cost of finance, and the behavior of the banking sector in lending for SMMEs. We recommend that regulators review the risk, loss given default (LGD) of trade finance and the impact of these regulations. Transparent credit information systems are also important to expanding affordable credit to SMMEs in the region. Economies must work together to ensure regulatory regimes do not hinder cross-border credit information flows. Common accounting standards such as the International Financial Reporting Standards (IFRS) have the potential to enhance the development of capital markets in the APEC region. APEC Ministers should support dialogue on these standards as part of the Asia-Pacific Financial Forum (APFF) to align IFRS principles with the interests of SMMEs.

Angel and venture capital financing provides a viable alternative to traditional lending as it provides seed capital for early start-ups and acts as a business angel for high-risk growth sectors. ABAC urges APEC economies to encourage private individual investors (angel and venture capital) to get involved in funding SMMEs by creating an enabling regulatory environment and introducing support programs, including tax credit and matching funds with a view to reduce, ease or eliminate restrictions and barriers to investment in risk capital. This will also involve providing end-to-end assistance to small scale start-up companies to develop and grow. ABAC recommends that interested economies and multilateral institutions collaborate with ABAC and interested private sector firms to **develop an APEC funds-of-funds for seeding and growing a private sector-led venture capital ecosystem in the Asia-Pacific.**

For 2014, ABAC will develop an **APEC Framework for SMME Financing**. The framework will cover the overall financing ecosystem for SMMEs and focus recommendations on angel and seed funding, venture capital, bank lending, collaboration and government support policies.

On our third priority, **ABAC calls for policy development to facilitate the use of information technology to empower SMME access to international markets**. In this regard, we consider it important to promote the use of existing information and communication technology (ICT) platforms to bring SMMEs closer to international markets, and enable their access to more competitive prices. As noted in our 2012 Letter to APEC SME Ministers, ABAC supports the development of ICT platforms, such as the APEC Next Generation Interactive Tariff Database and the Services Trade Access Requirements (STAR) Database to help SMMEs take advantage of export opportunities. Furthermore, APEC economies should promote the development of **“All-in-one” electronic Supply Chain Financing platforms**. Traditional trade financing requires high credit history and extensive order delivery information and documentation. These requirements are not suitable for most of SMMEs and could be avoided by using an integrated platform for Supply Chain Financing. These platforms will benefit SMMEs, banks and global trade itself by: speeding up turnover of inventory and accounts, improving cash flows, lowering entry barriers for applying for loans, reducing credit risk by having visibility on operating activity, and improving financial management efficiency of global supply chains.

Finally, ABAC is committed to further promote the participation of women and young people in business which is indispensable in achieving sustained economic growth and development. In this regard, ABAC is preparing a Report on Women and the Economy to convey the interests of the business community to leaders and policy makers. This Report, which will be presented at the Women and the Economy Summit as well as at the APEC CEO Summit in Bali, will cover issues such as: (a) ABAC’s potential to contribute to the policy discussion; (b) the need to collect economic data and measure performance; (c) the impact of encouraging women to pursue science, technology, engineering and mathematics (STEM) education; (d) factors that promote success for SMMEs owned by women, and (e) steps companies can take to facilitate a diverse workforce. Also, ABAC believes on the role of young people as a crucial source of innovation and entrepreneurship. We applaud the successful holding of the Second APEC Young Entrepreneurs’ Summit (YES). Under the theme of “Care, Share, Inspire”, it sought to brief young entrepreneurs on useful tools for their businesses’ development and to share successful entrepreneurs’ testimonies with them.

ABAC believes that these recommendations will strengthen APEC SMMEs and foster their sustained growth and development. We strongly support and call for dedicated and SMME-oriented work between public and private sectors to secure the wellness of our economies. We look forward to participating at your meeting in Bali in September to further discuss these recommendations.

Yours sincerely,



Wishnu Wardhana
ABAC Chair 2013



APEC Business Advisory Council



18 July 2013

His Excellency

Mr. Akihiro Ota

Chair, APEC Transportation Ministerial Meeting
Minister of Land, Infrastructure, Transport & Tourism
Japan

Dear Minister Ota:

The APEC Business Advisory Council (ABAC) is the formal private sector advisory group of the Asia-Pacific Economic Cooperation (APEC) Forum. Representing the business communities of all 21 APEC member economies, ABAC is tasked with supporting the success of APEC by providing private sector insights on how best to achieve APEC's goals, both through APEC's own initiatives, and in dialogue with other international organizations.

ABAC applauds APEC Indonesia's 2013 theme of connectivity and its efforts to improve the region's capacity for infrastructure development, which is a vital requirement for efficient, resilient supply chains and the region's long-term competitiveness. We further support APEC's decision to continue to make this a priority over the next two APEC host years in China and the Philippines. As you prepare for your meeting in Tokyo, Japan, we would like to draw your attention to a number of areas of critical importance to the private sector that will be central to the success of APEC's work in this area.

Promote Transportation Infrastructure and Regional Economic Growth

ABAC is encouraged by APEC's efforts to enhance competitiveness in the region by making it easier, cheaper and faster to conduct trade in goods and services across borders. However, in many economies, the lack of transport infrastructure or the poor condition of existing transport infrastructure is limiting the ability for regions to participate in the global economy. A University of Southern California Marshall School of Business 2011 Report on APEC Supply Chains estimates that improvements in connectivity could save up to US \$1,307 and 5.6 days per container in transportation costs and time between APEC economies. A 2013 report by the World Economic Forum estimates that raising all countries' supply chain performance halfway to global best practices on border administration as well as transportation and communication infrastructure would increase global Gross Domestic Product (GDP) by approximately US\$2.6 trillion and exports by US\$1.6 trillion. Due to the significant potential economic gains, ABAC sees a greater APEC role in the leadership, governance and oversight of standardization initiatives within supply chains.

Encourage Public-Private Partnerships for Infrastructure Financing

A recent McKinsey study projected that globally \$57 trillion in infrastructure investment will be required over the next two decades and transport infrastructure will comprise a significant portion of this spending. The private sector is an important source of the foreign direct investment (FDI) that is required for infrastructure development. To attract the needed capital and compete globally for FDI, a stable, non-discriminatory and transparent legal, regulatory and investment environment is required to give businesses the certainty and predictability required for long-term, capital intensive investments.

Additionally, expertise and capital from the business community can be harnessed through public-private partnership (PPP). PPP mechanisms can be utilized to create sustainable and attractive infrastructure projects that are funded throughout their lifecycle, including through measures to reinvest in existing assets through proper maintenance. ABAC encourages APEC to further build capacity in PPPs, including through measures that address best practices related to transparency in project design, contracting, division of responsibilities, performance measures, risk apportionment and neutral and objective mechanisms to prevent and resolve disputes. Further, ABAC invites APEC economies to leverage dialogues that include the private sector such as the Asia-Pacific Infrastructure Partnership that facilitate additional capacity building.

To bring the range of issues that affect private sector investment in infrastructure together and encourage further inter-agency dialogue on effective policies, ABAC is developing a unique infrastructure investment checklist that will serve as an important self-assessment tool for economies. We invite APEC Transportation Ministers to build on Indonesia's APEC 2013 theme of connectivity by collaborating with ABAC on the development of the checklist.

Enhance Regulatory Cooperation and Improve Transportation Infrastructure Efficiency

In addition to building new infrastructure assets, economies can enhance the capacity of existing infrastructure by improving the regulatory environment for transport and logistics services. A 2012 study by the Pacific Economic Cooperation Council (PECC) cited lack of transparency in regulations as the most important issue for Asia-Pacific free trade agreements, and lack of transparency in regulatory practices as most serious challenges to doing business in the Asia-Pacific region. For businesses, higher costs of regulatory compliance hinder international competitiveness and complicate the most efficient deployment of economic resources. Transportation Ministers should strengthen public-private cooperation on the development of a regulatory toolkit that focuses on best practices and capacity building to help APEC economies implement effective regulatory design which achieve intended aims at the least cost to businesses and citizens. ABAC also urges Ministers to review current and new regulatory initiatives with an eye towards the principles of regulatory coherence, including the principles identified in ABAC's Strategic Framework for Regulatory Coherence.

Modern supply chains are global; regulators must take into account that components are sourced across the world. Inefficient regulations in just one economy can impact the entire supply chain and impose significant costs to business. In many circumstances, alternatives to prescriptive regulation may achieve an economic, social or environmental objective more effectively and at a lower cost. The consideration of regulatory alternatives therefore is an important issue. Regulation alternatives should be based on administrative simplicity, flexibility, efficiency, certainty and equity. Ministers should also promote regulations that are trade-friendly to ensure that economic actors can manage risk and operate in a pro-competitive environment. The use of effective and efficient regulatory impact assessments should prevent discriminatory or protectionist practices, improve transparency, preclude divergent, conflicting or multiple requirements, as well as decrease costliness of demonstrating compliance.

Strengthen Supply Chain Connectivity

ABAC supports a systematic approach to improving supply chain performance, starting with inventories of policies and best practices that APEC economies should have in place as part of the Supply Chain Connectivity Framework. Efficient cross-border trade must have all parties making smart use of existing product and e-commerce data. Global data standards and interoperability of information systems can play an important role in eliminating supply chain chokepoints.

ABAC urges Transportation Ministers to strengthen multi-modal and logistics capabilities to handle the region's increasing trade levels. Ministers should engage in dialogues between the public and private sector on sharing multi-modal transport experience, promote a harmonized legal environment for multimodal transport, and increase cooperation between developed and emerging economies. Ministers should also promote capacity building and knowledge growth to improve information technology capabilities, transport tracking systems, and warehouse management skills to elevate economies' capabilities to meet current business requirement. Ministers should encourage a dialogue between economies to share advanced logistics operational experience.

We encourage APEC to engage with ABAC and the private sector as a source of expertise on targeted, focused, and economy-specific capacity initiatives aimed at building a supply chain toolkit to help enable economies to meet APEC Leaders' 10% improvement goal by 2015.

Yours sincerely,



Wishnu Wardhana
ABAC Chair 2013



APEC Business Advisory Council



18 July 2013

Her Excellency

Dr. Nafsiah Mboi

Chair, High-Level Meeting on Health & the Economy
Minister of Health
Indonesia

Dear Minister Mboi:

The APEC Business Advisory Council (ABAC) is the formal private sector advisory group of the Asia-Pacific Economic Cooperation (APEC) Forum. Representing the business communities of all 21 APEC member economies, ABAC is tasked with supporting the success of APEC by providing private sector insights on how best to achieve APEC's goals, both through APEC's own initiatives, and in dialogue with other international organizations.

ABAC applauds Indonesia's decision to hold a High-Level Meeting on Health and the Economy in Bali on 20-21 September 2013. In its annual Report to APEC Leaders in 2011, ABAC commended the foresight of the APEC Health Working Group and the APEC Life Sciences Innovation Forum in holding the first high-level Health Systems Innovation Dialogue to discuss ways of establishing multi-sectoral partnerships to address non-communicable disease challenges in the region. Building on Russia's decision to organize a High-Level Meeting on Health and the Economy in 2012 is an important step towards ensuring that this important dialogue and issue remains high on the APEC agenda. Further, engaging interested APEC Finance Ministers in the discussion on sustainable healthcare systems serves as a strong example of APEC's capacity to bring together stakeholders from a range of sectors to address the complex challenges facing the region.

In addition to promoting public health through sharing of expertise and best practices on prevention, the private sector plays a key role in strengthening health systems through investment in the life sciences sector and by leveraging its research capacity to develop new treatments and therapies for patients. Policies that facilitate innovation and increased flows of trade and investment, such as measures to promote regulatory convergence, result in positive health and economic outcomes. ABAC has long championed regulatory environments that find a balance between use of regulation to achieve desired public policy objectives, such as medical product efficacy and safety, and minimize the cost and economic inefficiencies that regulation can impose. For businesses, and in particular SMMEs, higher costs of compliance hinder international competitiveness. Measures to promote an internationally harmonized regulatory environment can enable small and large firms to generate innovative new medical products as well as safely deliver existing products and therapies in a timely manner.

Regulatory convergence also serves to strengthen the complex, multinational supply chains required to generate safe products. Further efforts to promote regulatory convergence, such as the adoption of a common global standard for the serialization of pharmaceuticals, can help prevent unintentional barriers to trade and ensure that counterfeit and substandard products, such as medicines and devices used in hospitals, do not reach patients. ABAC supports further institutional public-private efforts in APEC to build regulatory capacity in the region, including the APEC Regulatory Harmonization Steering Committee's objective of achieving regulatory convergence for medical products by 2020 and APEC's recent commitment to establish an APEC Center of Excellence in Regulatory Science to facilitate further training in regulations regarding Multi-Regional Clinical Trials.

The competitiveness of small and large firms can also be facilitated through measures to encourage ethical business conduct. To address this need, in 2011 APEC developed sets of voluntary ethical business principles for the construction, biopharmaceutical and medical device sectors with strong support from the regional business community. These principles

were subsequently endorsed by APEC Ministers and Leaders. ABAC encourages the continued promotion and adoption of this important work within your respective sectors to help ensure the region's health systems are supported by an ethical and prosperous medical products sector.

Finally, promoting measures that encourage continued flows of foreign direct investment (FDI) into the APEC region remains a significant priority for the business community. FDI flows are vital to the region's future competitiveness and are often instrumental in promoting innovation by creating research capacity and facilitating the diffusion of technology in recipient economies. Measures to address barriers to FDI, including though government self-assessments, promoting public-private research collaboration and the creation of a regulatory environment that incentivizes and leverages innovation, will be vital to ensuring that APEC economies are able to both attract sufficient FDI and leverage new technologies to create positive economic and health outcomes. ABAC applauds ongoing efforts and new initiatives in APEC to address barriers to investment and further promote innovation in the health and life sciences sector.

APEC is a unique forum where the private sector and government can work closely together to address complex challenges and develop solutions that foster economic growth. ABAC looks forward to supporting outcomes from the High-Level Meeting on Health and the Economy in Bali that highlight further opportunities for business and government to collaborate and address the health challenges in the region.

Yours sincerely,



Wishnu Wardhana

ABAC Chair 2013



APEC Business Advisory Council



2 August 2013

His Excellency

Dr. M. Chatib Basri

Chair, APEC Finance Ministers' Meeting

Minister of Finance

Indonesia

Dear Minister Basri:

On behalf of the APEC Business Advisory Council, we would like to share our key recommendations on finance and economic issues facing the Asia-Pacific region.

Global financial and market conditions have improved since our last report, providing additional support to the economy and prompting a sharp rally in risk assets. These favorable conditions reflect a combination of deeper policy commitments, renewed monetary stimulus, and continued liquidity; as a result, tail risks have been reduced, confidence has been enhanced, and the economic outlook looks brighter. However, global economic conditions remain subdued, and the improvement can only be sustained through further policy actions to address structural reforms and promote continued recovery. We are concerned about the volatile capital flows and unstable financial markets in the Asia-Pacific region, while economies require funding for growth as well as infrastructure investments. It is imperative that all economies continue to implement policies for ensuring stability and growth. This year, ABAC has prioritized the following finance-related objectives: (a) launching the Asia-Pacific Financial Forum (APFF) to assist in developing regional financial market integration and in harmonizing and optimizing regulations; (b) developing strategies to achieve balanced and innovative growth; (c) promoting public-private partnership (PPP) and infrastructure finance, and; (d) promoting practical solutions to encourage financial inclusion to benefit low-income households and small, medium and micro-enterprises (SMMEs).

Creating a Platform of Public-Private Collaboration to Develop the Region's Financial Markets. In 2012, APEC Finance Ministers welcomed ABAC's proposal to explore the creation of an Asia-Pacific Financial Forum (APFF), a regional platform for public-private collaboration to help accelerate the development of integrated financial markets. A symposium hosted in Sydney in April 2013 by the Australian Government for this purpose underscored the importance of such collaboration in promoting financial market development that supports the needs of the real economy and regional aspirations for sustained, balanced, inclusive and innovative growth. APFF can add value to ongoing initiatives under various fora by bringing the private sector to work with public officials to identify crucial gaps not yet being addressed and the unintended consequences of new regulations, as well as to help financial authorities take a more active role in shaping global financial regulatory standards. **ABAC recommends that APEC Finance Ministers endorse the launch of the APFF based on the work program priorities proposed in the report of the Sydney Symposium. ABAC commends the development of the Asia Region Funds Passport and recommends that officials increase their engagement with market participants as the initiative is progressed.**

Expanding Regional Public-Private Partnership for Infrastructure Finance. Significant amounts of savings and private sector know-how can be harnessed to help the region meet its needs for higher quality infrastructure at lower cost to taxpayers and users. However, governments need to work closely together with the private sector and multilateral institutions to provide a conducive environment. Dialogues with several economies undertaken by the Asia-Pacific Infrastructure Partnership (APIP) have highlighted key elements: coordination and collaboration among agencies; deeper understanding of risks and which parties are best positioned to assume the various risks involved; strong, credible and creditworthy public institutions; capacity for policy reforms, planning, transactions and viability gap finance; clearly communicating priority

sectors and projects; and long-term local currency finance. **ABAC recommends that APEC Finance Ministers establish a regional framework to coordinate capacity building and sharing of best practices in infrastructure finance, with the collaboration of APIP.**

Mobilizing Regional Savings for Long-Term Investments. ABAC initiated a three-year program to enhance transparency and predictability in investment flows. It will also encourage institutional savings held in sovereign wealth funds (SWFs), superannuation, insurance and others to be invested in domestic and cross-border long-term infrastructure projects. Research work on this matter is being undertaken for the initial stage to examine the potential role of SWFs. ABAC will convene a dialogue in Beijing in September 2013, involving business, government officials, academia and representatives of SWFs and state-owned enterprises (SOEs). The outcomes and recommendations will be reported to the Finance Ministers as a means of enhancing investment flows in the region. **ABAC recommends that APEC Finance Ministers endorse this three-year initiative to create a framework for sharing best practices in investment as a means of mobilizing institutional savings in domestic and cross-border long-term infrastructure investments, in a transparent and market-based manner.**

Harnessing Innovation to Advance Financial Inclusion. Innovation promotes financial inclusion by significantly reducing the costs and increasing the efficiency of financial services offered to low-income households and small enterprises. The 2013 Asia-Pacific Financial Inclusion Forum hosted by the Indonesian Government and convened by ABAC and its partner institutions identified various measures that can help governments harness innovation to promote financial inclusion. **ABAC proposes that APEC economies commit to policy reforms to facilitate the delivery of mobile and branchless banking and remittances and to improve the market infrastructure, particularly payment and credit reporting systems and secured lending frameworks; and to undertake capacity building to promote innovative approaches and effective financial education and consumer protection regimes. ABAC calls for the development of government-encouraged funds-of-funds for seeding and growing a private sector-led venture capital ecosystem in the region and collaboration by interested economies and multilateral institutions with ABAC and private sector firms to initiate this process.**

Unintended Consequences of New Financial Regulations. ABAC issued two letters to APEC Finance Ministers in April 2012 and May 2013 to express increasing concerns about the extraterritoriality of new financial regulations, where the impact of certain regulations may hinder the prospects of the region's further development as a crucial engine of global economic growth. Of particular concern is the extraterritorial application of the US Dodd-Frank Act and the EU Financial Transaction Tax. **ABAC recommends that APEC financial regulators closely collaborate with each other on the monitoring and implementation of new financial regulations, in order to address the concerns over unintended extraterritorial effects for the region.**

In conclusion, we recognize that our region continues to face challenges with the current economic environment and progress will require long-term policy initiatives and structural reform, in addition to coordinated action by governments in addressing financial issues in our region. We look forward to our dialogue in Bali this coming September, where we hope to discuss the above recommendations in more details with the objective of promoting balanced, inclusive, sustainable, innovative and secure growth across the Asia-Pacific region.

Yours sincerely,



Wishnu Wardhana
ABAC Chair 2013

APEC Business Advisory Council

Founding and Structure

The APEC Business Advisory Council (ABAC) was created by the APEC Economic Leaders in November 1995 to provide advice on the implementation of the Osaka Action Agenda and on other specific business sector priorities, and to respond when the various APEC fora request information about business-related issues or to provide the business perspective on specific areas of cooperation. It is the sole non-governmental entity that has an official role in the APEC Economic Leaders' Meeting through a formal dialogue.

ABAC comprises up to three members of the private sector from each economy. ABAC members are appointed by their respective Leaders, and represent a range of business sectors, including small and medium enterprises. The economy determines the term of membership of each appointee as well as its own administrative arrangements and staff support.

The ABAC Secretariat based in Manila, the Philippines serves all members and all economies and maintains a website. Funding is provided through a system of annual dues, which are structured to reflect the size of each economy, following the APEC formula.

ABAC in 2013

In 2013, Indonesia took on the Chair of ABAC, with the Russian Federation and China as co-chairs, following the APEC order. Co-chairs represent immediate past and future chairs.

ABAC adopted the theme "Partnership, Resilience and Bridges to Growth" which addressed the following priorities:

- Deepening regional economic integration
- Promoting infrastructure growth and sustainable development
- Fostering small, medium and micro-enterprise (SMME) development and entrepreneurship
- Promoting the development and integration of financial markets

In line with the priorities of the ABAC Chair, ABAC established five working groups to carry forward its work during the year, namely:

- Regional Economic Integration Working Group (REIWG)
- Sustainable Development Working Group (SDWG)
- SMME & Entrepreneurship Working Group (SMMEEWG)
- Finance & Economics Working Group (FEWG)
- Action Plan & Advocacy Working Group (APAWG)

In addition, ABAC collaborates with key international public and private sector institutions on financial issues affecting the region through the Advisory Group on APEC Financial System Capacity Building.

ABAC convened four meetings in 2013: Manila, Philippines (20-23 January); Singapore (3-6 April); Kyoto, Japan (8-11 July); and Bali, Indonesia (1-4 October). Four meetings of the Advisory Group were also held: Manila, Philippines (22 January); Singapore (4 April); Kyoto, Japan (10 July); and Bali, Indonesia (3 October).

ABAC actively participated in various APEC meetings and related events, among others: First APEC Senior Officials' Meeting (SOM I) and related meetings (Jakarta, Indonesia: 25 January – 7 February); Finance and Central Bank Deputies' Meetings (Jakarta, Indonesia: 26-27 February); Workshop on Financial Inclusion (Jakarta, Indonesia: 27-28 February); APEC Policy Partnership on Food Security (PPFS) Management Council Meeting (Singapore: 6 April); SOM II and related meetings (Surabaya, Indonesia: 6-19 April); Meeting

of APEC Ministers Responsible for Trade (MRT) (Surabaya, Indonesia: 20-21 April); Workshop on Infrastructure (Makassar, Indonesia: 22-23 April); Senior Finance Officials' Meeting (SFOM) (Manado, Indonesia: 22-23 May); Workshop on Financial Inclusion (Manado, Indonesia: 23-24 May); SOM III and related meetings (Medan, Indonesia: 22 June – 6 July); Workshop on Trade Finance (Lombok Island, Indonesia: 1 July); PPF Management Council Meeting (Kyoto, Japan: 11 July); APEC Transportation Ministerial Meeting (Tokyo, Japan: 4-6 September); High-Level Policy Dialogue on Women/Policy Partnership on Women and the Economy (Bali, Indonesia: 6-8 September); APEC SME Ministerial Meeting (Bali, Indonesia: 7 September); Joint SME/Women Ministerial Meeting (Bali, Indonesia: 7 September); Joint Ministerial Meeting on Women and the Economy (Bali, Indonesia: 7 September); SFOM (Bali, Indonesia: 17-19 September); APEC High-Level Meeting on Health and the Economy (Bali, Indonesia: 20-21 September); APEC Finance Ministers' Meeting (Bali, Indonesia: 20 September); Concluding Senior Officials' Meeting (Bali, Indonesia: 1-2 October) and APEC Ministerial Meeting (Bali, Indonesia: 4-5 October).

Other events organized and/or participated in by ABAC included: APEC SME Summit (Manila, Philippines: 20 January); Asia-Pacific Infrastructure Partnership Dialogue with the Philippines (Manila, Philippines: 23 January); Asia-Pacific Infrastructure Dialogue with Thailand (Bangkok, Thailand: 22 February); APEC SME Summit (Singapore: 3 April); Symposium on the Asia-Pacific Financial Forum (Sydney, Australia: 10-11 April); Second APEC Young Entrepreneurs' Summit (China: 3-5 May); Asia-Pacific Financial Inclusion Forum (Batam Island, Indonesia: 11-12 June); APEC SME Summit (Kyoto, Japan: 8 July); Workshop on Legal Architecture (Kyoto, Japan: 9 July); APEC SME Summit (Lima, Peru: 27 August); and APEC SME Summit (Bali, Indonesia: 5 October).

Studies and Related Work

ABAC commissioned the University of Southern California's Marshall School of Business to undertake a research project on foreign direct investment (FDI). The study sought to identify and quantify key impediments to FDI, and to understand the rationale for FDI regulation. ABAC also developed a unique infrastructure investment checklist that will serve as an important self-assessment tool for economies wishing to evaluate and improve their ability to attract foreign direct investments. It prepared a Report on Women and the Economy to convey the interest of the business community on this issue to leaders and policy makers. Finally, ABAC undertook a survey on issues which business would like APEC economies to focus on in order to ensure full participation in, and the smooth operation of, the APEC Business Travel Card scheme.

Outreach

As part of its communications outreach efforts and in line with its economic inclusion agenda, ABAC continued to hold the ABAC Women's Forum (AWF), which aims to co-develop and promote policies that enhance opportunities for women in business in the region, and APEC SME Summits. Alongside the ABAC meeting in Manila in January, AWF met with the Women's Business Council of the Philippines and had a great interaction with local women entrepreneurs. AWF also maintains a website which is available at <http://www.abacwomen.org/>. APEC SME Summits were held in Manila, Philippines; Singapore; Kyoto, Japan; Lima, Peru; and Bali, Indonesia.

ABAC continued to strengthen its interaction and engagement with APEC Senior Officials/APEC fora, including through the annual ABAC-SOM Dialogue and participation in APEC meetings. It jointly organized with the Pacific Economic Cooperation Council (PECC) and APEC Senior Officials a highly successful public-private dialogue on services in Surabaya in April. It continued to hold meetings with the APEC leadership at the domestic level after each ABAC meeting. Further, ABAC issues a quarterly newsletter for use by members as a resource in briefing stakeholders in their respective economies. The newsletter is available on the ABAC website at <https://www.abaconline.org>.

Future Work

ABAC remains fully committed to providing advice to APEC Leaders on business sector priorities and in pushing forward the APEC agenda on trade and investment liberalization and facilitation. Future work will continue to focus on regional economic integration, trade facilitation, infrastructure and investment, supply chain connectivity, regulatory coherence, SME and micro-enterprise development, energy security, food security, green growth and the development and integration of financial markets.

ABAC Executive Director 2013

Amin Subekti

Senior Vice President
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