



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

A large, stylized circular graphic composed of orange, calligraphic-like lines, resembling a traditional Chinese decorative motif, framing the central text.


**Building Asia-Pacific Community  
Mapping Long-Term Prosperity**

**BEIJING, CHINA  
2014**

Three thick, curved orange lines at the bottom right of the page, suggesting movement or a stylized wave.

# 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



Chinese knotting, an ancient hand-tied art woven using a single thread, originated over 5,000 years ago and evolved to be the lasting beauty today. In Chinese language, “knot” means community and “thread” means prosperity, and thus Chinese knotting is always used to express good wishes and commitments.

Each Chinese knotting is comprised of multiple basic knots with different appearance and symbols, while all knots are made by the same single thread and are interlaced cohesively to enhance the value together, just as our Asia-Pacific community does.

# Report to APEC Economic Leaders



**APEC Business Advisory Council**





**His Excellency Xi Jinping**

Chair, Asia-Pacific Economic Cooperation  
President, People's Republic of China  
Beijing, China

Your Excellency:

It is our great privilege to present to you the report and recommendations of the APEC Business Advisory Council (ABAC) for 2014.

ABAC shares your ambition to achieve economic growth and prosperity. Accelerating freer trade and investment, building infrastructure and promoting innovation especially by small, medium and micro-enterprises are essential for reaching these objectives.

Twenty years ago, APEC set forth the Bogor Goals of free and open trade and investment in the region by 2020. In 2006, Leaders adopted our recommendation that a Free Trade Area of the Asia-Pacific (FTAAP) would be the most effective means for achieving the Bogor Goals. In the face of the 2020 deadline, we need your leadership to guide the further development of an FTAAP that is built around the highest standards and with the broadest possible coverage. That is what would most benefit businesses - large and small - across the region. We encourage you to adopt a roadmap for FTAAP, which builds on progress in the various negotiations now underway and is coherent with existing bilateral and plurilateral agreements. Efforts to achieve an FTAAP will be bolstered by promoting supply chain connectivity, liberalizing cross-border services trade and taking more ambitious positions in the World Trade Organization negotiations.

The full benefits of an FTAAP cannot be realized without robust infrastructure to connect our region more efficiently. However, the current level of infrastructure investment in the region is inhibiting economic growth. The private sector has the capacity to help bridge the gap. Governments can spur private investment and domestic consumption by creating a better policy environment, developing more public-private partnerships and mobilizing long-term savings through the development of capital markets and effective regulatory frameworks. Multilateral institutions also have a vital role to play. In this respect, ABAC welcomes and supports the expansion of multilateral financing facilities for infrastructure development.

ABAC commends APEC for setting "Promoting Innovative Development, Economic Reform and Growth" as one of the main priorities for 2014. Efforts to promote innovation will address the recent decline in productivity growth. Further commitment to support small, medium and micro-enterprises, empower women and address issues such as urbanization, food security, health and green growth will sustain the Asia-Pacific as the engine of global prosperity.

Our report addresses these issues and sets out in greater detail a full range of initiatives in the areas of regional economic integration; infrastructure and connectivity; small, medium and micro-enterprises; sustainable development; and finance. We commend this report to you and look forward to discussing our recommendations with you during our dialogue in Beijing in November.

Yours sincerely,

**Mr. Ning Gaoning**  
ABAC Chair 2014  
Chairman  
COFCO Corporation

**Mr. Wishnu Wardhana**  
ABAC Co-Chair  
*Chair, Infrastructure &  
Connectivity Working Group*  
President Director  
PT. Indika Energy, Tbk.

**Ms. Doris Ho**  
ABAC Co-Chair  
*Co-Chair, Regional Economic  
Integration Working Group*  
President & CEO  
A. Magsaysay Inc.

## AUSTRALIA



**Ms. Anna Buduls**  
Co-Chair, Sustainable  
Development Working Group  
Owner & Chairman  
Tramada Systems



**Mr. John W.H. Denton**  
Chair, Finance & Economics  
Working Group  
Partner & Chief Executive Officer  
Corrs Chambers Westgarth



**Sir Rod Eddington AO**  
Chairman (Australia and New Zealand)  
JP Morgan

## BRUNEI DARUSSALAM



**Ms. Hafimi bte Abdul Haadi**  
Director/Shareholder  
LVK Group of Companies



**Ms. Haslina Taib**  
Co-Chair, SMME &  
Entrepreneurship Working Group  
Chief Executive Officer  
Brunei Accenture Group (B.A.G)  
Networks

## CANADA



**Mr. V. Paul Lee**  
Co-Chair, SMME & Entrepreneurship  
Working Group  
Managing Partner  
Vanedge Capital Partners Inc.

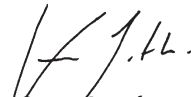


**Mr. Philip Leong**  
Co-Chair, Finance & Economics  
Working Group  
Vice President & Director  
RBC Dominion Securities Inc.

## CHILE



**Mr. Rafael Guilisasti**  
President  
Viñedos Emiliana S.A.



**Mr. Oscar Landerretche**  
Chairman, Board of Directors  
CODELCO-CHILE



**Mr. Andrónico Luksic Craig**  
Co-Chair, Finance & Economics  
Working Group  
Chairman  
Quiñenco

## CHINA



**Ms. Wang Lili**  
Co-Chair, Finance & Economics  
Working Group  
Co-Chair, Advisory Group on APEC  
Financial System Capacity  
Building  
Chairman  
ICBC (London) Ltd. / ICBC  
(Argentina) S.A.



**Dr. Yang Yunsong**  
Co-Chair, Infrastructure &  
Connectivity Working Group  
Chairman  
Beijing GS International  
Company Limited

## HONG KONG, CHINA



**Mr. Richard Li**  
Chairman & Chief Executive  
Pacific Century Group Limited



**Mr. Vincent H. S. Lo**  
Chairman  
Shui On Group



**Mr. Anthony John Liddell  
Nightingale**  
Co-Chair, Regional Economic  
Integration Working Group  
Director  
Jardine Matheson Holdings  
Limited

## INDONESIA



**Ms. Karen Agustiawan**  
President Director & CEO  
PT Pertamina (Persero)



**Mr. Anindya N. Bakrie**  
Co-Chair, Regional Economic  
Integration Working Group  
Chief Executive Officer  
PT. Bakrie Global Ventura

## JAPAN



**Mr. Hidetoshi Kamezaki**  
Co-Chair, Infrastructure &  
Connectivity Working Group  
Corporate Advisor  
Mitsubishi Corporation



**Mr. Yoshinori Komamura**  
Co-Chair, Sustainable  
Development Working Group  
Senior Advisor  
Komatsu Ltd.




**Mr. Hiroyuki Suzuki**  
Co-Chair, Finance & Economics  
Working Group  
Chair, Advisory Group on APEC  
Financial System Capacity  
Building  
Director, Member of the Board  
Nomura Holdings, Inc.

#### KOREA



**Ms. Sung-Job Kim**  
Chairperson, CEO & Chief  
Visionary Officer  
SUNGJOO Group & MCM  
Holding AG



**Mr. Seung Jun Oh**  
Chief Executive Officer  
SE Lab, Inc.



**Mr. Jin Roy Ryu**  
Co-Chair, Sustainable  
Development Working Group  
Chairman & CEO  
Poongsan Group

#### MALAYSIA



**Tan Sri Azman Hashim**  
Co-Chair, Finance & Economics  
Working Group  
Co-Chair, Advisory Group on  
APEC Financial System  
Capacity Building  
Chairman  
AmBank Group



**Dato Rohana Tan Sri Mahmood**  
Chairman  
RM Capital Partners Sdn Bhd



**Tan Sri Dato' Ir. Md Radzi Mansor**  
Chairman  
Kumpulan Fima Berhad


#### MEXICO



**Mr. Moises R. Kalach Balas**  
Chairman  
Mexico Fits and CANAINTEX




**Mr. Mauricio Millán**  
Co-Chair, SMME &  
Entrepreneurship Working Group  
Vice President  
Coraza Corporación Azteca, S.A.  
de C.V.




**Mr. Alejandro Ramírez Magaña**  
Chief Executive Officer  
Cinépolis

#### NEW ZEALAND



**Mr. Wayne Boyd**  
Co-Chair, Infrastructure &  
Connectivity Working Group  
Co-Chair, Advisory Group on  
APEC Financial System  
Capacity Building  
Chairman  
Alpine Guides Fox Glacier Ltd.



**Mr. Tony Nowell**  
Chair, Regional Economic  
Integration Working Group  
Founding Director  
Valadenz Limited



**Mrs. Katherine Rich**  
Chief Executive Officer  
New Zealand Food and Grocery  
Council

#### PAPUA NEW GUINEA



**Mr. Wayne Kenneth Golding**  
Co-Chair, Finance & Economics  
Working Group  
Executive Co-Chairman  
2G Development Co. Limited



**Mr. Isikete R. Taureka**  
Executive Vice President – PNG  
InterOil Corporation (Corporate)




**Mr. Matthew W.E. Tjoeng**  
Managing Director  
Shine Way Development Ltd.

#### PERU



**Mr. Alfonso Garcia Miro**  
Chief Executive Officer  
IPN Investments



**Mr. Enrique M. Gubbins**  
Co-Chair, Regional Economic  
Integration Working Group  
Chairman of the Board  
Sudamericana de Fibras S.A.



**Mr. Juan Francisco Raffo**  
Co-Chair, SMME &  
Entrepreneurship Working Group  
Honorary Chairman  
Raffo Group

## PHILIPPINES



**Mr. Tony Tan Caktiong**  
Co-Chair, SMME &  
Entrepreneurship Working Group  
Chairman  
Jollibee Foods Corporation



**Mr. Jaime Augusto Zobel de Ayala**  
Chairman & CEO  
Ayala Corporation

## RUSSIAN FEDERATION



**Mr. Oleg V. Deripaska**  
Chairman of the Supervisory  
Board  
Basic Element




**Mr. Kirill A. Dmitriev**  
Chief Executive Officer  
Russian Direct Investment Fund

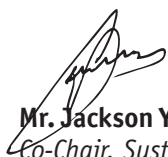


**Mr. Andrey L. Kostin**  
Chairman & CEO  
JSC VTB Bank

## SINGAPORE



**Mr. Ho Meng Kit**  
Co-Chair, Infrastructure &  
Connectivity Working Group  
Chief Executive Officer  
Singapore Business  
Federation



**Mr. Jackson Yap**  
Co-Chair, Sustainable Development  
Working Group  
Advisor  
Leaf Investment Holdings Pte Ltd.

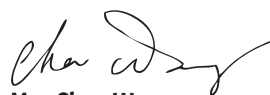
## CHINESE TAIPEI



**Mr. Matthew F. C. Miao**  
Chairman  
MiTAC-Synnex Group



**Mr. Hong-Tu Tsai**  
Chairman  
Cathay Financial Holdings &  
Cathay Life Insurance Co., Ltd.



**Ms. Cher Wang**  
Chair, SMME & Entrepreneurship  
Working Group  
Chairman  
HTC Corp.  
VIA Technologies, Inc.

## THAILAND




**Mr. Piyabutr Cholvijarn**  
Vice Chairman  
Board of Trade of Thailand



**Dr. Twatchai Yongkittikul**  
Co-Chair, Advisory Group on  
APEC Financial System  
Capacity Building  
Secretary-General  
Thai Bankers' Association

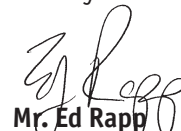
## USA



**Ms. Peggy Johnson**  
Executive Vice President  
Qualcomm Technologies, Inc.



**Mr. Bart Peterson**  
Chair, Sustainable  
Development Working Group  
Senior Vice President,  
Corporate Affairs &  
Communications  
Eli Lilly and Company



**Mr. Ed Rapp**  
Co-Chair, Infrastructure &  
Connectivity Working Group  
Group President,  
Construction Industries  
Caterpillar Inc.

## VIET NAM



**Mr. Hoang Van Dung**  
Co-Chair, Regional Economic  
Integration Working Group  
First Vice Chairman &  
Executive Vice President  
Viet Nam Chamber of  
Commerce & Industry



**Dr. Nguyen Thanh Hung**  
Chairman  
SOVICO Holdings



**Mr. Tam Dang Thanh**  
Chairman  
Saigon Invest Group



# Executive Summary



# Executive Summary

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

## **Accelerate trade and investment liberalization.**

Liberalization of trade and investment must remain the cornerstone of APEC's policy agenda as it is crucial to regional economic integration. ABAC encourages APEC economies to redouble efforts to move forward the World Trade Organization (WTO) Doha Round agenda and the fight against protectionism. Implementation of the "Bali package" is of utmost importance, in particular the Trade Facilitation Agreement (TFA). ABAC urges APEC economies to demonstrate greater leadership in securing a commercially significant expansion of the Information Technology Agreement (ITA) by limiting sensitivities and supporting the mutually balanced and ambitious liberalization goals set forth in the initial ITA expansion negotiations.

Investment is vital to economic growth and development in the Asia-Pacific region and is the driving force of growth for developing economies. ABAC therefore encourages APEC to focus on spurring improvements in the investment environment in the region. ABAC highlights the importance of bilateral investment mechanisms and their implementation reflecting the APEC Non-Binding Investment Principles in attracting foreign direct investment and in creating a favorable investment climate in the region. ABAC commends the formation of a high-level Regional Investment Analytical Group to socialize the value of quantitative indicators of measures of investment performance and to contribute to enhancing investment policy decision-making in APEC economies. ABAC recommends a review of the APEC Investment Facilitation Action Plan with a view to encouraging investment flows from sovereign wealth funds, state-owned enterprises, insurance, pension and wealth funds and ensuring transparency, predictability and non-discriminatory treatment.

## **Achieve a Free Trade Area of the Asia-Pacific.**

ABAC appreciates APEC's important and meaningful contribution as an incubator of a Free Trade Area of the Asia-Pacific (FTAAP) by providing leadership and intellectual input into its development, and by playing a critical role in defining, shaping and addressing the "next generation" trade and investment issues that an FTAAP should contain. As APEC nears the 2020 deadline for achieving the Bogor Goals, ABAC is concerned that progress

towards achievement of the Bogor Goals by 2020, as measured by the APEC Policy Support Unit (PSU) Dashboard, is mixed. ABAC believes that the pace needs to be quickened as we approach 2020. FTAAP is the ultimate expression of the Bogor Goals. In relation to FTAAP, ABAC sees the need for more "top down" direction from Leaders to accompany the "bottom up" approach through the negotiating pathways. This should comprise further articulation of the overall vision, robust economic analysis of the possible gains and a dialogue aimed both at increasing transparency and identifying business needs. ABAC calls for concrete steps towards the realization of an FTAAP such as developing a roadmap and conducting analytical work, building on the work done by APEC, ABAC and PECC, and recognizing the Trans Pacific Partnership (TPP), Regional Comprehensive Economic Partnership (RCEP) and Pacific Alliance (PA) as important building blocks toward an FTAAP. We urge the broadest possible participation in pathways to an FTAAP that is in line with the spirit of open regionalism. We believe that an FTAAP should strive for coherence and converge around the highest standards from each of the pathways. Quality, ambition and comprehensiveness need to be the goals driving such negotiations if they are to meet business needs.

## **Build effective global value chains.**

The growing fragmentation of production across borders reinforces the need for economies to adopt an open, predictable and transparent trade and investment regime. It also underscores the importance of pursuing high-standard trade agreements that have the largest impact by covering as many dimensions of global value chains (GVCs) as possible. GVCs place new demands on firms, in particular as regards the need for strong coordination and efficient links between production stages and across economies. When value chains are global, economies' trade and investment policies become more interdependent and the costs of protectionism are higher, more immediate and more pervasive. In this context, measures are necessary to prevent the spread of new trade-distorting measures such as local content requirements (LCRs). ABAC urges APEC to utilize the private sector as a source of expertise in the development of APEC's Strategic Blueprint on Global Value Chains. It recommends the reduction or elimination of trade and investment barriers in order to facilitate broader APEC economy engagement in GVCs.

**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. Specifically, ABAC commends APEC Ministers Responsible for Trade for their endorsement of the APEC Alliance for Supply Chain Connectivity (A2C2), a public-private forum that will work with economies to develop and implement the recommendations related to APEC supply chain connectivity comprehensive capacity building plan. Specifically, A2C2 will enhance APEC's targeted, focused capacity building and technical assistance projects regarding improving supply chain performance and implementing the commitments of developing economies under the WTO Trade Facilitation Agreement. ABAC continues to support APEC's systematic approach to improving supply chain performance and encourages increased APEC funding of a dedicated APEC Trade and Investment Liberalization and Facilitation Sub-Fund for Supply Chain Connectivity. To improve regional connectivity and enhance supply chain performance, ABAC urges APEC economies to continue to work towards a region-wide framework to facilitate a coherent deployment of global product data standards and provide support for ABAC's emerging pilot project focused on measuring the benefits of applying common data standards to international trade in medical products.

**Pursue the new services agenda.** Trade and investment in services is an important and fast growing part of the regional economy and plays a crucial role in the competitiveness of global supply chains and value chains yet many barriers remain to be addressed. ABAC therefore welcomes the endorsement of manufacturing-related services in supply chains/value chains as a next generation trade and investment issue to be addressed in APEC. For its part, ABAC is undertaking numerous initiatives to help advance the services agenda, including a mapping exercise to identify business organizations across APEC with a specific interest in services liberalization to serve as platform from which to drive future services-related initiatives. ABAC is advocating the adoption of its "Earn, Learn and Return" framework on a sector-by-sector basis for managing the efficient movement of workers and workforce development around the region. Key elements of the framework include governance, certification, standards and training,

documentation, recognized benefits and rights, language, duration and travel. ABAC urges APEC to address the priority issues identified relating to the implementation of the APEC Business Travel Card (ABTC) and to consider the creation of an APEC Worker Travel Card along similar lines to the ABTC.

**Accelerate infrastructure development and facilitate infrastructure investment.** ABAC welcomes APEC's efforts this year to advance the Multi-Year Plan on Infrastructure Development and Investment (MYPIDI). ABAC supports Finance Ministers' efforts to develop an implementation roadmap in 2014 to guide future work on public-private partnerships (PPP), including strengthening the capacity of existing and new PPP Centers through a regional network supported by the APEC PPP Experts Advisory Panel. We believe that these efforts can help provide viable ways of mobilizing additional resources and reduce the risk and the time taken from project approval to project preparation. ABAC urges early and decisive action in the work streams to implement the Multi-Year Plan to improve project preparation and markedly increase the pipeline of ready projects. ABAC highlights the importance of a comprehensive and holistic approach to planning high-quality infrastructure projects that takes into account long-lasting asset value, stability of long-term cash flow and lifecycle cost in drawing private investments. ABAC believes that viable PPP Centers provide the best means to mobilize these actions, especially in reducing the time and costs of project preparation.

ABAC welcomes the dialogues organized by the Asia-Pacific Infrastructure Partnership (APIP) to facilitate frank and open discussion among the private sector, multilateral development banks and academics with ministers and their senior advisors on the development and financing of PPPs. We call on Leaders to encourage continuation of dialogues with APEC member economies as a most constructive way of supporting infrastructure investment in the region.

ABAC encourages all APEC economies to begin utilizing the ABAC Enablers of Infrastructure Investment Checklist. The Checklist is designed to measure performance and promote a better understanding of the complex policies and institutional practices needed to attract and effectively utilize foreign direct investment in

infrastructure. It presents a unique opportunity for all APEC economies to draw attention to progress and successful outcomes in their respective infrastructure environments as well as create new partnerships with potential investors.

**Adopt an APEC Blueprint on Connectivity that takes into account the principles outlined by ABAC.**

ABAC strongly supports the initiative to adopt an APEC Blueprint on Connectivity. The three pillars of the Blueprint should be supported and strengthened by a strategic vision and elements underpinned by targets and timelines. ABAC believes the Blueprint will provide APEC with much needed direction and impetus for regional economic integration well after the achievement of the Bogor Goals in 2020. And in the complex and more integrated economic landscape of the 21st Century, a Blueprint provides APEC with the means to deliver real dividends from free and open trade and investment to our businesses, our people and our communities. Where at all possible, the progress toward timelines and targets should be reported at the level of each economy so that business and consumer can make more informed assessments. The Blueprint should be forward-looking and account for the rapid development of information and communication technologies (ICTs) that will be vital in connecting the region. For example, the rapid increase in the use of mobile devices and the development of the Internet of Things will require the efficient use of radio frequency spectrum. Similarly, capacity building, supporting measures such as those provided by the ABAC Enablers of Infrastructure Investment Checklist and the work of APIP, and training should be incorporated across the Blueprint to strengthen implementation and the skills needed for utilizing the new systems and technologies that are emerging.

**Engage the private sector in infrastructure financing.**

Various research findings suggest that with growing demand in infrastructure investments, traditional sources of public finance alone are not sufficient. The result has been a widespread recognition of a significant “infrastructure gap”. To bridge this widening gap, there is a great need to mobilize private sector capital in infrastructure project finance, in particular non-bank finance. To achieve this vision, mutually beneficial partnerships between public and private sectors can be important. Designing policy measures that are

supportive of long-term investing, reforming the regulatory and procurement framework, ensuring equitable risks transfer to the parties best able to manage and mitigate them and building adequate capacity are all vital to attract non-bank finance. At a very basic level, suitable legal and regulatory frameworks, project structuring and a transparent environment are the foundation.

**Support the development of SMMEs and financial inclusion.**

To help nurture the development, adaptability and sustainability of small, medium and micro-enterprises (SMMEs), ABAC encourages Leaders to consider: creating capacity building programs for SMMEs to access international networking and collaboration opportunities; expanding channels of internationalization for SMMEs, including through the use of ICT and e-Commerce; promoting Cross-Border E-commerce Training (CBET) opportunities; increasing public-private dialogues and partnership; and removing barriers for new and creative business initiatives. We recommend that APEC adopt a comprehensive approach, such as the APEC Accelerator Network, to accelerate innovative start-ups and high growth SMMEs by providing funding, mentoring and market access so as to facilitate commercialization of cutting-edge technologies. Opportunities for SMMEs can be increased by simplifying legal and regulatory barriers. ABAC recommends that APEC economies explore the concept of a platform for cross-border collaboration and market-driven technology dissemination. The Asia-Pacific Open Innovation Platform, a voluntary undertaking open to all APEC economies, may serve as a possible model for future platforms.

Recognizing that not all options will be available in each economy and that traditional bank financing plays a primary role in financing SMMEs, ABAC encourages economies to examine the broad range of SMME financing options that exist in the Asia-Pacific region as outlined in its APEC Framework for Innovative SMME Financing Mechanisms report; to adopt a comprehensive suite of SMME financing mechanisms in their economies; and to review policy and regulatory reforms needed to support the growth of innovative and alternative financing mechanisms such as micro-finance, angel and seed investments, internet trade financing, venture capital, crowd funding and the junior/venture exchange.

ABAC recommends that Leaders encourage greater public-private collaboration to help member economies: develop proportionate financial regulatory frameworks; design financial inclusion strategies and capacity building initiatives that promote a broad range of financial services and innovation; promote coordination among stakeholders including the private sector; and accelerate the development of market infrastructure related to financial identity, credit information, collateral management and payments.

**Advance women's economic inclusion.** APEC has taken important steps to improve women's economic participation. It is increasingly clear that their advancement is not only a social imperative, improving their lives and the lives of their families, but an economic imperative as well. However, women throughout the APEC region still face challenges related to obtaining capital, reaching markets, developing skills and capacity, accessing networks, and achieving leadership positions. The presence of these obstacles has resulted in a large amount of untapped productivity within the APEC region. ABAC encourages APEC Leaders to support policies and share best practices to eliminate these obstacles. Addressing these barriers and taking steps to bring more women into the economic mainstream in both the private and public sectors will drive economic growth and promote stability in the region.

**Accelerate green growth.** ABAC commends APEC for its concrete commitments to green growth. APEC's agreement to tariff reductions on 54 items of Environmental Goods (EGs) provided an incentive for 14 WTO members to start a similar agreement in January this year, breaking the stalemate in international negotiations. APEC has also committed to reduce energy intensity in the region by 45% by 2035. Energy conservation is the least expensive and most accessible source of energy, and it will be a key element to achieving the 45% target. These are tangible commitments with benchmarks that can be easily measured. To accelerate the green growth agenda, ABAC recommends that APEC: enforce tariff reduction for the 54 EG items by the end of 2015, expand discussions on environmental services, and identify and eliminate non-tariff barriers for environmental goods and services; and introduce policies that stimulate energy conservation, encourage wider

use of energy-saving equipment, and facilitate free trade of such goods and services.

**Address energy security.** A stable supply of energy is at the core of economic growth and is a pressing issue in the APEC region. Expanding and diversifying energy supplies remain a primary concern. While increasing renewable energy is the ultimate goal, for most economies, an energy mix including fossil fuels will need to remain in place but their impact on the environment is a key concern. To balance economic growth and environmental protection, ABAC recommends that APEC: assist in technical innovation to advance wider use of renewable energy; provide legal structures and regulations that are transparent and predictable for business to invest in energy production; establish, strengthen and fully enforce environmental regulations to mitigate the environmental impact of power generation; promote wider use of natural gas; expand use of clean coal technology (CCT); where infrastructure utilizing the latest CCT is planned, provide the necessary assistance including capacity building and financing in association with international bodies; and speed up technical development and facilitate empirical research for carbon capture and storage to make it commercially viable.

**Achieve food security.** ABAC welcomes APEC's focus on food security as critical to achieving sustainable and inclusive growth. It continues to support the APEC Policy Partnership on Food Security (PPFS) and believes that the progress made to date provides a good foundation on which to engage the private sector in an even deeper strategic dialogue. ABAC welcomes the continuing development of the Roadmap to Food Security prepared by PPFS as a high-level expression of what needs to be done by governments, the private sector and other stakeholders working together to make progress towards specific PPFS goals. ABAC recommends that APEC: adopt mechanisms for knowledge sharing and technical cooperation, and identify and eliminate barriers that limit public-private cooperation; focus on establishing policies and regulatory regimes that liberalize and encourage investment flows, promote public-private ownership structures and improve private sector input into government decision-making; and continue to resist protectionism in all its forms.

**Build robust partnerships in the mining sector.**

As substantial producers and consumers of minerals and metals, it will be important for APEC economies to collaboratively promote effective regulatory environments for the mining sector to underpin the region's prospects for sustainable economic growth. Robust partnerships and meaningful dialogue between the public and private sector will be needed to ensure that responsible investment leads to beneficial outcomes for communities, economies and investors. We encourage APEC to expand its focus on this economically vital sector and build on its well established history of facilitating public-private collaboration by taking additional steps to engage the business community and industry associations in partnerships with stakeholders such as the APEC Mining Task Force. To create a framework for further discussion, this year, ABAC has commissioned a study that measures the impact that the mining sector has on APEC economies, highlights best practices in responsible mining and outlines the factors that influence the private sector's decision to invest.

**Promote healthy workforces and robust health systems.** Rapidly aging populations and the rising burden of non-communicable diseases (NCDs) pose a substantial challenge to sustainable economic growth. This trend has important implications for the well-being of communities, long-term care costs as well as the productivity and availability of labor. Health-related absenteeism, disability and productivity losses are a substantial concern for both the public and private sector. Smart investments in healthcare systems coupled with business-friendly trade and regulatory policies can help APEC economies address this trend. Such policies can leverage the private sector to the fullest extent by encouraging the creation of new therapies and treatments and ensuring they are delivered in a timely and safe manner. For example, companies rely on consistent data standards to more effectively track and trace products as they move through increasingly complex regional supply chains. Continued efforts to identify and address inefficiencies in supply chains will improve access for patients.

**Promote the rule of law.** A sound business environment is essential for attracting investments, creating jobs, and bringing development to the people. One of the basic building blocks for this sound business environment is the rule of law.

Recognizing the diverse circumstances of APEC economies in promoting competitiveness and the rule of law, ABAC urges Leaders to support a capacity building program that will facilitate best practice sharing in the rule of law and in enabling sound business environments. Lifting all of the APEC members' capacity in this area will help reduce investment risks and pave the way for increased investments and inclusive growth in the region. In so doing, our Leaders will cement APEC's role and contribution in the global economy.

**Accelerate financial market development to promote growth.**

The Asia-Pacific Financial Forum (APFF) has been established and is now developing a number of public-private initiatives to enable financial markets to support the growth of domestic consumption and trade, infrastructure investment, innovation, and SMMEs. To play this role, financial markets need to evolve to have greater diversity of financing sources, with a larger role for deep and liquid capital markets and institutions that can provide long-term finance. They also need to become more inclusive. APFF is currently identifying ways to address market, regulatory, and operational issues that affect the ability of insurers and pension funds to expand their investments in infrastructure. It is also developing action plans to help improve the legal and institutional infrastructure for the wider use of factoring, movable assets and accounts receivable as collateral, and of consumer credit information, all of which will help SMMEs. ABAC urges the Leaders to support the APFF and recommends that Leaders encourage public-private sector collaboration to promote high-quality valuation practices in the region.

**Respond to the challenges of urbanization.**

Meeting the challenges of urbanization requires a holistic policy framework to enhance the capacities of public policy agencies, both at the domestic, city and municipal levels, in the design and implementation of policies to provide for sustainable urban infrastructure, public-private partnerships and the financing of projects. ABAC commends support for its initiative to launch the Asia-Pacific Urban Infrastructure Network this year in the first of a series of biennial forums involving global and regional experts from the public and private sectors, financiers, multilateral development banks and academia, to develop a holistic framework.





# Main Report



# Outline of Recommendations

## I. Introduction

## II. Regional Economic Integration

### A. Accelerating trade and investment liberalization

1. Completing expansion of the WTO Information Technology Agreement
2. Promoting investment liberalization
3. Building effective global value chains
4. Promoting good regulatory practices

### B. Achieving a Free Trade Area of the Asia-Pacific

### C. Pursuing the new services agenda

1. Promoting the efficient management of labor mobility and skills transfers in the region
2. Improving business mobility

### D. Enhancing supply chain connectivity

1. Promoting greater use of global data standards
2. Achieving a balanced approach to trade security and facilitation

## III. Infrastructure and Connectivity

### A. Accelerating infrastructure development and facilitating infrastructure investment

### B. Underpinning the connectivity agenda and value chains

1. Promoting disaster resilient ICT frameworks
2. Developing a connectivity map to realize quality transport
3. Facilitating investment in and connectivity between international airports

### C. Engaging the private sector in infrastructure financing

## IV. SMME and Entrepreneurship

### A. Enhancing SMMEs' access to finance

### B. Promoting innovative growth

### C. Enhancing the integration of SMMEs in the global value chains

### D. Sustaining the momentum of women's economic empowerment

## V. Sustainable Development

### A. Accelerating green growth

### B. Addressing energy security

### C. Achieving food security

- D. Promoting healthy workforces
- E. Encouraging expanded partnerships and responsible mining investment
- F. Expanding APEC's engagement in remanufacturing
- G. Promoting the rule of law

## **VI. Finance and Economics**

- A. Accelerating financial market development to promote growth
- B. Facilitating the internationalization of the renminbi
- C. Promoting financial inclusion
- D. Mobilizing regional savings for long-term investments
- E. Promoting public-private partnership and infrastructure finance
- F. Establishing an Asia-Pacific Urban Infrastructure Network
- G. Improving valuation practices in APEC

## **VII. Industry Dialogues**

- A. APEC Chemical Dialogue
- B. APEC Life Sciences Innovation Forum

## **VIII. Conclusion**

### **Annexes**

- A ABAC Letter to APEC Ministers Responsible for Trade
- B ABAC Letter to China's Minister of Health
- C ABAC Letter to APEC Energy Ministers
- D ABAC Letter to APEC SME Ministers
- E ABAC Letter to APEC Ministers Responsible for Food Security
- F ABAC Letter to APEC Finance Ministers
- G The APEC Business Advisory Council

List of Acronyms

# Main Report

## I. Introduction

Global financial and market conditions continue to show signs of improving, with the global economy expected to strengthen over the coming two years. Despite improved prospects, the IMF notes that global economic recovery remains fragile and significant downside risks persist. These include increased risks in emerging market economies arising from the changing external environment, risks to activity from lower-than-expected inflation in advanced economies, and geopolitical risks which have resurfaced. With growth not evenly robust across the globe, more policy efforts are needed to fully restore confidence, ensure robust growth, and lower downside risks.

Within the APEC region, economic recovery is proceeding at varying speeds. And while growth for the region as a whole is improving over the year, the medium-term outlook has weakened. Of concern is a faltering in the contribution of trade to regional growth and a trend fall in productivity growth in the region. This highlights the need to improve competitiveness in the region's economies by enhancing labor market and productivity growth through innovation, raising the skills quality of workforces, improving efficiencies in economic processes and intensifying connectivity in the region's markets.

Against this background, ABAC adopted the theme "Building Asia-Pacific Community, Mapping Long-Term Prosperity". Our work program this year focused on the following priorities, with the realization of a Free Trade Area of the Asia-Pacific (FTAAP), connectivity and infrastructure development and global value chains (GVCs) as the core agenda:

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

In this report, ABAC sets out practical actions which APEC economies could take to advance regional economic integration and achieve

sustained economic growth and recovery in the region. The recommendations are organized according to ABAC's five working groups.

## II. Regional Economic Integration

ABAC has long championed the need for measurable and verifiable steps towards regional economic integration. The APEC Policy Support Unit's Dashboard exercise, which measures progress towards achievement of the Bogor Goals by 2020, suggests that progress to date has been mixed. There remains much more to be done and the pace needs to quicken as we draw closer to 2020.

### A. Accelerating trade and investment liberalization

Liberalization of trade and investment must remain a cornerstone of APEC's policy agenda as it is crucial to regional economic integration. As a strong supporter of the World Trade Organization (WTO), ABAC welcomes the outcomes of the 9th WTO Ministerial Conference (MC9) in December 2013. We encourage APEC economies to redouble efforts to move forward the WTO Doha Round agenda and fight against protectionism. Prompt implementation of the "Bali package" is of utmost importance, in particular the Trade Facilitation Agreement (TFA) which will contribute to reducing costs and increasing efficiency in the movement of goods and provision of services.

#### Recommendations:

- Continue to take the lead in advocating for a multilateral approach to trade and investment liberalization.
- Push for the early implementation of the TFA.

#### 1. Completing expansion of the WTO Information Technology Agreement

The Information Technology Agreement (ITA) is one of the most commercially successful trade pacts in the WTO driving growth, innovation, and creating jobs in both developed and developing economies. The ITA has significantly contributed to promoting innovation in the APEC region and around the world by putting innovative, more

affordable information and communication technology (ICT) products into the hands of consumers. The ITA has also provided access to necessary components of high-value ICT products, encouraging greater integration in global value chains for manufacturing of these devices. Despite tremendous innovation in the technology sector and the appearance of thousands of new ICT products on the market, not a single new tariff line has been added to the ITA in 18 years.

ABAC is concerned about the loss of momentum in completing the negotiations to expand the ITA. Last fall, the APEC Leaders called for the conclusion of the ITA expansion negotiations by MC9. To bring the agreement up to date, ITA member economies held monthly negotiating rounds in Geneva throughout much of 2013. Disappointingly, despite these significant efforts to complete the ITA expansion, economies were not able to narrow their differences for an agreement, and the negotiations were suspended in late November 2013.

#### **Recommendation:**

- Demonstrate greater leadership in securing a commercially significant expansion of the ITA, in particular by limiting sensitivities and supporting the mutually balanced and ambitious liberalization goals set forth in the initial ITA expansion negotiations. Such an outcome will be a significant contribution by APEC to the WTO and the global economy.

#### 2. Promoting investment liberalization

ABAC continues to encourage APEC to focus on spurring improvements in the investment environment of each economy. As a result of ABAC's several initiatives in supporting the efforts of APEC in these areas, APEC successfully updated the APEC Non-Binding Investment Principles (NBIP) in 2011 after intensive discussion with ABAC.

ABAC acknowledges that in some economies, these principles are well embodied in the policy to attract foreign direct investments (FDIs) and converted into bilateral investment chapters of trade agreements. Most importantly,

the introduction of this bilateral mechanism has greatly contributed to the betterment of the foreign direct investment climate in participating economies as well as to increasing their volume of FDI. ABAC believes this kind of bilateral mechanism, which reflects the NBIP, should be developed in regional free trade agreements such as the Trans Pacific Partnership (TPP), Regional Comprehensive Economic Partnership (RCEP), Pacific Alliance (PA) and ultimately the FTAAP.

#### **Recommendation:**

- Encourage APEC economies to recognize the importance of bilateral investment mechanisms and their implementation reflecting the APEC Non-Binding Investment Principles.

#### 3. Building effective global value chains

Global value chains have become a dominant feature of the global economy, involving economies at all levels of development. When value chains are global, economies' trade and investment policies become more interdependent and the costs of protectionism are higher, more immediate and more pervasive. In this context, measures are necessary to prevent the spread of new trade-distorting measures such as local content requirements (LCRs). Although LCRs are sometimes seen as a way to "climb" a value chain, they in fact cause significant economic repercussions to all trading partners by stifling their investment climates, and negating the gains of otherwise effective trade facilitation measures.

This growing fragmentation of production across borders reinforces the need for economies to adopt an open, predictable and transparent trade and investment regime as tariffs, non-tariff barriers and other restrictive measures impact not only foreign suppliers, but also domestic producers. This also underscores the importance of pursuing high-standard trade agreements that have the largest impact by covering as many dimensions of GVCs as possible, including not only goods but also services, investment, competition, intellectual property and the temporary movement of workers.

## Recommendations:

- Utilize the private sector as a source of expertise in the development of APEC's Strategic Blueprint on Global Value Chains. GVCs place new demands on firms, in particular as regards the need for strong coordination and efficient links between production stages and across economies.
- Emphasize the reduction or elimination of import/export restrictions in order to facilitate broader APEC economy engagement in GVCs. APEC officials should also provide leadership and support for high-standard trade agreements that cover as many dimensions of GVCs as possible.

### 4. Promoting good regulatory practices

In recent years, there has been an emerging recognition of the need to tackle behind-the-border issues that create unnecessary non-tariff barriers to free trade and investment. 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 a lack of transparency in regulatory practices as most serious challenges to doing business in the Asia-Pacific region. For businesses, and in particular SMMEs, higher compliance costs hinder international competitiveness and complicate the most efficient deployment of economic resources. Enhancing regulatory cooperation within APEC economies will lower the costs of doing business, shorten supply chains and help achieve a seamless commercial environment. The recently released APEC Progress Report on the 2011 Baseline Study on Good Regulatory Practices (GRPs) found significantly more economies are implementing the GRPs than in 2011, and economies that have already adopted the GRPs are investing substantial political and financial resources in strengthening and widening the application of the GRPs. However, the intensity of GRP implementation still varies dramatically between economies and there remains significant work to be done.

## Recommendations:

- Strengthen implementation of the three good regulatory practices agreed to by APEC Leaders in the Honolulu Declaration as well as the three GRP tools identified in the APEC Bali Declaration.
- Support APEC's initiative on public consultations on proposed regulations in the Internet Era. ABAC looks forward to providing practical perspectives on actions economies can take to strengthen their public consultations through information technology.
- Align more closely APEC economies' regulations with global best practices, utilize performance-based rather than prescriptive-based regulations, design regulatory institutions that promote trade-friendly regulation, and strengthen public-private cooperation through the use of consultation mechanisms to enhance accountability, promote mutual learning, and encourage best practices.

## B. Achieving a Free Trade Area of the Asia-Pacific

Over the last decade, ABAC has consistently called for an ambitious approach to a comprehensive regional free trade area (FTA) which has become encapsulated in the concept of a Free Trade Area of the Asia-Pacific. FTAAP will be the ultimate expression of the achievement of APEC's Bogor Goals. To achieve regional economic integration, we need to complete the Bogor Goals of free and open trade and investment in the region; to achieve Bogor, we need FTAAP and to achieve FTAAP, we need to complete one or more of the various negotiating pathways including TPP, RCEP and PA.

ABAC welcomes the work undertaken in these three potential pathways to FTAAP. ABAC urges the broadest possible participation in pathways to an FTAAP in line with the spirit of open regionalism. ABAC also emphasizes the importance of quality, ambition and comprehensiveness if the potential pathways are to lead to an FTAAP. At the same time, those processes should strive for coherence with the numerous bilateral or plurilateral trade agreements that exist between the different APEC economies. We believe that an FTAAP should

converge around the highest standards from each of the pathways.

ABAC appreciates APEC's important and meaningful contribution as an incubator of an FTAAP by providing leadership and intellectual input into its development, and by playing a critical role in defining, shaping and addressing the "next generation" trade and investment issues that an FTAAP should contain. As we near the 2020 deadline for achieving the Bogor Goals, ABAC sees the need for more "top down" direction from APEC in the FTAAP process to accompany the "bottom up" approach through the negotiating pathways. This should comprise further articulation of the overall vision, robust economic analysis of the possible gains and a dialogue aimed both at increasing transparency and identifying business needs. At this time, we would welcome concrete steps towards the realization of an FTAAP such as developing a roadmap and conducting analytical work as agreed by APEC Ministers Responsible for Trade who met in May 2014. Any such undertakings should build on the extensive work completed by APEC, ABAC and PECC, including economic analyses and model FTA provisions, and should also recognize that TPP, RCEP and PA are important building blocks toward an FTAAP which should be concluded as early as possible. We are ready to be part of the process, cooperating actively with PECC, and provide business inputs.

#### **Recommendations:**

- APEC economies participating in any of the various pathway negotiations such as TPP and RCEP should adhere to the principles of quality, ambition and comprehensiveness.
- Provide additional direction on the process from getting from the individual pathway negotiations to an FTAAP and conduct appropriate analytical work.

#### **C. Pursuing the new services agenda**

Trade and investment in services is an important and fast growing part of the regional economy. Services also play a crucial role in the competitiveness of global supply chains and value chains. However, many barriers remain to be addressed so liberalization of services trade and investment remains a high priority for ABAC.

We welcome the endorsement of manufacturing-related services as a next generation trade and investment issue to be addressed in APEC. For its part, ABAC is undertaking numerous initiatives with respect to services, including a mapping exercise to identify business organizations across APEC with a specific interest in services liberalization which should create a useful platform from which to drive future services-related initiatives. ABAC also advocates for a better regional framework for managing the efficient movement of workers and workplace development around the region.

#### **1. Promoting the efficient management of labor mobility and skills transfers in the region**

Skills shortages and mismatches in the APEC region inhibit investment and economic development in the region. ABAC proposes that this problem be addressed by a framework that will efficiently manage labor mobility and skills transfers in the region and promote workforce development. The framework calls for closer coordination among businesses, workers, and government regulatory agencies. Key elements of the framework include: a sector-based regulatory structure built around a new category called an "APEC Worker"; regulatory convergence of training, assessment and certification of skills and qualifications; transparent, regulated and standard process for skills mobilization and deployment; a next generation of APEC-wide services catering to the needs of an APEC Worker. The creation of an APEC worker card, along the lines of the existing business travel card is proposed. The proposal builds on the objectives and ongoing projects of the APEC Human Resource Development Working Group.

#### **Recommendations:**

- Engage with ABAC to develop further ABAC's proposed Earn, Learn and Return Framework.
- Encourage participation by all APEC economies in the APEC skills mapping database in order to build a more accurate picture of labor/skills shortages in the region.



## 2. Improving business mobility

Business mobility refers to the flow of business people engage in trade and investment activities across borders. Even with the much greater use of new technology such as video conferencing, majority of business executives believe that face-to-face communication and in-person meetings have a large impact on their businesses. Improving business mobility therefore stimulates trade and economic growth, and the development of the APEC Business Travel Card (ABTC) scheme is regarded as one of the most successful initiatives of APEC in this respect.

While ABAC appreciates efforts by APEC's Business Mobility Group (BMG) to conduct an End-to-End Review of the ABTC scheme and welcomes recent commencement of the issuance of the ABTC by one transitional economy, ABAC once again calls on APEC to address the priority issues identified relating to the implementation of the scheme.

### **Recommendations:**

- Encourage transitional economies to complete domestic processes towards full membership status in the ABTC scheme.
- Urge APEC BMG to extend the validity period of the ABTC from three (3) to five (5) years.
- Simplify renewal/re-application process for current ABTC holders as well as consider linking passport information with the ABTC to avoid expiration of the card when the holder's passport expires. 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, such as expanding the area of usage of ABTC beyond APEC economies.

## **D. Enhancing supply chain connectivity**

Supply chains are the backbones of the global economy. A 2013 report by the World Economic Forum estimates that raising all economies' 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.

APEC has a very good track record in the area of trade facilitation. Two successive APEC Trade Facilitation Action Plans (TFAPs) implemented from 2002-2010 succeeded in reducing trade transaction costs by 10%. 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. Specifically, ABAC commends the endorsement by APEC Ministers Responsible for Trade of the APEC Alliance for Supply Chain Connectivity (A2C2), a public-private forum that will work with economies to develop and implement the recommendations related to APEC supply chain connectivity comprehensive capacity building plan.

ABAC continues to support APEC's systematic approach to improving supply chain performance, including the development of a comprehensive capacity building plan on supply chain connectivity and the establishment of a dedicated APEC Trade and Investment Liberalization and Facilitation (TILF) Sub-Fund for Supply Chain Connectivity.

### **Recommendations:**

- Utilize A2C2 as a tool to expedite commitment to the WTO Trade Facilitation Agreement. Companies and associations trading in the Asia-Pacific have valuable experience in moving goods and services seamlessly, quickly, and inexpensively throughout the region.
- Continue contributing funding to the APEC TILF Sub-Fund for Supply Chain Connectivity.

#### 1. Promoting greater use of global data standards

ABAC believes that greater regional take up of global data standards (GDS) will materially strengthen the functioning and connectivity of regional supply chains, thereby supporting the enhancement of value chains. APEC's 2013 Joint Ministerial Statement recognized the contribution that global data standards can make to improved regional connectivity

and enhanced supply chain performance. ABAC welcomes the decision by Ministers to encourage officials to explore how to facilitate mutual compatibility amongst data standards frameworks, and the compatibility of economies' frameworks with the use of GDS. ABAC was pleased to note the progress made towards greater mutual compatibility of GDS among APEC economies through capacity building workshops and policy dialogue in 2014. For its part, ABAC has been working with local global data standards providers with a view to identifying existing or new pilot projects or "living labs" that can be shared with other APEC economies and possibly rolled out more widely around the region.

**Recommendations:**

- Continue to identify GDS pilot projects or "living labs" to build capacity and overcome supply chain chokepoints, as identified in APEC's Supply Chain Connectivity Framework".
- Continue to work towards a region-wide framework to facilitate a coherent deployment of global product data standards.

2. Achieving a balanced approach to trade security and facilitation

ABAC continues to advocate for a coordinated and holistic approach to enhance and facilitate the development of a mutual recognition scheme for Authorized Economic Operator (AEO) programs in APEC economies alongside the APEC-wide AEO Program. ABAC agrees with the view of APEC Ministers Responsible for Trade that Single Window systems and AEO Programs are one of the means to improve the efficiency of customs clearance and further lower trade transactions costs, and welcomes their instruction to advance work in these areas. However, the challenge for the business is how to balance stronger procedures to facilitate the movement of goods across borders and compliance with various supply chain security measures. Compliance with various additional security programs in some economies adds an extra burden and can undermine business competitiveness. ABAC believes that specific

consideration, such as waivers, should be granted to AEOs to meet extra security requirements in order to further promote trade in the region, and such balanced measures would respond to the Ministers' instruction to improve the efficiency of customs clearance and lower trade transaction costs.

**Recommendations:**

- Encourage APEC to develop an AEO certification system for AEO-qualified corporations in economies where AEO programs do not exist and promote mutual recognition of AEOs and the APEC-wide AEO program's mutual recognition scheme.
- Avoid redundancy with other supply chain security programs and explore ways to include benefits or waive extra data requirements by other programs such as "24-hour rule" and "10+2 rule" to existing AEO-certified operators.

**III. Infrastructure and Connectivity**

In 2014, ABAC's work on infrastructure and connectivity focused on the following key themes: accelerating infrastructure development; facilitating infrastructure financing; enabling capacity building for regional connectivity; and building effective global value chains.

**A. Accelerating infrastructure development and facilitating infrastructure investment**

Billions of dollars of infrastructure projects will be required in the APEC region over the next two decades in order to underpin sustainable growth and deeper regional economic integration. Funding the emerging infrastructure gap is beyond the scope of governments and increasingly large amounts of private sector financing will therefore be needed. Over the medium and longer term, a wide range of regional and economy-wide initiatives will be required to tap private sector financing and many of these issues are being addressed within the Asia-Pacific Financial Forum (APFF).

However, in the immediate term, ABAC believes that there is adequate private sector financing available to increase public-private partnership

(PPP) infrastructure programs. ABAC is concerned that, despite the demand, the current constraint to infrastructure development is the lack of ready projects, especially in economies where new infrastructure projects would have a significant positive impact on growth and development and greater connectivity. This results in a drag on private investor confidence in the infrastructure sector and among potential business users who require higher quality infrastructure for their business activities.

ABAC welcomes APEC's efforts this year to advance the Multi-Year Plan on Infrastructure Development and Investment (MYPIDI). ABAC supports Finance Ministers' efforts to develop an implementation roadmap in 2014 to guide future work on PPP, including strengthening the capacity of existing and new PPP Centers through a regional network supported by the APEC PPP Experts' Advisory Panel. We believe that these efforts can help provide viable ways of mobilizing additional resources and reduce the risk and the time taken from project approval to project operation. ABAC urges early and decisive action in the work streams supporting the Multi-Year Plan to improve project preparation and markedly increase the pipeline of ready projects. In particular, ABAC highlights the importance of a comprehensive and holistic approach to planning high-quality infrastructure projects that takes into account long-lasting asset value, stability of long-term cash flow and lifecycle cost in drawing private investments.

ABAC believes that PPP Centers provide the best means to mobilize these actions, especially in reducing the risk and the time and costs of project preparation. While PPPs require careful risk allocation and contract structuring, international experience suggests that good PPPs are more likely to: deliver assets and service on time and within budget; help increase transparency; and result in lower costs of service delivery than public provision with savings that can be passed on to consumers.

#### **Recommendations:**

- Establish PPP Centers in relevant economies within three years, drawing upon the advice of the APEC PPP Experts Advisory Panel, including ABAC and the Asia-Pacific Infrastructure Partnership (APIP).

- Encourage PPP centers to cooperate in a working regional network to foster the exchange of expertise and experiences, to develop a stronger regional perspective on infrastructure demands and to facilitate financing.
- In developing PPP Centers:
  - Provide effective finance for the Centers in order to establish the high level of expertise required for PPP project development and risk assessment.
  - Enact a PPP policy and legal framework, signaling the government's willingness to engage with the private sector for the delivery of public services and creating a transparent and competitive process for preparing, tendering, and implementing PPP contracts.
  - Develop the institutional framework for PPPs, which includes guidelines for the transparent tendering, evaluation, and award of PPP contracts, and establish statutory bodies. Many OECD economies have PPP centers which are shown to streamline domestic PPP frameworks and allow a whole-of-government "one-stop shop" for infrastructure projects.
  - Develop the government's risk management and contract monitoring and evaluation capabilities.
  - Ensure that all PPPs are tendered on a transparent and equitable basis through competitive processes to ensure government is not overpaying for the services it is procuring.
- Through PPP Centers, aim to reduce the time taken from project approval to project operation to a maximum of three years and, in so doing, reduce the cost of project preparation for investors and governments. To facilitate these initiatives, ABAC encourages all APEC economies to begin utilizing the ABAC Enablers of Infrastructure Investment Checklist for:
  - Self-assessment and benchmarking, especially for PPP Centers.

- Promoting more effective coordination among different agencies.
- Developing credible public promotion on progress and plans, and new investment opportunities for investors and financiers in cooperation with ABAC.
- Sharing expertise and experiences across APEC economies, especially in a PPP Center network.

## **B. Underpinning the connectivity agenda and value chains**

ABAC strongly supports the initiative to adopt an APEC Blueprint on Connectivity. ABAC sees the Blueprint as a complement to the Bogor Goals and believes that it should sit alongside the Bogor Goals as part of the APEC strategic vision for the future. This is because the Blueprint addresses many critical issues in today's business and consumer operating environment and therefore builds on the Bogor Goals. And to be effective, the Blueprint should take on board lessons from the Bogor Goals experiences. Many of ABAC's ongoing areas of engagement will support the achievement of the Blueprint including work on infrastructure investment, labor and business mobility and regulatory cooperation. The Blueprint should serve to increase APEC's focus on these areas.

### **Recommendations:**

- Ensure that the Blueprint on Connectivity encompasses the following principles:
  - The Blueprint should be supported by an overall strategic vision to add weight and value to the individual components and continuity over the longer term.
  - The Blueprint should have a timeline beyond 2020 to provide certainty and continuity to the economic integration process.
  - In addition to the overall strategic vision and timeline, the individual components of the Blueprint should have targets and timelines.
  - Where at all possible, the progress toward timelines and targets should be reported at

the level of each economy so that business and consumer can make more informed assessments.

- The Blueprint should be forward-looking and account for the rapid development of information and communication technologies that will be vital in connecting the region. For example, the rapid increase in the use of mobile devices and the development of the Internet of Things will require the efficient use of radio frequency spectrum.
- Capacity building and training should be vital components for successful and seamless implementation of connectivity systems.

ABAC has contributed a great deal on the specific elements of connectivity over many years. In line with the overarching principles outlined above, three key issues proposed this year that are critical as drivers for growth and for more secure value chains are disaster resilient ICT infrastructure frameworks, developing a connectivity map to realize quality transport and facilitating investment in and connectivity between international airports.

#### 1. Promoting disaster resilient ICT frameworks

The members of the APEC region face more than 70% of the world's natural disasters. As evidence of recent natural disasters has shown, this poses a grave risk to connectivity for both humanitarian and economic purposes and it is therefore crucial to have an ICT infrastructure framework that is resilient to natural disasters.

Although ICT infrastructure and disaster resiliency have been important issues of APEC, the main discussion has been on addressing the recognition of the vital role played by ICT infrastructure in emergency preparedness, and not so much on developing collective plans/actions for disaster-resilient ICT infrastructure throughout the Asia-Pacific region.

Through lessons of how ICT infrastructure contributed to saving lives and how it could have contributed more in disaster relief and recovery in the recent major natural disasters

in the APEC region, ABAC strongly believes that the vulnerability of ICT infrastructure needs to be resolved and a strong framework is needed for APEC to develop an ICT infrastructure that actually operates in times of natural disasters.

#### **Recommendation:**

- Develop collective plans/actions for disaster-resilient ICT infrastructure throughout the Asia-Pacific region drawing on the wide experiences and lessons learnt in several APEC economies.

#### **2. Developing a connectivity map to realize quality transport**

With recent growth in the Asia-Pacific region causing a southeastern shift in the economic center of gravity, freight transport and logistics are growing in importance. An economy's trade and freight are strongly indicative of its economic competitiveness and are linked to a number of other factors, including legislation, international agreements, hauler and shipper performance and technology.

Higher quality logistics have a significant influence on trade. A 10% improvement in transport and trade-related infrastructure quality can increase developing economies' agricultural exports by 30%, according to an OECD study.

In this regard, ABAC welcomes APEC's commitment to continue exploring opportunities to diversify and optimize transportation and supply chain routes. APEC is doing this across all modes by developing a "Connectivity Map" and "Quality Transport" vision, and by sharing experiences and best practices to enhance investments in transportation infrastructure.

However, we do understand the difficulties involved in drawing up transport policies and planning logistics networks. Good coordination is often a big challenge, as numerous parties need to be involved in the process, including neighboring jurisdictions and legislative bodies, as well as the domestic, regional and local authorities. It is sometimes unclear

which authorities have which responsibilities, and there can be overlaps or gaps. These can hinder investment and prevent seamless business operations. Fragmentation can result in high commuting costs when crossing borders or transferring between modes. The negotiation of revenue-sharing agreements is often the key to good coordination, and investment financing can be better facilitated by policy frameworks that link local decision-making to domestic sustainability goals.

#### **Recommendations:**

- Expedite development of the "Connectivity Map" which identifies fragmented areas in logistics, i.e. poorly connected areas of the region from both physical and institutional perspectives.

- Develop and implement regionally-coordinated transportation policies that will result in "Quality Transport".

#### **3. Facilitating investment in and connectivity between international airports**

An example of the important nexus between hard and soft infrastructure, people-to-people and institutional connectivity is international airports. International airports in APEC economies are important drivers of economic growth and regional connectivity. Ongoing investment in airport infrastructure is required to support travel, trade and tourism.

#### **Recommendations:**

- Encourage APEC to address issues that prevent further investment and connectivity in airport infrastructure, such as by liberalizing visas, significantly improving passenger processing, and simplifying security rules and information sharing processes.

- Encourage APEC to review the concepts underpinning international air services agreements with a view to promoting liberalization.

### C. Engaging the private sector in infrastructure financing

The impact of infrastructure development in facilitating economic growth, increasing productivity and promoting trade connectivity has been extensively studied, with most studies concluding that improvements in a broad range of infrastructure categories are a pre-requisite to ensuring faster growth.

Yet various research findings suggest that with growing demand in infrastructure investments, traditional sources of public finance alone are not sufficient. One common theme across both mature and emerging economies in the APEC region is budgetary constraint – very few economies can rely solely on the government to fund necessary infrastructure projects. The global financial crisis further restrained banks' commitments of long-term credit as a result of new regulations.

The result has been a widespread recognition of a significant "infrastructure gap". To bridge this widening gap, there is a great need to mobilize private sector capital in participating infrastructure project finance, in particular non-bank finance.

#### Recommendations:

##### Engaging the private sector through public-private partnerships

- Enact a PPP policy and legal framework, signaling the government's willingness to engage with the private sector for the delivery of public services and creating a transparent and competitive process for preparing, tendering, and implementing PPP contracts.
- Develop the institutional framework for PPPs, which includes guidelines for the transparent tendering, evaluation, and award of PPP contracts, and establish statutory bodies.
- Develop the government's risk management and contract monitoring and evaluation capabilities.
- Ensure that all PPPs are tendered on a transparent and equitable basis.

##### Bringing in alternative financing sources outside the banking system

- Design policy measures that are supportive of long-term investing.
- Reform the regulatory and procurement framework for long-term investment.
- Ensure equitable risk transfer to the parties best able to manage and mitigate specific risks.
- Build adequate capacity for both public and private sector.

##### Removing the barriers by setting the basics right

- Focus on developing legal and regulatory frameworks.
- Focus on equitable risk allocation and fair return in project structuring.
- Build a transparent environment that allows suitable project information to flow to investors, and for investors to make decisions in a timely manner.

### IV. SMME and Entrepreneurship

SMMEs are the backbone of APEC economies, representing a substantial source of employment, productivity and innovation in the Asia-Pacific region. ABAC recognizes the need to develop policies that foster the growth and development of SMMEs and promote entrepreneurship in the APEC region. To this end, ABAC has prioritized the following four areas in 2014 as crucial pillars: enhancing SMMEs' access to finance; promoting innovative growth; assisting the internationalization of SMMEs and their integration into the global value chains; and sustaining the momentum of women's economic empowerment.

#### A. Enhancing SMMEs' access to finance

In 2014, ABAC has developed an APEC Framework for Innovative SMME Financing Mechanisms in collaboration with the G20 economies' SME Finance Forum which is managed by the International Finance Corporation (IFC). The Framework provides an overarching picture of the broad range of SMME financing options that exist in the Asia-Pacific region highlighting alternative and

innovative financing mechanisms that broaden options for SMMEs. Recognizing that not all options will be available in each economy and that traditional bank financing plays a primary role in financing SMMEs, it encourages governments to examine the broad range of SMME financing options that exist in the Asia-Pacific region; to adopt a comprehensive suite of SMME financing mechanisms in their economies; and to review policy and regulatory reforms needed to support the growth of innovative financing mechanisms such as micro-finance, angel and seed investments, internet trade financing, venture capital, crowd funding and the junior/venture exchange.

Whereas APFF is focused on the broader development of financial markets and services to increase the availability of funds, this report focuses on financial products that broaden the range of financing mechanisms for SMMEs and highlight some emerging, alternative, and innovative mechanisms. Non-bank financial institutions and larger real sector companies play a critical role in the development and sophistication of these innovative financing mechanisms and policymakers should encourage these institutional players to participate more broadly in the SMME financing ecosystem.

ABAC welcomes the establishment of the Co-Fund between Chinese Taipei and New Zealand for cross-border cooperation in venture capital development for assisting SMMEs' access to international markets and funding and recommends that governments work to encourage broader establishment of such venture capital development funds throughout the APEC region to spur innovative development.

#### **Recommendations:**

- Review SMME financing alternatives available in each economy.
- Support the development of a comprehensive suite of policy options that support innovative and diversified financial institutions and products.
- Review the regulatory framework and environment required to enable these new innovative models to be introduced successfully in each economy.

- Strengthen support with respect to innovative financing mechanisms for SMMEs such as support for targeted startups/accelerators, angel and seed investments, internet supply/value chain financing, venture capital, crowd funding and alternative/small capital exchanges.
- Identify and remove barriers to women entrepreneurs' participation in high growth potential sectors, greatly increasing the human capital resources for dynamic SMME growth.
- Review the tax and fiscal environments for major financial participants so that they are not discouraged from participating in investment vehicles that help support a robust financial ecosystem for SMMEs.
- Support the establishment of cross-border SMME funds.

#### **B. Promoting innovative growth**

ABAC believes that innovative growth can be effectively promoted by simplifying legal and regulatory barriers and providing SMMEs easier access to cross-border collaboration and commercialization opportunities of new innovations and cutting-edge technologies. A number of APEC economies have been exploring the concept of a platform that promotes best practices, expertise, and collaboration in open innovation throughout the APEC region.

#### **Recommendation:**

- Explore the concept of a platform for cross-border collaboration and market-driven technology dissemination in each economy. The Asia-Pacific Open Innovation Platform, a voluntary undertaking open to all APEC economies, may serve as a possible model for future platforms.

ABAC continues to support accelerator programs in the region to enhance the entrepreneurship environment. Most notably, the ABAC-APEC partnership has advanced the APEC Accelerator Network and the associated APEC Challenge. The network has been officially launched in 2014 to provide networking, funding, and mentorship opportunities for innovative startups across the APEC region.

### **Recommendations:**

- Support the APEC Accelerator Network and promote the participation of public sector representatives and high-level experts in future start-up accelerator programs.
- Create an enabling environment for SMMEs by establishing and supporting start-up programs.

### **C. Enhancing the integration of SMMEs into the global value chains**

In 2014, ABAC launched the Cross-Border E-commerce Training (CBET) Program to offer training courses to APEC SMMEs on cross-border business opportunities in the new global value chains, with the objective of bringing the program online in 2015 and localizing the program in other APEC economies for broader impact. ABAC continues to organize SME Summits in the region to provide outreach opportunities and looks forward to working with APEC governments on broadening the presence and reach of these initiatives.

### **Recommendations:**

- Support capacity building programs such as the CBET program to enable SMMEs to access international networking, learning and collaboration opportunities.
- Support the organization of more SME Summits and initiate these in the economies where such initiatives are absent.

### **D. Sustaining the momentum of women's economic empowerment**

Women's economic empowerment is a critical imperative for the success of businesses and economies. In addition to contributing to stronger and more inclusive societies, there is a compelling economic case for engaging women in the workforce: enhancing growth in economies throughout the region and ensuring that existing talent can realize its full potential.

Empowering women to more fully participate in the economy can occur at a number of different levels, ranging from addressing barriers for women-owned businesses to policies designed to increase opportunities for women in education and leadership roles. Attracting and retaining a

talented workforce is critical for every business and the prosperity of every economy. However, the disproportionately small representation of female talent in leadership positions, known as the "Leaking Pipeline", remains a pressing economic issue to be addressed by business and government together.

In 2013, ABAC published a report entitled "Driving Economic Growth and Business Performance through Economic Empowerment and Inclusion of Women in APEC Economies" to examine the issue in-depth and present policy recommendations from the private sector perspective. ABAC looks forward to initiating conversations with APEC Leaders, Ministers, and policymakers on advancing this agenda through close public-private collaboration.

### **Recommendations:**

- Review and adopt the recommendations from the ABAC report entitled "Driving Economic Growth and Business Performance through Economic Empowerment and Inclusion of Women in APEC Economies", namely: implement the San Francisco Declaration; continue to mainstream the issues; engage industry through multi-year initiatives; and use a data-driven approach to policy development; and engage local business communities.
- Lead by example by committing to appoint at least one female member per economy to ABAC.

## **V. Sustainable Development**

Achieving sustainable development remains a core APEC objective. Accordingly, in 2014, ABAC addressed the following key themes: accelerating green growth; addressing energy security; achieving food security; and promoting healthy workforces.

### **A. Accelerating green growth**

ABAC commends APEC for its concrete commitments to green growth. APEC's agreement to tariff reductions on 54 items of Environmental Goods (EGs) provided an incentive for 14 WTO members to start a similar agreement in January this year, breaking the stalemate in international negotiations. APEC has also committed to reduce energy intensity in the region by 45% by 2035.



Energy conservation is the least expensive and most accessible source of energy, and it will be a key element to achieving the 45% target. These are tangible commitments with benchmarks that can be easily measured.

#### **Recommendations:**

- Enforce tariff reductions for the 54 EG items by the end of 2015 and expand discussions on environmental services.
- Identify and eliminate non-tariff barriers for environmental goods and services.
- Introduce policies that stimulate energy conservation, encourage wider use of energy-saving equipment, and facilitate free trade of such goods and services.
- Support efficient regional trade of energy through transmission infrastructure and domestic and regional power grids.

#### **B. Addressing energy security**

Sustainable growth is based on a stable and economically viable supply of energy. To boost renewable energy-based power generation (excluding hydro power) in the APEC region from the 3% in 2010, it is important for APEC to further contribute to policies and technologies that promote the development of cleaner energy, thereby enabling economies to meet the increasing energy needs with a lower environmental impact.

For the immediate future, in order to meet growing demands, power generation in many APEC economies will continue to depend on fossil fuel, especially coal. In light of coal's impact on the environment, it is crucial that measures to mitigate its impact are taken, including wider use and further innovation of advanced clean coal technology (CCT). A balance between economic growth and environmental protection is essential.

#### **Recommendations:**

- Assist in technical innovation to advance wider use of renewable energy.
- Provide legal structures and regulations that are transparent and predictable for business to invest in energy production and that establish,

strengthen and fully enforce environmental regulations to mitigate the environmental impact of power generation.

- Promote wider use of natural gas.
- Expand use of CCT.
- Where infrastructure utilizing the latest CCT is planned, provide the necessary assistance including capacity building and financing in association with international bodies.
- Speed up technical development and facilitate empirical research for carbon capture and storage to make it commercially viable.

#### **C. Achieving food security**

ABAC welcomes APEC's focus on food security as critical to achieving sustainable and inclusive growth. We believe that APEC can strengthen food security by promoting open and transparent markets. ABAC has a long history of championing the importance of engaging the private sector to help find solutions to achieving food security in the region. We continue to support the APEC Policy Partnership on Food Security (PPFS), and believe that the progress made to date provides a good foundation on which to engage the private sector in an even deeper strategic dialogue.

ABAC welcomes the continuing development of the Roadmap to Food Security prepared by the PPFS as a high-level expression of what needs to be done by governments, the private sector and other stakeholders working together to make progress towards specific PPFS goals.

#### **Recommendations:**

- Adopt mechanisms for knowledge sharing and technical cooperation, and identify and eliminate barriers that limit public-private cooperation.
- Focus on establishing policies and regulatory regimes that liberalize and encourage investment flows, promote public-private ownership structures, and improve private sector input into government decision-making to maximize productivity and improve regional supply chain connectivity.

- Continue to resist protectionism in all its forms, eliminate trade-distorting policies, remove non-tariff barriers, and establish internationally recognized, science-based standards across the region.

#### **D. Promoting healthy workforces**

APEC member economies face three common challenges in the form of rapid population aging, a high prevalence of non-communicable diseases (NCDs) such as heart and respiratory disease, cancer and mental illness and an increase in risk factors for NCDs such as lifestyle. Taken together, these factors threaten to create substantial costs for business, governments and individuals in the form of lost productivity and increased care costs. To promote a better understanding of the potential impact this trend will have on productivity, this year, ABAC has commissioned a study to investigate data in a representative group of six APEC economies. The resulting data clearly indicates that the economic costs created by NCDs are substantial and notes that when available funding is applied to treating preventable NCDs, the result is a diversion of resources from savings and investment, creating an opportunity cost. ABAC welcomes further actions to raise awareness of the economic impact that NCDs can have on developed and developing economies and calls on governments to seek solutions in partnership with the business community.

#### **Recommendations:**

- Work in partnership with the business community to raise awareness of the impact of NCDs and develop innovative solutions.
- Create a policy environment conducive to alleviating the burden of NCDs.

#### **E. Encouraging expanded partnerships and responsible mining investment**

As substantial producers and consumers of minerals and metals, it will be important for APEC economies to collaboratively promote effective regulatory environments that can encourage positive outcomes for local stakeholders, investors and economies. The mining sector plays a critical role in the region's future prospects for sustainable economic growth by providing

substantial investment in resource rich economies, driving regional trade and providing the materials needed for a variety of products that are essential to everyday life. To create a framework for further discussion, this year, ABAC has commissioned a study dedicated to measuring the impact of the mining sector on APEC economies. The study indicates that the APEC region has substantial mining potential, but additional work is needed to put the right policies in place and ensure that this potential contributes to the region's prospects for sustainable economic growth.

We encourage APEC to expand its focus on this economically vital sector and build on its well established history of facilitating public-private collaboration by taking additional steps to engage the business community in partnerships with stakeholders such as the APEC Mining Task Force (MTF). ABAC welcomed its first public-private dialogue with the MTF this year and its participation at the APEC Ministers Responsible for Mining Meeting. ABAC and the business community look forward to building on our success this year to contribute to an ambitious agenda within APEC's mining policy discussion.

#### **Recommendations:**

- Work closely with the business community to organize formal dialogues with mining authorities such as the APEC Mining Task Force.
- Identify and promote best practices in responsible mining.
- Create predictable, business-friendly policy environments that are supportive of long-term investment lifecycles required for mining projects.
- Promote the transfer of knowledge and skills sharing by members of industry associations through training, sharing of best practices, technologies, community engagement and communication skills.

#### **F. Expanding APEC's engagement on remanufacturing**

Remanufacturing provides a sustainable means to produce "good as new products" in a number of sectors for a fraction of the energy and resources

required to manufacture newly created products. The resulting goods are indistinguishable from their newly manufactured counterparts in terms of appearance and quality. Addressing barriers to trade in remanufactured goods will result in tangible benefits for the environment and the regional economy through cost savings and job creation. ABAC strongly supports APEC's continued work to advance its Pathfinder on Facilitating Trade in Remanufactured Goods through workshops and capacity building events. We call on APEC to continue this important work and strongly encourage all APEC economies to formally join the Pathfinder.

#### **Recommendations:**

- Continue to organize workshops and capacity building activities focused on remanufacturing.
- Call on all APEC economies to formally join the APEC Pathfinder on Facilitating Trade in Remanufactured Goods.

#### **G. Promoting the rule of law**

Over the years, APEC economies have successfully improved the flow of goods, capital and people by reducing "at-the-border" barriers to trade and investment. For example, since 1989, the average tariff level in APEC region has fallen from 16.9% to less than 6%. This year, ABAC has addressed "behind-the-border" barriers that are affecting entrepreneurship, business and investment and impacting economic activities in the region.

In this respect, ABAC is seeking to create the appropriate business environment that will become the bedrock for attracting investments, creating jobs, and bringing development to the people. One of the basic building blocks for this sound business environment is the rule of law and its many features, including: constraints on government powers; absence of corruption; open government; fundamental rights; order and security; and regulatory enforcement, among others.

Recognizing the diverse circumstances of APEC economies in promoting competitiveness and the rule of law, ABAC urges Leaders to support a capacity building program that will facilitate

best practice sharing in the rule of law and in enabling sound business environments. Lifting all of the APEC members' capacity in this area will help reduce investment risks and pave the way for increased investments, business creation and inclusive growth in the region.

#### **Recommendations:**

- Support the establishment of a regional capacity building program for sharing best practices that will be a key tool in developing stronger and predictable rule of law.
- Identify the main barriers and issues affecting the rule of law and its features mentioned above in each of the APEC economies.

#### **VI. Finance and Economics**

This year, ABAC addressed the following priorities in the area of finance: monitoring of macroeconomic and G20 developments; developing a framework for the challenges of urbanization and promoting investment in infrastructure; measures to promote investment in infrastructure in the region, including investment by sovereign wealth funds (SWFs), state-owned enterprises (SOEs) and pension funds; internationalization of emerging markets' currencies; and measures to accelerate financial market development and to promote financial inclusion.

#### **A. Accelerating financial market development to promote growth**

The Asia-Pacific region today faces the challenge of transforming its economic growth model from one that still remains considerably dependent on consumer demand in Europe and North America to one that is increasingly driven by domestic and regional demand. This transformation will require significant increases in domestic consumption supported by strong investment growth. It will require efforts to address poverty, environmental issues and the economic impact of aging, expanding infrastructure and facilitating competitiveness, innovation and growth of SMMEs. The APFF has identified a number of action plans that can enable financial markets and services to support this process.

## Recommendations:

- Encourage public-private collaboration through the APFF to:
  - Expand access of SMMEs to financing through improved legal and institutional frameworks for credit information and the use of factoring, movable assets and accounts receivables as collateral in secured transaction systems and factoring, as well as trade and supply chain finance.
  - Develop deep, liquid and integrated financial markets through better financial market infrastructure and cross-border capital market practices, increased ability of insurers and pension funds to invest in long-term assets and provide longevity solutions, effectively meeting capital market participants' needs for hedging instruments and information, and successfully launching the Asia Region Funds Passport.

## B. Facilitating the internationalization of the renminbi

Ongoing policy reforms to the Chinese financial system and reforms to the capital account are facilitating the internationalization of the renminbi. ABAC notes that a number of economies have entered into bilateral currency swap agreements in 2013 and earlier agreements have been renewed. Benefits arise from these arrangements including growing acceptance of the renminbi as a settlement currency and stability in the renminbi exchange rate. A report by the Center for International Finance and Regulation in Australia notes the desirability of China pursuing a gradual pathway to renminbi internationalization, as relevant economic and financial system reforms are successively implemented in China. The report notes that if the renminbi becomes a second reserve currency, it is likely to have a stabilizing impact on the international monetary system.

### Recommendation:

- Endorse the gradual implementation of policies by China to internationalize the renminbi as a significant contribution to financial system stability in the region and globally.

## C. Promoting financial inclusion

The 2014 Asia-Pacific Forum on Financial Inclusion provided an opportunity to review current trends, recent achievements, ongoing challenges and opportunities in financial inclusion in six economies in the region. The Forum identified a number of key priorities for future initiatives to promote greater access to finance to households and SMMEs in the region. Policymakers and regulators have a responsibility to address these issues. In most developing economies, there is a huge need to build capacity to design effective laws and implement rules and policies, build political support for reforms, establish institutional architectures, and to develop skills and capacity to continuously adjust rules and regulations to a continuously evolving market. Providing opportunities to build this capacity remains a serious challenge for the region.

### Recommendations:

- Encourage greater public-private collaboration and capacity building initiatives to help member economies:
  - Develop financial regulatory frameworks that are proportionate to risks and balance the objectives of safety, soundness, integrity and consumer protection with market innovation and accelerating financial inclusion.
  - Design financial inclusion strategies that promote a broad range of financial services and prudential systems that retain incentives to innovate.
  - Promote coordination among relevant ministries and stakeholders and private sector inputs in policy formulation.
  - Accelerate the development of market infrastructure, particularly those related to financial identity, credit information, collateral management and payments.

## D. Mobilizing regional savings for long-term investments

Last year, Ministers endorsed an ABAC-supported and Australian/Asian Development Bank

Institute (ADB)-sponsored three-year program to enhance transparency and predictability in investment decision-making in the region. The first phase of the program was a public-private dialogue in Beijing in September 2013 on ways to encourage better understanding by stakeholders in investments by SOEs, SWFs, pension, insurance and managed funds in the mobilization of long-term finance for infrastructure. SOEs and SWFs are increasingly commercializing their offshore investment activities, managing risks and are concerned about the rule of law and governance in the economies in which they invest. Any modifications to the APEC Investment Facilitation Action Plan should focus on ways to encourage investments by SWFs and SOEs. Capital importing economies should treat their investments in a non-discriminatory way, refrain from applying any unnecessary regulatory barriers and rules should be transparent and predictable. APEC should consider a compliance requirement with the Santiago Declaration in members' responses to Individual Action Plans. There would be value in developing partnerships between governments, business and academia to promote good investment principles.

The dialogue also led to consideration of a proposal to establish a Regional Investment Analytical Group (RIAG) to encourage the use of quantitative indicators and methodology for measuring investment performance and to socialize the use of indicators in the region's economies. RIAG would involve representatives of major regional and international agencies such as the World Bank, the OECD, the ADB, the APEC Policy Support Unit and the ASEAN Secretariat as well as experts from regional think tanks and officials. The Australian government has sought the agreement of the APEC Investment Experts' Group (IEG) and the APEC Committee on Trade and Investment (CTI) to receive reports from RIAG, noting that reports could identify ways in which investment policy frameworks could be improved, bolster the IEG agenda and expand the range of tools and technical information on regional investment trends. ABAC's views on RIAG reports would be provided direct to Ministers and senior officials. The Secretariat function would be managed by the Australian APEC Study Center at RMIT University and participation would be on a self-funded basis, similar to the arrangements relating to other ABAC initiatives such as the APFF and APIP.

The work of the APFF has also underscored the important role that insurers and pension funds can play in channeling long-term savings to long-term investments. Enabling these institutions to more effectively assume this role requires addressing regulatory and accounting issues that have an impact on incentives for engaging in long-term business, as well as market and operational issues that constrain the flow of investment to long-term assets and longevity solutions for efficient management of retirement savings.

#### **Recommendations:**

- Review APEC's Investment Facilitation Action Plan approaches with a view to encouraging investment flows from SWFs, SOEs, insurance, pension and wealth funds and ensuring transparency, predictability and non-discriminatory treatment.
- Encourage economies in responding to Individual Action Plan to show their compliance or otherwise with the Santiago Declaration.
- Support the establishment of a RIAG in APEC to promote and socialize the use of quantitative and qualitative indicators to enhance investment performance in regional economies.
- Engage insurers and pension funds through the APFF in the work of the APEC Finance Ministers' Process on infrastructure to promote deeper understanding of obstacles to expansion of their investment in infrastructure and other long-term assets and discuss approaches to address these issues.

#### **E. Promoting public-private partnership and infrastructure finance**

In 2013, APEC launched its Multi-Year Plan on Infrastructure Development and Investment and the APEC Finance Ministers established the APEC PPP Experts Advisory Panel to assist member economies in improving coordination and developing capacity to build bankable project pipelines through PPP Centers. A Pilot PPP Center was set up in Indonesia. The Asia-Pacific Infrastructure Partnership, adopted by Finance Ministers as a policy initiative in 2011, has undertaken several dialogues with governments

in APEC and participated in various regional discussions. APIP has identified a number of key issues from these dialogues and discussions that can be addressed using APEC as a collaborative platform.

#### **Recommendations:**

- Develop an implementation roadmap for promoting infrastructure PPP projects to assist member economies in: effectively allocating risks between public and private sectors; improving institutional capacity to promote PPPs; facilitating infrastructure finance, especially long-term and local currency funding; providing an enabling legal, policy and regulatory environment; and promoting public support for PPPs.
- Continue APIP dialogues with interested economies.

#### **F. Establishing an Asia-Pacific Urban Infrastructure Network**

Cities in the region contribute to more than 75% of the region's GDP but urban growth challenges have become increasingly complex due to inadequate attention to infrastructure and services to meet transportation, communication, education, health needs and environmental risks. These challenges require a holistic policy framework to support economies and their cities in providing for sustainable urban infrastructure and to enhance the institutional capacities of public policy agencies in the region in designing and implementing PPP infrastructure projects. Collaboration will be a vital aspect of this work and it will involve expertise from the region and globally. Australia and China have launched a collaborative initiative through the formation of an Asia-Pacific Urban Infrastructure Network to be held on a biennial basis with the first meeting convened in Melbourne in September.

ABAC endorsed an Australian-funded research and a capacity building initiative to strengthen the capacities of agencies in enhancing transactional skills in PPP agencies in the region and in improving efficiencies in agency operations, particularly in relation to the development of urban infrastructure.

#### **Recommendation:**

- Support the establishment of an Asia-Pacific Urban Infrastructure Network that will meet at biennial forums to develop a holistic framework and guidelines to support enhanced urban development in the cities of the region and measures to finance relevant infrastructure and supporting capacity building initiatives.

#### **G. Improving valuation practices in APEC**

Valuations are central to decision-making within the global economy, applying both to capital and property market decisions and to decisions and actions in public and private sector organizations, including regulatory organizations. The public interest, economic growth and development of financial systems are impacted in a multitude of ways by decisions and actions that are dependent on valuations. This critical role of valuation underscores the importance for economies in the region to agree on the adoption of high-quality valuation standards across jurisdictions globally and develop a credible valuation profession.

#### **Recommendation:**

- Encourage the public sector to collaborate with ABAC, the International Valuation Standards Council, valuation professional organizations (VPOs), experts from industry and other relevant bodies to promote high-quality valuation practices and professionals across member economies through region-wide convergence toward robust global valuation standards and the development of sustainable VPOs as caretakers of professional standards, education and knowledge depositories.

### **VII. Industry Dialogues**

#### **A. APEC Chemical Dialogue**

ABAC continues to support the work of the Chemical Dialogue on regulatory cooperation, notably the move to build capacity to implement the Dialogue's best practice principles for chemicals regulatory management. ABAC strongly supports cross fora collaboration between the Chemical Dialogue and the Ocean and Fisheries Working Group, among others, to begin addressing the important issue of marine debris by promoting innovative solutions.

## **B. APEC Life Sciences Innovation Forum**

ABAC welcomes China's decision to organize a High-Level Meeting (HLM) on Health and the Economy as a joint initiative of the APEC Life Sciences Innovation Forum (LSIF) and the APEC Health Working Group (HWG). The HLM is a vital part of APEC's ongoing work to bridge health and the economy and facilitate high-level attention to the critical health challenges facing the region.

ABAC welcomes its expanded partnership with the APEC LSIF and strongly supports its robust focus on the role of health and health innovations in economic development. The business community sees firsthand the impact of health on business competitiveness and the value accrued to the economy through health-related innovations. The anticipated establishment of a Center of Excellence for Regulatory Sciences and a training center for the commercialization of biomedical research in the region are welcome developments that will build capacity to review, approve and develop innovations generated in the region. The LSIF's ongoing work to assure the safety of the region's blood supply and reduce the high economic and public costs of healthcare associated infections and anti-microbial resistance is also welcomed by the business community. These issues are of critical importance to pandemic preparedness. We recommend that APEC Leaders strongly support these initiatives.

The business community also strongly supports ongoing work among APEC economies to implement APEC's Hanoi, Kuala Lumpur and Mexico City principles for codes of business ethics for the construction, medical devices and biopharmaceutical sectors, respectively. ABAC played a strong role in the launch of all three sectoral principles and welcomes the LSIF's ongoing efforts to encourage business associations from the medical device and biopharmaceutical sectors to adopt codes of business ethics modeled on APEC's work.

## **VIII. Conclusion**

Building on past success, APEC now needs to accelerate progress towards the achievement of the Bogor Goals and in creating a better environment for business to operate in. However, there is much more to be done. In this report, we have sought to elaborate on concrete actions that we believe APEC should take to advance regional economic integration and promote sustained economic growth and recovery in the region. It is our hope that these recommendations would help APEC move closer to our Leaders' vision of an Asia-Pacific community as the foundation for long-term prosperity for all peoples in the region.





# Annexes





7 May 2014

**H.E. Gao Hucheng**

Chair, Meeting of APEC Ministers Responsible for Trade  
Minister of Commerce  
People's Republic of China

Dear Minister Gao:

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 work this year focuses on deepening regional economic integration, promoting infrastructure growth and connectivity, encouraging sustainable development, fostering SMME development and entrepreneurship, and promoting the development and integration of financial markets. We believe APEC economies should take concerted actions in these areas with the aim of opening markets to trade and investment and achieving long-term growth.

As a strong supporter of the World Trade Organization (WTO), ABAC welcomes the outcomes of the 9th WTO Ministerial Conference (MC9) in December 2013. We encourage APEC economies to redouble efforts to move forward the WTO Doha Round agenda and fight against protectionism. Implementation of the "Bali package" is of utmost importance, in particular the Trade Facilitation Agreement (TFA) which will contribute to reducing costs and increasing efficiency in the movement of goods and provision of services. We urge Ministers to take the lead in Geneva in pushing for the early implementation of the TFA. Similarly, ABAC strongly urges APEC to demonstrate greater leadership in advocating for a commercially significant expansion of the Information Technology Agreement (ITA) by the conclusion of the MRT Meeting in May, in particular by limiting sensitivities and supporting the mutually balanced and ambitious liberalization goals set forth in the initial ITA expansion negotiations.

We note the significant progress achieved in the trade initiatives we have previously identified as potential pathways to a Free Trade Area of the Asia-Pacific (FTAAP). In light of these developments and as we near the 2020 deadline for the achievement of the Bogor Goals, ABAC sees the need for more "top down" direction in the FTAAP process. This should comprise further articulation of the overall vision, robust economic analysis of the possible gains and a dialogue aimed both at increasing transparency and identifying business needs. Thus, we would welcome concrete steps towards the realization of an FTAAP such as developing a roadmap, a timetable, and a feasibility study. These undertakings should build on the extensive work completed by APEC, ABAC and PECC and recognize that the Trans Pacific Partnership (TPP), Regional Comprehensive Economic Partnership (RCEP) and the Pacific Alliance (PA) will serve as important building blocks toward an FTAAP. We are ready to be part of the process and provide business inputs.

ABAC welcomes progress being made in the negotiating pathways. TPP is close to completion but needs further political direction if momentum is to be maintained. Quality, ambition and comprehensiveness need to be the driving goals in order to meet business needs. Any bilateral negotiations on market access need to be carefully managed to avoid lowering the level of ambition. Moreover, the conclusion of the TPP should not be delayed by any participants which are unable to adhere to the principle of comprehensiveness set out in the Broad Outlines for TPP announced by Leaders in November 2011. Likewise, RCEP needs to adopt a quicker pace and a level of ambition that would increase alignment with other pathways to FTAAP, including TPP. We urge the broadest possible participation in pathways to an FTAAP that is in line with the spirit of open regionalism. We believe that an FTAAP should converge around the highest standards from each of the pathways.

ABAC is undertaking a range of initiatives in the services sector this year, such as identifying the services sector's role in Global Value Chains; mapping those business organizations across APEC with a specific interest in services liberalization; developing a framework for managing the efficient movement of temporary workers around the region; and engaging with APEC officials on services issues.

Over the longer term, sustained economic growth will be dependent on increased investment – both domestic and foreign – in the capacity of the region's economies. We urge Ministers to address barriers to foreign direct investment (FDI) identified in our 2013 Report to Leaders and draw on tools created by the business community and APEC to provide guidance and promote dialogue between governments and private business such as APEC's Investment Facilitation Action Plan. We further urge that Ministers support a proposal to establish a high-level group of investment experts to provide objective advice on the development and use of quantitative indicators as a tool to promote confidence in, and to socialize the value of, investment performance indicators.

ABAC commends APEC for its holistic and forward looking multi-year programs to enhance infrastructure and connectivity in the APEC region. There are still parts of our region that are not serviced by quality infrastructure and economically connected to the APEC region. ABAC encourages all streams of the APEC process to work together in a more coordinated way on building new, high-quality regional and domestic infrastructure for connectivity. This coordination matters to business investors and users. It will help to increase the pipeline of viable infrastructure projects, strengthen quality transportation networks and enhance global value chains. ABAC believes that greater regional take up of global data standards (GDS) will materially strengthen the functioning and connectivity of regional supply chains, thereby supporting the enhancement of value chains. We commend APEC for the work program on GDS now underway.

Of particular concern is the gap between the region's massive infrastructure needs and the ability of governments to sufficiently finance the needed increase in capacity. Vigilance is required to ensure that international standards setters do not unintentionally impede the ability of long-term investors to invest in the Asia-Pacific region. Under the right conditions, investments by sovereign wealth funds, state-owned enterprises and pension and insurance funds could provide major sources of investment. To provide guidance on attracting and utilizing foreign capital, in 2013, ABAC created an Enablers of Infrastructure Investment Checklist. We urge APEC economies to utilize the Checklist as a platform for increased dialogue with the business community by partnering with ABAC to complete its self-assessment process and establishing it as a practical benchmarking tool within APEC's Multi-Year Plan on Infrastructure Development and Investment (MYPIDI).

ABAC calls on Ministers to encourage financial market regulators and relevant authorities to collaborate with the private sector under the Asia-Pacific Financial Forum (APFF) to facilitate trade and supply chain finance, expand SMMEs' access to finance and promote greater investment in infrastructure.

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 attached.

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

Yours sincerely,



**Ning Gaoning**  
ABAC Chair 2014

## Progress Report to APEC Ministers Responsible for Trade – Other Issues

1. **Creating Partnerships to Remove Barriers to Infrastructure Investment.** ABAC applauds APEC's efforts to address this challenge by expanding its focus on infrastructure development, as demonstrated through the launch of the Multi-Year Plan on Infrastructure Development and Investment and the establishment of a Public-Private Partnership (PPP) Center in Indonesia. As a fundamental determinant of supply chain performance and investment competitiveness, the creation of new infrastructure as well as reinvestment in existing projects will be instrumental in promoting long-term growth in the Asia-Pacific region. Private sector capital and expertise will be needed to help governments to meet future demand and address existing gaps. A particular concern to business is the time and costs required to take infrastructure projects from the approval stage to the operational stage due to inadequate coordination and preparedness as well as uncertainty associated with regulations and risk. Addressing these issues early in APEC's multi-year programs could remove years from the project development process, save millions of dollars in project costs as well as provide immediate impetus for financing and create a stream of new viable projects in the pipeline.

To build on this important work, ABAC encourages APEC governments to leverage ABAC's complementary Enablers of Infrastructure Investment Checklist to engage the business community in a more robust, high-profile dialogue on this important subject. The Checklist is designed to measure performance and promote a better understanding of the complex policies and institutional practices needed to attract and effectively utilize FDI in infrastructure. It presents a unique opportunity for all APEC economies to draw attention to progress and successful outcomes in their respective infrastructure environments as well as create new partnerships with potential investors.

2. **Improving the Environment for PPPs through Public-Private Dialogues.** The Asia-Pacific Infrastructure Partnership (APIP) is providing advice to Ministers and senior officials on critical factors that support the development of PPPs for infrastructure development and financing. Enhanced infrastructure facilities in the region's economies – both developed and developing – remain a major development challenge and one which if met would contribute in a significant way to economic growth and to greater efficiencies in trade in goods and services in the region. High-quality infrastructure enhances the prospect of improved connectivity in the region's economies and in opening opportunities for economies to benefit from engagement in supply chains. There are strong links between the need for more secure investment flows and the financing needs for infrastructure. We encourage strong support for the work of the APIP which will be providing support to Indonesia as it seeks to establish a PPP Center of Excellence in the coming period and for APIP's work to support China's priorities for infrastructure. We will bring these messages to APEC Leaders later in the year.
3. **Completing Negotiations of the WTO Information Technology Agreement.** The ITA is one of the most commercially successful trade pacts in the WTO driving growth, innovation, and creating jobs in both developed and developing economies. The ITA has significantly contributed to promoting innovation in the APEC region and around the world by putting innovative, more affordable information and communication technology (ICT) products into the hands of consumers. Additionally, the ITA has provided access to necessary components of high-value ICT products, encouraging greater integration in global value chains for manufacturing of these devices. Despite tremendous innovation in the technology sector and the appearance of thousands of new ICT products on the market, not a single new tariff line has been added to the ITA in 18 years. To bring the agreement up to date, ITA member economies held monthly negotiating rounds in Geneva throughout much of 2013. Notwithstanding these significant efforts to complete the ITA expansion, economies were not able to narrow their differences for an agreement, and the negotiations were suspended in late November.

ABAC is disappointed about the loss of momentum in completing the ITA negotiations. ABAC strongly urges APEC to demonstrate greater leadership in advocating for a commercially significant expansion of the ITA by the conclusion of the MRT Meeting in May, in particular by limiting sensitivities and

supporting the mutually balanced and ambitious liberalization goals set forth in the initial ITA expansion negotiations. Such an outcome will be a significant contribution by APEC to the WTO and the global economy.

- 4. 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 2013 report by the World Economic Forum estimates that raising all economies' 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.

ABAC supports APEC's systematic approach to improving supply chain performance, including the development of a comprehensive capacity building plan on supply chain connectivity and the creation of a dedicated APEC Trade and Investment Liberalization and Facilitation (TILF) Sub-Fund for Supply Chain Connectivity. Companies and associations trading in the Asia-Pacific have valuable experience in moving goods and services seamlessly, quickly, and inexpensively throughout the region. For this reason, ABAC also calls on APEC to endorse the creation of an APEC Alliance for Supply Chain Connectivity (A2C2), a public-private forum that would work with economies to develop and implement the recommendations related to APEC supply chain connectivity comprehensive capacity building plan. Furthermore, ABAC encourages APEC economies to utilize the A2C2 as a tool to expedite their commitment to the WTO Trade Facilitation Agreement.

- 5. Building Effective Global Value Chains.** Global Value Chains (GVCs) have become a dominant feature of the global economy, involving economies at all levels of development. When value chains are global, economies' trade and investment policies become more interdependent and the costs of protectionism are higher, more immediate and more pervasive. In this context, measures are necessary to prevent the spread of new trade-distorting measures such as local content requirements (LCRs). Although LCRs are sometimes seen as a way to "climb" a value chain, they in fact cause significant economic repercussions to all trading partners by stifling their investment climates, and negating the gains of otherwise effective trade facilitation measures. This growing fragmentation of production across borders reinforces the need for economies to adopt an open, predictable and transparent trade and investment regime as tariffs, non-tariff barriers and other restrictive measures impact not only foreign suppliers, but also domestic producers. This also underscores the importance of pursuing high-standard trade agreements that have the largest impact by covering as many dimensions of GVCs as possible, including not only goods but also services, investment, competition, intellectual property and the temporary movement of workers.

GVCs place new demands on firms, in particular as regards the need for strong coordination and efficient links between production stages and across economies. ABAC encourages APEC to utilize the private sector as a source of expertise in the development of APEC's Strategic Blueprint on Global Value Chains. APEC economies should emphasize the reduction or elimination of import/export restrictions in order to facilitate broader APEC economy engagement in GVCs. APEC officials should also provide leadership and support for high-standard trade agreements that cover as many dimensions of GVCs as possible.

- 6. Promoting Good Regulatory Practice.** In recent years, there has been an emerging recognition of the need to tackle behind-border issues that create unnecessary non-tariff barriers to free trade and investment. For businesses, and in particular SMMEs, higher compliance costs hinder international competitiveness and complicate the most efficient deployment of economic resources.

ABAC urges APEC to strengthen implementation of the three good regulatory practices agreed to by APEC Leaders in the Honolulu Declaration as well as the three GRP tools identified in the APEC

Bali Declaration. In this regard, ABAC welcomes the proposal endorsed at the First APEC Senior Officials' Meeting (SOM I) on public consultations on proposed regulations in the Internet Era, and looks forward to providing practical perspectives on actions economies can take to strengthen their public consultations through information technology. Specifically, ABAC supports efforts to more closely align APEC economies' regulations with global best practices, utilize performance-based rather than prescriptive-based regulations, design regulatory institutions that promote trade-friendly regulation, and strengthen public-private cooperation through the use of consultation mechanisms to enhance accountability, promote mutual learning, and encourage best practices.

- 7. Supporting the Development of SMMEs.** SMMEs are the backbone of APEC economies. They are an integral source of economic growth and employment opportunities in the APEC region. ABAC believes that SMMEs will benefit from an environment that helps nurture their development, adaptability and sustainability. ABAC therefore encourages Ministers to consider: (a) creating capacity building programs for SMMEs to access international networking and collaboration opportunities; (b) expanding channels of internationalization for SMMEs by introducing effective and actionable technologies, including use of ICT and e-Commerce; (c) increasing public-private dialogues and partnership; (d) removing barriers for new and creative business initiatives; and (e) supporting SMMEs' effective access to finance with new innovative channels, such as internet finance.

ABAC urges Ministers to address existing barriers within traditional financing mechanisms for SMMEs, as well as support innovative, non-traditional financing mechanisms such as equity capital and crowd funding, which are providing expanded opportunities for growth to SMMEs.

ABAC recommends that Ministers adopt a comprehensive approach to accelerate innovative growth for SMMEs through policies promoting entrepreneurship and facilitating market-driven development, dissemination, and commercialization of cutting-edge technologies. ABAC urges Ministers to help enhance opportunities for SMMEs by simplifying legal and regulatory barriers. ABAC will continue to explore the feasibility of an open innovation platform initiative aimed at stimulating cross-border collaboration and market-driven technology dissemination throughout the region.

- 8. Improving Women's Economic Inclusion.** APEC has taken important steps to improve women's economic participation. It is increasingly clear that their advancement is not only a social imperative, improving their lives and the lives of their families, but an economic imperative as well. However, women throughout the APEC region still face challenges related to obtaining capital, reaching markets, developing skills and capacity, accessing networks, and achieving leadership positions. The presence of these obstacles has resulted in a large amount of untapped productivity within the APEC region. ABAC encourages Ministers to support policies to eliminate these obstacles. Addressing these barriers and taking steps to bring more women into the economic mainstream in both the private and public sectors will drive economic growth and promote stability in the region.
- 9. Promoting Green Growth.** ABAC commends APEC for its concrete commitments to green growth. APEC's agreement to tariff reductions on 54 items of Environment Goods (EGs) provided an incentive for 14 WTO members to start a similar agreement in January this year, breaking the stalemate in international negotiations. APEC has also committed to reduce energy intensity in the region by 45% by 2035. Energy conservation is the least expensive and most accessible source of energy, and it will be a key element to achieving the 45% target. These are tangible commitments with benchmarks that can be easily measured. To accelerate the green growth agenda, ABAC recommends that APEC: (a) enforce tariff reduction for the 54 EG items by the end of 2015, expand discussions on environmental services, and identify and eliminate non-tariff barriers for environmental goods and services; and (b) introduce policies that stimulate energy conservation, encourage wider use of energy-saving equipment, and facilitate free trade of such goods and services.

- 10. Addressing Energy Security.** A stable supply of electricity is at the core of economic growth and is a pressing issue in the APEC region. Renewable energy is the ultimate source of power generation, but cannot become the dominant source without further technical innovation. For most economies, an energy mix including fossil fuels will need to remain in place, but their impact on the environment is a key concern. To balance economic growth and environmental protection, ABAC recommends that APEC: (a) step up efforts to support technical innovation of renewable energy; (b) establish, strengthen and fully enforce regulations to alleviate the environmental burden; (c) mitigate the impact of fossil fuel for power generation by utilizing technology with the smallest environmental footprint available; and (d) expand use of clean coal technology by providing assistance including capacity building and financing in association with international bodies, where necessary.
- 11. Achieving Food Security.** ABAC has a long history of championing the importance of engaging the private sector to help find solutions to achieving food security in the region. The APEC Policy Partnership on Food Security (PPFS) was created in response to the Ministers' acknowledgement of the importance of working hand-in-hand with the private sector and the PPFS is now ABAC's prime vehicle for engaging on food security in the region. ABAC believes that the structural and operational challenges currently facing the PPFS must be addressed if it is to realize its goal of achieving food security within the APEC region by 2020.
- 12. Promoting Healthy Workforces.** Rapidly aging populations and the rising burden of non-communicable diseases (NCDs) pose a substantial challenge to sustainable economic growth. This trend has important implications for the well-being of communities, long-term care costs as well as the productivity and availability of labor. Health-related absenteeism, disability and productivity losses are a substantial concern for both the public and private sector. To promote a better understanding of these trends, ABAC is partnering with the APEC Life Sciences Innovation Forum (LSIF) to jointly commission a study that will document the current productivity cost of NCDs, analyze their future potential impact and provide a knowledge base for more effective policy responses to this important challenge.

Smart investments in healthcare systems coupled with business-friendly trade and regulatory policies can help APEC economies address this trend. Such policies can leverage the private sector to the fullest extent by encouraging the creation of new therapies and treatments and ensuring they are delivered in a timely and safe manner. For example, companies rely on consistent data standards to more effectively track and trace products as they move through increasingly complex multinational supply chains. In order to generate additional data, this year, ABAC is working with universities in the Republic of Korea and the United States to launch a pilot project that will examine how the application of common data standards to the cross-border trade of medical products can create cost efficiencies and protect patients by reducing compliance costs and preventing substandard and counterfeit medicines from reaching distribution.

- 13. Accelerating Financial Market Development to Promote Growth.** The Asia-Pacific Financial Forum has been established and is now developing a number of public-private initiatives to enable financial markets to support the growth of domestic consumption and trade, infrastructure investment, innovation, and SMMEs. To play this role, financial markets need to evolve to have greater diversity of financing sources, with a larger role for deep and liquid capital markets and institutions that can provide long-term finance. They also need to become more inclusive. The APFF is currently identifying ways to address market, regulatory, and operational issues that affect the ability of insurers and



pension funds to expand their investments in infrastructure. It is also developing action plans to help improve the legal and institutional infrastructure for the wider use of movable assets and consumer credit information that will help SMMEs. ABAC will present recommendations on these matters to APEC Finance Ministers and Leaders.

- 14. Facilitating Trade and Supply Chain Finance.** Supply chains offer significant opportunities for SMMEs to benefit from and contribute to the growth of trade. Currently, they face a rapidly changing trade finance landscape being shaped by new regulations, economic conditions and industry trends limiting suppliers' access to working capital. However, new innovative solutions are also helping them cope with demands of longer production and distribution cycles and growing export volumes. The APFF's work is focused on promoting appropriate and consistent implementation of Basel III with respect to trade finance, proportionate application of know-your-customer and client due diligence rules, and legal and institutional reforms to help develop the collateral management industry. It also deals with promoting the wider use of innovative trade settlement instruments such as bank payment obligations (BPO), e-commerce platforms and emerging market currencies. ABAC urges Ministers to encourage greater public-private collaboration to facilitate trade and supply chain finance through the work of the APFF.
- 15. Building Robust Partnerships in the Mining Sector.** As substantial producers and consumers of minerals and metals, it will be important for APEC economies to collaboratively promote effective regulatory environments for the mining sector to underpin the region's prospects for sustainable economic growth. Robust partnerships and dialogue between the public and private sector will be needed to ensure that responsible investment leads to beneficial outcomes for communities, economies and investors. We encourage APEC to expand its focus on this economically vital sector and build on its well-established history of facilitating public-private collaboration by taking additional steps to engage the business community in partnerships with stakeholders such as the APEC Mining Task Force. To inform future discussions, ABAC is commissioning a study that will examine how mining impacts the regional economy, highlight policies that encourage investment and determine best practices in responsible mining.





## APEC Business Advisory Council



28 July 2014

**H. E. Li Bin**

Minister, National Health and Family Planning Commission  
People's Republic of China

Dear Minister Li:

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. Our direct dialogue with Leaders during the annual APEC Leaders' week events in November will be an opportunity to articulate business challenges in the APEC region.

As representatives of the international business community, ABAC applauds China's decision to host a High-Level Meeting on Health and the Economy in Beijing in August 2014. In its annual Report to APEC Leaders in 2011, ABAC commended the foresight of the APEC Health Working Group (HWG) and the APEC Life Sciences Innovation Forum (LSIF) in holding the first high-level Health Systems Innovation Dialogue in San Francisco to discuss ways of establishing multi-sectoral partnerships to address non-communicable disease challenges in the region. The decision to build on the successful High-Level Meetings that were subsequently organized during Russia's and Indonesia's respective host years in 2012 and 2013 will help ensure that APEC's important work to bridge the gap between health and the economy continues to receive the attention of senior government officials. We encourage APEC to continue its leadership role by gathering diverse health stakeholders such as private sector experts, representatives of professional not-for-profit associations and agencies responsible for finance and economic development to explore how health can be factored into plans for long-term sustainable economic growth.

In my capacity as ABAC Chair, I would like to submit the following recommendations from ABAC for review by you and your peers in the region.

Thank you for your consideration.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Ning Gaoning', written over a white background.

**Ning Gaoning**  
ABAC Chair 2014

### Health Recommendations from ABAC

Given the significant contribution of health to the economy and to business competitiveness, ABAC strongly supports APEC's health agenda and its work to create better health outcomes in the region. In addition to promoting quality of life, we recognize that healthy populations are inextricably tied to APEC's prospects for long-term economic growth. Professor Ken Arrow, who presented his findings from a recent study at the 3rd High-Level Meeting in Bali, effectively captured this important relationship when he stated that "the per capita value of health capital in economies dwarfs the per capita value of all other forms of capital."<sup>[1]</sup>

In particular, our colleagues in the business community are keen to see robust action to address the rising rates of non-communicable diseases (NCDs) in the Asia-Pacific region. As populations age, NCDs will create vastly increased care costs as well as decreases in workforce attendance and productivity. To raise awareness of this important trend and create a resource for policymakers, this year, ABAC is working jointly with the LSIF to develop a study designed to measure the impact of NCDs on workforce productivity in a representative group of APEC economies. Results from this study will be used to help inform APEC's discussions on health this August and will provide an important contribution to existing initiatives.

The private sector also understands that health systems are reinforced by the safe and efficient delivery of medical products. As regional supply chains become increasingly long and complex, measures to ensure regulatory consistency across borders become increasingly important. Inconsistent regulations not only create inefficiencies but also result in added costs as industry complies with diverse requirements. To address this challenge, ABAC has championed the use of common international data standards for trade in products produced by a wide range of industry sectors. Common standards can aid in the verification and tracking of products when they are traded internationally as well as facilitate product recalls when needed, creating more efficient supply chains and promoting safety. For example, more widespread use of common data standards for medical products would help prevent counterfeit or substandard products, such as medicines, from reaching distribution and potentially harming patients and customers.

To build on existing knowledge, ABAC is jointly partnering with the LSIF Regulatory Harmonization Steering Committee (RHSC) and the University of Tennessee Health Science Center (UTHSC) to launch an initiative that will measure how the use of common data standards can affect the costs and efficiencies associated with international trade in medical products. Work will begin with a feasibility study that will lay the foundation for a pilot project through a review of existing literature and interviews with supply chain stakeholders. Once designed and implemented, the pilot project will gather transaction data from participating distributors engaged in cross-border trade of pharmaceutical goods that is facilitated by a common international data standard. The resulting data, which will focus on trade between at least three APEC economies, will be made publicly available, creating a valuable resource for policymakers seeking to understand the value of adopting common data standards. ABAC has received expressions of support from several regulatory authorities and looks forward to moving forward with this important work in close cooperation with your colleagues in the region.

Thank you for your leadership on the healthcare discussion this year. Continued partnership between the public and private sector will be vital as APEC's member economies seek solutions.

[1] Arrow et al: Environment and Development Economics 17: 317–353 © Cambridge University Press 2012 doi:10.1017/S1355770X12000137



4 August 2014

**H.E. Wu Xinxiong**

Chair, APEC Energy Ministers' Meeting  
Vice Chairman, National Development and Reform Commission  
Administrator, National Energy Administration  
People's Republic of China

Dear Mr. Wu:

ABAC commends the APEC Energy Ministers for the progress made in enhancing energy security and improving energy intensity in the region. One of the particularly notable achievements of APEC is the agreement on facilitation of trade in environmental goods. ABAC welcomes this development and anticipates it will stimulate negotiations in other fora. We also support and commend the continued efforts of APEC to phase out and rationalize inefficient fossil fuel subsidies.

ABAC believes in the importance of balancing economic growth with environmental protection and recommends that APEC follow through with a multifaceted approach with special emphasis on the issues detailed below.

**Green Growth**

ABAC commends APEC for creating the APEC Conference on Clean, Renewable and Sustainable Use of Energy. We encourage APEC to utilize this venue to develop business-friendly policies that will attract private investment. We encourage Energy Ministers to continue to spearhead the facilitation of global trade and investment through the implementation of tariff reductions for the 54 items by the end of 2015, increase discussions on environmental services, and commit to the elimination of non-tariff barriers (through measures including harmonization and mutual accreditation of standards) on environmental goods.

The discovery of unconventional energy sources contributes significantly to the global energy outlook. To encourage further investments for the exploration and development of unconventional energy sources, APEC economies need to ensure predictable and transparent investment policies. However, as most energy sources are finite, conservation efforts are essential. APEC economies should introduce policies that stimulate energy conservation, encourage wider use of energy-saving equipment, and facilitate free trade of such goods and services. ABAC supports the building and redeveloping of cities based on a low-carbon eco-city approach integrating social, environmental and economic principles and urges APEC to ensure that related mechanisms are designed to encourage private investment. ABAC encourages Ministers to support efficient regional trade of energy through transmission infrastructure and domestic and regional power grids.

**Energy Security**

Sustainable growth is based on a stable and economically viable supply of energy. Expanding, diversifying and conserving energy supplies remain a primary concern. To boost renewable energy-based power generation (excluding hydro power) in the APEC region from the 3% in 2010, it is important for APEC to further contribute to policies and technologies that promote the development of cleaner energy, thereby enabling economies to meet increasing energy needs with a lower environmental impact. ABAC commends APEC for establishing the Public-Private Partnership on Environmental Goods and Services (PPEGS) as a mechanism to discuss and promote clean and renewable energy to achieve green and secure energy frameworks within the region.

For the immediate future, in order to meet growing energy demands, many APEC economies will continue to depend on fossil fuel, especially coal, for power generation. In light of coal's impact on the environment, it is crucial that measures to alleviate its impact are taken, including wider use and further innovation of advanced clean coal technology (CCT).

In order to balance economic growth and environmental protection in each economy, ABAC recommends that APEC assist in technical innovation to advance wider use of renewable energy; provide legal structures and regulations that are transparent and predictable for businesses to invest in energy production and that establish, strengthen and fully enforce environmental regulations to mitigate the environmental impact of power generation; promote wider use of natural gas; expand the use of CCT; where infrastructure utilizing the latest CCT is planned, provide the necessary assistance including capacity building and financing in association with international bodies; and speed up technical development and facilitate empirical research for carbon capture and storage to make it commercially viable.

Energy security continues to be an urgent regional concern and we believe that high-level cooperation and a regular exchange of information is essential. We therefore would like to reiterate our recommendation that APEC commit to an annual Energy Ministers' Meeting and public-private sector forum, with the goal of developing a collaborative, strategic and long-term APEC energy security framework.

We are ready to discuss the above issues with you at the upcoming APEC Energy Ministers' Meeting in Beijing this September.

Yours sincerely,



**Ning Gaoning**  
ABAC Chair 2014



4 August 2014

**H.E. Miao Wei**

Chair, APEC SME Ministerial Meeting  
Minister of Industry and Information Technology  
People's Republic of China

Dear Minister Miao:

On behalf of the APEC Business Advisory Council (ABAC), 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, as well as to promote entrepreneurship in the APEC region. In this regard, ABAC has prioritized the following four areas in 2014 as crucial factors to enhance APEC SMMEs' global competitiveness: (a) enhancing SMMEs' access to finance; (b) promoting innovative growth; (c) assisting the internationalization of SMMEs and their integration into the global value chains; and (d) sustaining the momentum of women's economic empowerment.

In 2014, ABAC developed an APEC Framework for Innovative SMME Financing Mechanisms in collaboration with the G20 economies' SME Finance Forum which is managed by the International Finance Corporation (IFC). The Framework provides an overarching picture of the broad range of SMME financing options that exist in the Asia-Pacific region, highlighting alternative and innovative financing mechanisms that broaden options for SMMEs. Recognizing that not all options will be available in each economy and that traditional bank financing plays a primary role in financing SMMEs, it encourages economies to examine alternative financing options for SMMEs; to adopt a comprehensive suite of SMME financing mechanisms in their economies; and to review policy and regulatory reforms needed to support the growth of innovative financing mechanisms such as micro-finance, angel and seed investments, internet trade financing, venture capital, crowd funding and the junior/venture exchange.

ABAC welcomes the establishment of the SME Co-Fund between Chinese Taipei and New Zealand for cross-border cooperation in venture capital development for assisting SMMEs' access to international markets and funding and hopes to see more of such initiatives.

On our second priority, ABAC believes that innovative growth can be effectively promoted by providing SMMEs easier access to cross-border collaboration and commercialization of new innovations and cutting-edge technologies. Opportunities for SMMEs can be expanded by simplifying legal and regulatory barriers. To that end, ABAC recommends that APEC economies explore the concept of a platform for cross-border collaboration and market-driven technology dissemination. The Asia-Pacific Open Innovation Platform, a voluntary undertaking open to all APEC economies, can serve as a possible model for future platforms.

Additionally, ABAC continues to support accelerator programs in the region to promote entrepreneurship. Most notably, the APEC Accelerator Network has been officially launched in 2014 to provide networking, funding, and mentorship opportunities for innovative startups across the region.

The third priority is to assist the internationalization of SMMEs and help them integrate better into the global value chains. ABAC recommends supporting capacity building programs for SMMEs to access international networking, learning and collaboration opportunities. In 2014, ABAC launched the Cross-Border E-commerce Training Program to offer capacity building and networking programs to APEC SMMEs in China, with the objective of bringing the program online in 2015 and working with local partners to create localized content in order to benefit more SMMEs across the region.

ABAC continues to organize SME Summits in the region to provide these outreach opportunities to SMMEs and looks forward to working with APEC SME Ministers on broadening the presence and reach of these initiatives.

Finally and very critically, ABAC is firmly committed to continuously sustain the momentum of women's economic empowerment on a number of different levels, ranging from addressing barriers faced by women-owned businesses to developing policies designed to increase opportunities for women in education and leadership roles. In 2013, ABAC published a report entitled "Driving Economic Growth and Business Performance through Economic Empowerment and Inclusion of Women in APEC Economies" to examine the issue in-depth and present policy recommendations from the private sector perspective.

There is an APEC initiative this year to collect best practices in creating an enabling environment to expand women's participation in the economy. ABAC looks forward to continuous dialogue with APEC SME Ministers on advancing this agenda through close public-private collaboration, particularly as it relates to supporting market and financing access for women-owned SMMEs, promoting women's participation in Science, Technology, Engineering, and Mathematics (STEM) as well as advocating family-friendly culture and support systems in the workplace.

ABAC believes that these recommendations will strengthen and foster the sustained development and growth of APEC SMMEs and entrepreneurs. We look forward to participating at your Ministerial Meeting in Nanjing in September to further discuss these recommendations.

Yours sincerely,



**Ning Gaoning**  
ABAC Chair 2014





4 August 2014

**H. E. Han Changfu**

Chair, APEC Ministerial Meeting on Food Security  
Minister of Agriculture  
People's Republic of China

Dear Minister Han:

ABAC welcomes APEC's focus on food security as critical to achieving sustainable and inclusive growth. The upcoming September meeting of APEC Ministers Responsible for Food Security will be an important opportunity to continue the momentum in APEC's drive to attain food security by 2020 through a focus on raising agricultural productivity and sustainability, facilitating investment and infrastructure development, and enhancing trade and markets.

ABAC has a long history of championing the importance of engaging the private sector to help find solutions to achieving food security in the region. The APEC Policy Partnership on Food Security (PPFS) was created in response to the Ministers' acknowledgement of the importance of working hand-in-hand with the private sector. The PPFS is ABAC's prime vehicle for engaging on food security in the region.

ABAC continues to be a strong supporter of the PPFS, and believes that the progress made to date provides a good foundation on which to engage the private sector in an even deeper strategic dialogue. We welcome the opportunities given to the private sector to make its contribution this year and look to expand this in the years to come, particularly by extending the time made available for the private sector to meet and discuss recommendations in advance of PPFS plenary sessions.

ABAC welcomes the continuing development of the Roadmap on Food Security developed by the PPFS as a high-level expression of what needs to be done by governments, the private sector and other stakeholders working together to make progress towards specific PPFS goals. In ABAC's view, the Roadmap needs to be implemented through a series of meaningful and verifiable projects undertaken jointly by public and private sectors and through information sharing and regional policy collaboration. Progress in these areas should be reviewed at regular intervals and the Roadmap adjusted to take account of changing circumstances.

ABAC agrees that the following key areas should underpin the PPFS work program in the year ahead:

**1. Ensuring Sustainable Development of the Agricultural and Fishery Sectors**

In the 2012 Kazan Declaration, APEC Ministers Responsible for Food Security declared that "Increasing agricultural production on a sustainable basis is an essential factor of lasting food security in the APEC region."

In this context, ABAC emphasizes the critical role of the market, the need for robust regulatory frameworks, the importance of finance, the critical role of agricultural technology including mechanization, the sharing of best practices in sustainable management, capacity building in the area of food storage and food loss, close attention to control of pests and diseases and actions to improve worker training, health and safety. ABAC encourages APEC governments to adopt mechanisms for knowledge sharing and technical cooperation, and to identify and eliminate barriers that limit public-private cooperation.

**2. Facilitating Investment and Infrastructure Development**

ABAC welcomes the report commissioned this year on grain infrastructure and draws attention to the lessons learned. ABAC emphasizes the importance of food infrastructure development and encourages projects such as cold chain infrastructure development. To facilitate investment in food infrastructure, ABAC recommends that APEC governments focus on establishing policies and regulatory regimes that liberalize and encourage investment flows, promote public-private ownership structures, and improve private sector input into government decision-making to maximize productivity and improve regional food value chain and supply chain connectivity.

### 3. Enhancing Trade and Markets

ABAC welcomes the 2012 Ministerial Statement reaffirming the commitment of APEC Ministers Responsible for Food Security to strengthen food security by promoting open and transparent markets.

We support policies that enable the free flow of food to match supply and demand across the region. We urge APEC governments to continue to resist protectionism in all its forms, to eliminate trade-distorting policies, to remove non-tariff barriers, and establish internationally recognized, science-based standards across the region.

The achievement of food security by 2020 is an important goal to ensure the future well-being of citizens in the APEC region. It is also an indispensable element for achieving regional economic integration. Without food security, economies in the region will continue to under-perform and important human potential will be lost. With food security, economies and their people will be able to contribute more effectively to economic and social advancement which is the primary goal of APEC.

We are ready to discuss the above-mentioned issues and policy recommendations with you at the upcoming APEC Ministerial Meeting on Food Security in Beijing this September.

Yours sincerely,



**Ning Gaoning**  
ABAC Chair 2014



11 August 2014

**H.E. Lou Jiwei**

Chair, APEC Finance Ministers' Meeting  
Minister of Finance  
People's Republic of China

Dear Minister Lou:

On behalf of the ABAC Business Advisory Council (ABAC), we are honored to share with APEC Finance Ministers our recommendations on key economic and financial challenges now facing the region.

Economic recovery in the region's economies is proceeding at varying speeds, and while growth for the region as a whole is improving over the year, the medium-term outlook has weakened. Of concern is a faltering in the contribution of trade to regional growth and a trend fall in productivity growth in the region.

To arrest and reverse this trend, we need to improve competitiveness in the region's economies by enhancing labor market and productivity growth through innovation, raising the skills quality of our workforces, improving efficiencies in economic processes and intensifying connectivity in the region's markets. These are essential objectives in achieving sustained growth and regional economic integration. They involve the more efficient use of capital and stronger investment flows and improved market access for trade and services.

ABAC's priorities this year have focused on these challenges. Not surprisingly, the challenges are similar to those identified in G20's strategies to stimulate growth, reforms to financial systems and attracting capital into infrastructure investment.

The report attached to this letter [<https://www.abaconline.org/v4/download.php?ContentID=22611920>] provides ABAC's recommendations for Ministers' consideration. This letter and the report outline those matters of financial and economic importance that ABAC has prioritized in its work in 2014. Further details are contained in the two annexes to our report, the Asia-Pacific Financial Forum's (APFF) Interim Report to the APEC Finance Ministers [<https://www.abaconline.org/v4/download.php?ContentID=22611903>], and the Advisory Group on APEC Financial System Capacity Building's 2014 Report on Capacity Building Measures to Strengthen and Develop Financial Systems [<https://www.abaconline.org/v4/download.php?ContentID=22611904>], which we endorse. A copy of the publication produced from our 2014 Asia-Pacific Forum on Financial Inclusion [<https://www.abaconline.org/v4/download.php?ContentID=22611867>] will be sent separately to Finance Ministers. Our report and key recommendations are summarized below.

***The Asia-Pacific Financial Forum***, endorsed by Ministers last year, has successfully focused on measures to improve the effectiveness of the region's financial markets in serving the needs of the real economy and enhancing connectivity between financial markets. The APFF is an excellent example of the role that public-private partnerships (PPPs) can play in dealing with major challenges confronting the region. Over 260 specialists from private sector groups and associations and standard-setting bodies and academia have worked in six major work streams to identify gaps in financial markets, measures to improve coordination between markets, the identification of regulatory impediments to market efficiencies and measures to ameliorate the impact of external shocks. The APFF Interim Report to APEC Finance Ministers includes 14 action plans for public-private sector collaboration that we believe will yield tangible results within a short- to medium-term time frame. Several of these action plans are focused on expanding access of small, medium and micro-enterprises (SMMEs) to financing through improved legal and institutional frameworks for credit information and secured transaction systems and factoring, as well as a focus on trade and supply chain finance. Others focus on the development of deep, liquid and integrated capital markets through better financial market infrastructure and cross-border capital market practices, increased ability of insurers and pension funds to invest in long-term assets and provide longevity solutions, effectively meeting capital market participants' needs for hedging instruments and information, and successfully launching the Asia Region Funds Passport. These action plans are being undertaken in coordination with related work by ABAC on policy and regulatory reforms to broaden the range of SMME financing options as

identified in the APEC Framework for Innovative SMME Financing Mechanisms report which focuses attention on alternative and innovative financing mechanisms that move beyond traditional bank financing options. We recommend that Finance Ministers encourage relevant officials and regulators to collaborate with the private sector in advancing this work through the APFF.

***Internationalization of the Renminbi.*** ABAC welcomes ongoing policy reforms in China facilitating the internationalization of the renminbi. We reviewed a report by the Center of International Finance and Regulation in Australia noting the desirability of China pursuing a gradual pathway to the internationalization of the renminbi, as relevant economic and financial reforms are successively implemented in China. The report also notes that if the renminbi becomes a new major reserve currency, albeit in greater use in the Asia-Pacific region, it is likely to have a stabilizing impact on the international monetary system. ABAC recommends that Finance Ministers welcome the reforms supporting the internationalization of the renminbi.

***Financial Inclusion*** - addressing key priorities to promote greater access to finance by underserved consumers and micro- and small enterprises. Together with the Asian Development Bank Institute, the Asia-Pacific Finance and Development Center and the Foundation for Development Cooperation, ABAC convened the 2014 Asia-Pacific Forum on Financial Inclusion in March 2014 in Shanghai, China. Based on the outcomes of this forum, ABAC recommends that Finance Ministers encourage greater public-private collaboration and capacity building initiatives to help member economies: (a) develop financial regulatory frameworks that are proportionate to risks and balance the objectives of safety, soundness, integrity and consumer protection with market innovation and accelerating financial inclusion; (b) design financial inclusion strategies that promote a broad range of financial services and prudential systems that retain incentives to innovate; (c) promote coordination among relevant ministries and stakeholders and private sector inputs in policy formulation; and (d) accelerate the development of market infrastructure, particularly those related to financial identity, credit information, collateral management and payments.

***International financial regulatory standards.*** ABAC wrote to the B20 (the business group of G20) highlighting concerns on the impact of proposed international financial regulatory standards on access to financing for trade and SMMEs through banks and other non-bank financing mechanisms.

***An urgent need to deepen and promote long-term savings and investment in the region.*** We propose that Finance Ministers support measures to deepen investment flows, particularly by potential long-term investors such as sovereign wealth funds, state-owned enterprises, pension, insurance and wealth funds by enhancing transparency, predictability and non-discriminatory treatment in investment decision-making. Modifications to the APEC Investment Facilitation Action Plan should consider ways to encourage investment from these sources. We also recommend that relevant authorities address regulatory and accounting issues that have an impact on incentives for engaging in long-term business, as well as market and operational issues that constrain the flow of investment to long-term assets and longevity solutions for efficient management of retirement savings.

***The establishment of a high-level Regional Investment Analytical Group (RIAG)*** is recommended by ABAC as an important initiative to promote and socialize the use of quantitative indicators to enhance investment performance. Its purpose would be to review existing indicators and consider ways to access data that underpins an index or composite indicator, would be inclusive and would develop and seek agreement on the methodology to compile indicators.

This initiative is supported by the Australian government which has sought the agreement of the APEC Investment Experts' Group and the APEC Committee on Trade and Investment to receive regular reports and recommendations from RIAG. Membership in RIAG would be voluntary and open to all member economies. Major regional and international agencies such as the World Bank, the Organization for Economic Cooperation and Development, the Asian Development Bank, the Asian Development Bank Institute, representatives of member economies, the APEC Policy Support Unit and the ASEAN Secretariat would be invited to participate. The secretariat function would be performed by the Australian APEC Study Center at RMIT University. Participation in RIAG would be on a self-funded basis, similar to that of other groups involved in supporting ABAC initiatives, such as the APFF

and the Asia-Pacific Infrastructure Partnership (APIP). ABAC would provide its advice and recommendations on the reports of RIAG direct to Ministers and senior officials. We recommend that Finance Ministers support the formation of RIAG as an important initiative to support increased investment flows in the region.

**The Asia-Pacific Infrastructure Partnership** has undertaken several dialogues with governments in APEC and actively engaged in various regional discussions. This year, APIP has identified a number of key issues from these dialogues and discussions that can be addressed using APEC as a collaborative platform. ABAC recommends that APEC Finance Ministers develop an implementation roadmap for promoting PPPs to assist member economies in: (a) effectively allocating risks between public and private sectors; (b) improving institutional capacity to promote PPPs; (c) facilitating infrastructure finance, especially long-term and local currency funding; (d) providing an enabling legal, policy and regulatory environment; and (e) promoting public support for PPPs. ABAC also recommends that Ministers encourage the continuation of APIP dialogues with member economies.

**ABAC supports the establishment of a regional urban infrastructure network**, an Australian and Chinese initiative, to develop best practices as a guide to domestic governments, cities and municipalities in meeting the enormous challenges of urbanization. ABAC supported the convening of the first biennial forum in Melbourne in September 2014 as a significant contribution to developing thoughtful proposals that would provide a holistic approach to enhancing living standards and infrastructure financing for sustainable urban development. Collaboration with experts from the region and globally will be developed to form working groups to develop proposals and research over the coming months for consideration at the next biennial forum in 2016. ABAC recommends that APEC Finance Ministers endorse this initiative to develop best practices for urban development and financing.

**Improving valuation practices in APEC.** Valuations are central to decision-making within the global economy, applying both to capital and property market decisions and to decisions and actions in public and private sector organizations, including regulatory organizations. ABAC recommends that Finance Ministers encourage the public sector to collaborate with ABAC, the International Valuation Standards Council, valuation professional organizations (VPOs) experts from industry and other relevant bodies to promote high-quality valuation practices and professionals across member economies through region-wide convergence toward robust global valuation standards and the development of sustainable VPOs as caretakers of professional standards, education and knowledge depositories.

**In conclusion**, we note the value of the work of the APFF, APIP and the Asia-Pacific Financial Inclusion Forum, major initiatives endorsed by Ministers, reflected in this report. The work by these groups under the auspices of ABAC is, we believe, making important inputs to policy developments in the region. We recognize that our recommendations often involve longer-term and structural reforms that may be challenging to implement. We are confident that the new initiatives recommended in this report will similarly contribute to financial market connectivity and stability, improved investment performance and sound infrastructure development and financing.

Yours sincerely,



**Ning Gaoning**  
ABAC Chair 2014



## 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 2014

In 2014, China took on the Chair of ABAC, with Indonesia and the Philippines as co-chairs, following the APEC order. Co-chairs represent immediate past and future chairs.

ABAC adopted the theme "Building Asia-Pacific Community, Mapping Long-Term Prosperity". ABAC's work program this year focused on the following priorities, with the realization of a Free Trade Area of the Asia-Pacific, connectivity and infrastructure development and global value chains as the core agenda:

- deepening regional economic integration
- promoting infrastructure growth and connectivity
- encouraging 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)
- Infrastructure & Connectivity Working Group (ICWG)
- SMME & Entrepreneurship Working Group (SMMEEWG)
- Sustainable Development Working Group (SDWG)
- Finance & Economics Working Group (FEWG)

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 2014: Auckland, New Zealand (11-14 February); Santiago, Chile (4-7 May); Seattle, Washington, USA (7-10 July); and Beijing, China (5-8 November). Four meetings of the Advisory Group were also held: Auckland, New Zealand (11 February); Santiago, Chile (4 May); Seattle, Washington, USA (8 July); and Beijing, China (5 November).

ABAC actively participated in various APEC meetings and related events, among others: First APEC Senior Officials' Meeting (SOM I) and related meetings (Ningbo, China: 15-28 February); 1st APEC PPP Experts Advisory Panel Meeting (Boao, China: 17 February); APEC Finance Deputies' Meeting (Boao, China: 18-19 February); 2014 Policy Partnership on Food Security (PPFS) Government and Business Dialogue Conference on Food Security and Trade (Ningbo, China: 20-22 February); 39th Transportation Working Group (TPTWG) Meeting (Christchurch, New Zealand: 31 March – 4 April); Finance Ministers' Process (FMP) Workshop on Improving Financial Services for Regional Real Economy (Shenzhen, China: 23 April); SOM II and related meetings (Qingdao, China: 5-15 May 2014); Meeting of APEC Ministers Responsible for Trade (Qingdao, China: 17-18 May); Senior Finance Officials' Meeting (Fuzhou, China: 20-21 May); FMP Seminar on Public Sector's Role in Public-Private Partnership (PPP) Modality (Fuzhou, China: 21-22 May); Women and Economy Forum (Beijing, China: 21-23 May); FMP Seminar on Disaster Risk Financing in the Asia Pacific Region (Jogjakarta, Indonesia: 18-19 June); 8th APEC Mining Task Force Meeting (Beijing, China: 24-25 June); FMP Seminar on Long-Term Stable Financing for Infrastructure Development (Dalian, China: 26-27 June); 2nd APEC PPP Experts Advisory Panel Meeting (Dalian, China: 27 June); 5th Meeting of APEC Ministers Responsible for Mining (Beijing, China: 27-28 June); SOM III and related meetings (Beijing, China: 6-21 August); APEC Energy Ministers' Meeting (Beijing, China: 1-3 September); 39th SME Working Group Meeting (Nanjing, China: 3-4 September); 21st APEC SME Ministerial Meeting (Nanjing, China: 5 September); 6th Human Resources Development Ministerial Meeting (Hanoi, Viet Nam: 5-6 September); 3rd APEC Ministerial Meeting on Food Security (Beijing, China: 18-19 September); Finance Deputies' Meeting and Senior Finance Officials' Meeting (Beijing, China: 19-21 October); APEC Finance Ministers' Meeting (Beijing, China: 21-22 October); Concluding Senior Officials' Meeting (Beijing, China: 5-6 November); and APEC Ministerial Meeting (Beijing, China: 7-8 November).

Other events organized and/or participated in by ABAC included: the ABAC-ADB-IFC-APFC Asia-Pacific Forum on Financial Inclusion (Shanghai, China: 19-20 March); ABAC-PBOC-IFC APFF Workshop on Improving the Architecture for Credit Market Development in the APEC Region (Shanghai, China: 21-22 March); Roundtable on "Practical Tools for SME Business in Asia-Pacific: Innovation, E-Commerce, Business Partnership and Value Added" (Santiago, Chile: 7 May); the Asia-Pacific Financial Forum (Seattle, Washington, USA: 7 July); and the APEC China CEO Forum (Seattle, Washington, USA: 10-11 July); ABAC-Korean Ministry of Strategy and Finance Asia-Pacific Financial Cooperation Seminar (Seoul, Korea: 29 August).

## **Studies and Related Work**

This year, ABAC commissioned a number of studies to support its policy recommendations, namely:

- A research project by the University of Southern California's Marshall School of Business which sought to identify the main barriers to foreign direct investment in the services sector, with a particular focus on Mode 3 (services involving commercial presence). Sectors covered included: financial services (focusing on the insurance sector); telecommunications and IT; retail and restaurants; transportation and logistics; and accounting services.
- A study by the SME Finance Forum to develop an APEC Framework for Innovative SMME Financing Mechanisms in order to make the case for adequate government attention and policies to improve SMME access to finance.



- A joint study with the APEC Life Sciences Innovation Forum (LSIF) to document the current productivity cost of non-communicable diseases, analyze their future potential impact, and provide a knowledge base for more effective policy responses to this important challenge.
- A study to identify the socio-economic effects of mining in APEC member economies; outline best practices for responsible and sustainable mining; and assess the impact of domestic government policy and regulations on investment in the mining sector.

### **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.

ABAC worked to strengthen its interaction and engagement with APEC Ministers, Senior Officials and APEC fora. ABAC members 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 development and investment, supply chain connectivity and global value chains, regulatory coherence, SMME development, energy security, food security, blue economy/oceans-related issues, green growth and the development and integration of financial markets.

## List of Acronyms

A2C2	APEC Alliance for Supply Chain Connectivity	OECD	Organization for Economic Cooperation and Development
ABAC	APEC Business Advisory Council	PA	Pacific Alliance
ABTC	APEC Business Travel Card	PBOC	People's Bank of China
ADB	Asian Development Bank	PECC	Pacific Economic Cooperation Council
ADBII	Asian Development Bank Institute	PPP	Public-Private Partnership
AEO	Authorized Economic Operator	PPEGS	Public-Private Partnership on Environmental Goods and Services
AFDC	Asia-Pacific Finance and Development Center	PPFS	APEC Policy Partnership on Food Security
APEC	Asia-Pacific Economic Cooperation	PSU	APEC Policy Support Unit
APFF	Asia-Pacific Financial Forum	RCEP	Regional Comprehensive Economic Partnership
APIP	Asia-Pacific Infrastructure Partnership	REIWG	ABAC Regional Economic Integration Working Group
ASEAN	Association of Southeast Asian Nations	RHSC	Regulatory Harmonization Steering Committee
AWF	ABAC Women's Forum	RIAG	Regional Investment Analytical Group
BMG	APEC Business Mobility Group	SDWG	ABAC Sustainable Development Working Group
BPO	Bank Payment Obligations	SMEs	Small and Medium Enterprises
CBET	Cross-Border E-commerce Training	SMMEs	Small, Medium and Micro-Enterprises
CCT	Clean Coal Technology	SMMEEWG	ABAC SMME and Entrepreneurship Working Group
CTI	APEC Committee on Trade and Investment	SOEs	State-Owned Enterprises
EGs	Environmental Goods	SOM	APEC Senior Officials' Meeting
FDC	Foundation for Development Cooperation	STEM	Science, Technology, Engineering and Mathematics
FDI	Foreign Direct Investment	SWFs	Sovereign Wealth Funds
FEWG	ABAC Finance and Economics Working Group	TFA	WTO Trade Facilitation Agreement
FMP	APEC Finance Ministers' Process	TFAP	APEC Trade Facilitation Action Plan
FTA	Free Trade Area	TILF	Trade and Investment Liberalization and Facilitation
FTAAP	Free Trade Area of the Asia-Pacific	TPP	Trans Pacific Partnership
GDP	Gross Domestic Product	TPTWG	APEC Transportation Working Group Meeting
GDS	Global Data Standards	UTHSC	University of Tennessee Health Science Center
GRP	Good Regulatory Practice	VPO	Valuation Professional Organizations
GVC	Global Value Chain	WTO	World Trade Organization
HLM	High-Level Meeting		
HWG	APEC Health Working Group		
ICT	Information and Communication Technology		
ICWG	ABAC Infrastructure and Connectivity Working Group		
IEG	APEC Investment Experts' Group		
IFC	International Finance Corporation		
ITA	Information Technology Agreement		
LCR	Local Content Requirement		
LSIF	APEC Life Sciences Innovation Forum		
MC9	9th WTO Ministerial Conference		
MRT	APEC Ministers Responsible for Trade		
MTF	APEC Mining Task Force		
MYPIDI	Multi-Year Plan on Infrastructure Development and Investment		
NBIP	APEC Non-Binding Investment Principles		
NCD	Non-Communicable Disease		

## **ABAC Executive Director 2014**

**Xia Bing**

China Council for the Promotion of International Trade

1, Fuxingmenwai St.  
Beijing 100860 China  
Tel: (8610) 8807 5736  
Fax: (8610) 8807 5406  
Email: xiabing@ccpit.org

## **APEC Business Advisory Council Secretariat**

**Antonio Basilio**

Director

**Evelyn Manaloto**

Deputy Director

32/F Zuellig Building  
Makati Avenue Corner Paseo de Roxas  
Makati City 1225 Philippines  
Tel: (632) 845 4564, 843 6536  
Fax: (632) 845 4832  
Email: abacsec@pfgc.ph  
Website: <https://www.abaconline.org>



**APEC Business Advisory Council**  
[www.abaonline.org](http://www.abaonline.org)