

Ziyavudin Magomedov
ABAC Chair 2012

24 May 2012

Mr. Andrey Belousov

Chair, Meeting of APEC Ministers Responsible for Trade &
Minister of Economic Development
Russian Federation

Dear Minister Belousov:

On behalf of the APEC Business Advisory Council (ABAC), which Leaders have tasked to provide business inputs to the APEC process, I am pleased to submit to APEC Ministers Responsible for Trade (MRT) our recommendations in support of the common goal of promoting economic growth and recovery in the region.

The global economy remains fragile, exposing economies in the Asia Pacific region to serious downside risks. Re-escalation of the Euro-zone crisis looms as the primary threat to global growth and trade and we encourage all economies to participate in resolving the crisis. ABAC urges APEC economies to take resolute actions to guard against financial and sovereign risks, and the rise of protectionism, while pursuing trade liberalization and maintaining a robust growth trajectory.

In light of the continuing and disappointing lack of progress in the WTO Doha Round, ABAC calls on Ministers to ensure that substantive progress continues to be made towards a Free Trade Area of the Asia Pacific (FTAAP) as a means for achieving regional economic integration and the Bogor Goals of free and open trade and investment in the region. To this end, we have been encouraged by recent progress in two of the leading pathways to FTAAP, the Trans Pacific Partnership and the Regional Comprehensive Economic Partnership. ABAC is keen that all pathways to FTAAP should reflect key principles of inclusiveness, comprehensiveness and transparency. These instruments should be open to all APEC economies that can meet the specific standards associated with the initiatives and should cover all sectors as well as next generation trade and investment issues. We welcome APEC's achievements in this area in 2011 and urge economies to continue to develop a consensus on ways to address these emerging issues, which can inhibit the full potential of global value chains and hinder the private sector's ability to leverage new business models to achieve growth.

ABAC's 2012 theme of "From Aspirations to Reality" reflects ABAC's desire to see APEC achieve concrete progress towards regional economic integration. To this end, we are developing specific recommendations to address transportation and logistics choke points caused by inadequate infrastructure as well as recommendations to narrow technology gaps among APEC economies through effective market-based and voluntary initiatives to promote technology dissemination. We encourage Ministers to maintain a tight focus on taking measures to enhance the connectivity of, and visibility through, regional supply chains. For our part, ABAC continues to assess the recommendations arising from our 2011 study of chokepoints in regional supply chains, including best practice information sharing, data collection, harmonization and simplification of customs procedures, systems standardization, ICT model

measures and non-tariff barriers. We are developing a Cloud-based single window concept for which we will be seeking Ministers' support in due course. ABAC recommends a holistic and coordinated approach to implementing APEC's Supply Chain Connectivity Initiative. The stock-take or inventory of economy-specific policies and practices already underway will contribute to measuring APEC's progress to address chokepoints by providing economies with a simple, more quantifiable set of actions that build on the Supply Chain Connectivity Action Plan.

Food security continues to be a priority for ABAC. We support open markets that can effectively link food supply to demand and ensure that resources, particularly investment, flow efficiently. We recommend identifying and reducing barriers to facilitate investment cooperation in agri-food sectors and the creation of efficient markets responsive to real pricing signals. This, in turn, will strengthen the financial impact monitoring in agricultural commodity markets.

This year, ABAC is also seeking to initiate a new services agenda, building on our 2011 report entitled "Understanding Services at the Heart of a Competitive Economy". This called for the formation of an Experts Group to make concrete recommendations on services liberalization and for the consideration of a services-only liberalization negotiation. In this regard, ABAC welcomes the "Really Good Friends of Services Group" initiative being driven by certain WTO Members. We look forward to sharing our recommendations with APEC later this year.

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 in Annex A.

We look forward to participating at your meeting in Kazan to discuss these recommendations in greater detail.

Sincerely,



Ziyavudin Magomedov
ABAC Chair 2012

Progress Report to APEC Ministers Responsible for Trade – Other Issues

1. **Expanding the Information Technology Agreement.** Since coming into force in 1997, the Information Technology Agreement (ITA) has contributed to economic growth by ensuring tariff-free trade of information technology (IT) products. While technologies and IT products have advanced significantly over the past 15 years, the coverage of the ITA has remained unchanged. Additionally, an increasing number of IT products, including creative content and software, are being traded across borders in a digital format as so-called "digital products." In response to these developments, ABAC encourages WTO Members to launch, in the near term, negotiations to expand the ITA's product coverage and increase the number of participating economies to ensure the ITA continues to serve as a catalyst for economic growth and prosperity. Further, ABAC calls on APEC economies to adopt policies and measures that foster digital trade.
2. **Promoting technology dissemination through trade and investment.** ABAC believes that trade and investment are key channels for promoting technology dissemination. The dissemination of technology can be enhanced through the simplification of legal and regulatory barriers that prevent businesses from bringing technologies to new markets through cross-border trade and investment. A joint effort of APEC economies to develop a voluntary market-based technology dissemination framework and a set of best practices that would guide APEC technology ecosystem stakeholders including intellectual property (IP) valuation and taxation issues would be beneficial.
3. **Addressing energy security.** ABAC supports a multi-pronged approach to energy security, including the expansion of energy conservation efforts, promotion of clean and renewable energy sources, increased use of natural gas, increased energy productivity and cooperation on nuclear safety. To promote conservation and energy productivity, APEC should expand the exchange of best practices, harmonize standards of measurements and evaluation, support technology transfers that maximize benefits for all parties involved, and facilitate trade in environmental goods and services (EGS) for energy efficiency. ABAC urges APEC Ministers Responsible for Trade to implement the Honolulu declaration where Leaders agreed to work to develop in 2012 an APEC list of environmental goods and services in which to reduce, by the end of 2015, applied tariff rates to 5% or less.

APEC should also reduce barriers to cross-border energy investment and trade, invest in new transportation infrastructure and technology to maximize the availability of lower-carbon natural gas, and create economic frameworks that encourage the phasing out or upgrading of antiquated and inefficient power generation and industrial plants. For the longer term, more attention must be directed at the creation of open and fair markets based on a transparent and predictable environment of laws and regulations, so as to support efficient regional trade of energy through integrated transmission infrastructure and national power grids, as well as innovative research which has the potential to reduce the production cost of clean and renewable energy.

4. **Advancing food security.** ABAC recommends the following policies to advance food security in the region: facilitate effective dissemination of food-related technologies; identify and reduce barriers to investment cooperation in agri-food sectors; increase collaboration and investment in food-related R&D; develop food market infrastructure to minimize food losses; create a reliable information system on food production, consumption and stocks; reduce barriers to trade in food products to create open,

effective markets responsive to real pricing signals; and strengthen monitoring of the impact of financial instruments in agricultural commodity markets. ABAC applauds the creation of the APEC Policy Partnership on Food Security and asks Ministers to use this Partnership with the private sector as the focal point for developing and implementing a food security policy for the APEC region.

5. **Promoting investment in infrastructure.** Investment in infrastructure is vital to maintaining economic growth in the Asia Pacific region. From 2010 to 2020, Asia-Pacific economies will require roughly \$8 trillion in infrastructure investment a level of demand which cannot be met without investment from the private sector through public-private partnerships (PPPs). The OECD estimates that global infrastructure needs will top \$70 trillion by 2030 which implies a competitive environment for attracting investment capital. To ensure that APEC economies are able to attract sufficient capital, ABAC recommends that APEC work to improve the investment environment through the adoption of strong investment principles and protections such as outlined in ABAC's *Investing for Growth* report, including the need for predictable and transparent government procurement processes. By designing large-scale APEC infrastructure projects, the united efforts of our economies to promote and support *Living cities* will also produce a major positive impact on the environment. ABAC's recommendations could serve as a helpful guideline when developing city planning and infrastructure development projects. ABAC invites APEC economies to collaborate in developing concrete measures to provide conducive environments for infrastructure finance through the Asia-Pacific Infrastructure Partnership (APIP) dialogues with the private sector and multilateral agencies.
6. **Promoting regional financial market integration.** The current global situation underscores the compelling rationale for the development and integration of financial markets in the region, which has proven vulnerable to liquidity and credit constraints due to its over-reliance on a few traditional financial markets in advanced economies. Global economic recovery and the resumption of previous robust levels of trade, investment and growth will hinge on the continued rapid development of the region's developing economies in coming years. However, the underdevelopment of their financial markets, unless addressed immediately, will pose a very serious constraint to achieving this goal. Key issues are the emergence of integrated and diverse funding markets, the further development of market infrastructure and regulatory frameworks, as well as the financial institutions that are vital for the recycling of savings and the sustained growth of markets for long-term securities and infrastructure finance.

ABAC proposes the establishment of an Asia-Pacific Financial Forum (APFF) to develop such sound and efficient markets. APFF is envisioned to be a platform for financial and regulatory agencies and the region's financial industry to collaborate in the development of regionally consistent regulatory frameworks and market infrastructure, as well as common approaches in shaping global financial regulatory reforms in support of the region's financial development goals. Given this issue's critical importance to trade and investment, ABAC invites APEC Ministers Responsible for Trade to fully support their governments' and regulatory agencies' active participation in APFF.

7. **Supporting cross-border data flows for goods and services supply chains.** International trade relies on a seamless commercial environment that allows for uninterrupted data flows across borders facilitating the movement of trade. Growth in the complexity and volume of global supply chains means that companies with locations all over the world need to be able to move supporting trade-related information across national borders in order to efficiently and cost effectively deliver a business result. Lack of coherence and transparency in the application of regulations on cross-border data flows are a significant concern to the private sector. ABAC encourages APEC regulatory

authorities to engage in best practices in the movement of data supporting trade, and to work in parallel with regional data privacy initiatives to ensure that they reflect the principle of free flow of trade-related data across borders.

8. **Ensuring water security.** Water security is the foundation for sustainable growth. In the early stages of industrialization, large-scale infrastructure works are given priority, but as the focus shifts to mid to long-term sustainable development, healthy and sound social foundation takes the center stage. In the case of water security, good water management in the urban area – with due consideration to environmental issues – is essential. Expansion of sewage system also weighs in, as reduction of environmental burden is another key to sustainable growth.

In economies with rapidly growing and urbanizing populations, public authorities alone will not be able to meet the rising need for water and sanitation facilities. ABAC therefore recommends that APEC embrace PPP to gain access to expertise and finance necessary to build water and sanitation infrastructures. Such PPPs must be carefully designed, taking into account the social dimension of this service. ABAC will develop recommendations with a view to achieving long-term and stable PPP management, outlining the roles of public authorities and private sector, considerations for operation and model business environment.

9. **Supporting the development of SMMEs.** Small, micro and medium enterprises (SMMEs) face numerous challenges, top of which is access to financing. For many SMMEs, there are barriers to access to international supply chains which include a lack of knowledge and resources to do business abroad. Capacity building initiatives, including workshops to teach small business owners about import-export opportunities and high-level events such as the APEC SME and Young Entrepreneurs' Summits, play an educational role in raising awareness about the cross-border opportunities and the benefits of globalization while imparting practical advice on skills needed for SMME success. Information Communication Technology (ICT) tools, such as e-commerce platforms and online portals that provide information on overseas markets can assist SMMEs in exploring and conducting cross-border transactions. Capacity-building initiatives and ICT go hand in hand and APEC can facilitate opportunities for SMMEs to educate themselves, develop new skills and access new markets.

10. **Financing innovation.** Overcoming existing challenges to the financing of innovation is important for maintaining the region's continued rapid economic growth. Governments play crucial roles in this process from the birth of an innovative idea to full commercialization and the sale of the company or product. One is catalyzing angel and venture capital through effective programs, such as tax credits, matching funds or optional buy-out programs and identifying, developing and mobilizing angel investor networks across different sectors. Another is providing an enabling legal and regulatory environment for the entire chain of financial activities that support companies across various stages of innovation, including angel investors in the early stages, venture capital in the middle, and private equity, commercial and investment banks and institutional investors such as pension funds in the latter stages, as well as exit mechanisms. A third is creating, maintaining and enhancing the fundamental conditions that encourage entrepreneurship and innovation, particularly at the incubation stage. ABAC recommends that APEC senior officials collaborate with ABAC and the Advisory Group on APEC Financial System Capacity Building under the APEC Open Innovation Initiative to develop public-private partnership mechanisms to help governments undertake these important tasks.