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**His Excellency**

**Dr. H. Susilo Bambang Yudhoyono**

Chair, Asia-Pacific Economic Cooperation &

President of the Republic of Indonesia

Jakarta, Indonesia

Your Excellency:

Global economic and financial conditions have improved since the Leaders last met in Vladivostok. However, the road to full recovery remains bumpy, particularly for developed economies, and global economic prospects overall remain subdued. We urge APEC economies not to relax their efforts and to take steadfast actions to address structural reforms needed to sustain economic growth and recovery in the region.

ABAC continues believes that the WTO remains the cornerstone for the healthy functioning of global and regional trade. To maintain business confidence in the WTO, the 9<sup>th</sup> WTO Ministerial Conference in Bali must agree on a tangible package of Doha-related decisions. ABAC urges APEC to take the lead in developing such a package to pave the way for a successful conclusion of the Doha Round.

ABAC calls for substantive progress to be made towards a Free Trade Area of the Asia-Pacific as the best mechanism for sustaining regional economic integration. We have been heartened by the progress made in the leading pathways towards an FTAAP – the Trans Pacific Partnership and the Regional Comprehensive Economic Partnership and the emerging Pacific Alliance. We encourage APEC economies involved in these sets of negotiations to ensure that the respective agreements remain compatible with the ultimate goal of achieving an FTAAP.

The pursuit of liberalized trade and investment in services remains one of ABAC's key priorities because of the huge importance of the services sector to APEC economies. Given the significant growth potential and associated benefits to be had from trade in services, ABAC urges APEC economies to seek new opportunities to liberalize services trade and investment, improve the region's statistics on services, and remove regulatory barriers that exist behind the borders.

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. To help meet APEC's 10% target for improving supply chain performance in terms of time, cost and uncertainty by 2015, ABAC urges APEC to develop a region-wide framework for global data standards to target specific supply chain chokepoints. ABAC sees a greater role for APEC in the leadership, governance and oversight of standardization initiatives within supply chains.

ABAC welcomes the development of a strategic, results-oriented roadmap on food security designed to help achieve the long-term goal of setting up a food system structure by 2020. ABAC believes that the successful implementation of the roadmap will require public-private collaboration and parallel cooperation action. We urge APEC Leaders to take concrete steps to ensure the roadmap's effective implementation.

ABAC sees infrastructure investment as a critical element to sustainable and inclusive economic growth in the Asia-Pacific region. A recent report by McKinsey estimates that as much as US\$57 trillion in infrastructure investment will be required globally over the next 18 months to sustain economic growth. In order to compete for finite FDI flows, APEC economies will need to take deliberate steps to evaluate and improve their investment environments. Successful investment outcomes are enabled by bringing together a diverse set of critical policy elements that require a multi-disciplinary and interagency approach. Governments will need to address barriers to private sector FDI and effectively harness it through such measures as creating a conducive environment to infrastructure finance, public-private partnerships and transparent government procurement processes.

Last year, ABAC proposed the establishment of an Asia-Pacific Financial Forum to serve as a regional platform for enhanced collaboration among regulators, officials, the financial industry and multilateral, standard-setting and capacity building bodies to enhance the development of the region's financial markets. Following widespread support for the concept and objectives of the APFF at the symposium held in Sydney in April, we call on APEC economies to endorse the launch of the APFF.

We look forward to discussing the above issues in greater detail during our dialogue in Bali in October.

Yours sincerely,  
**Wishnu Wardhana**  
ABAC Chair 2013

## **ABAC 2012 Report to APEC Economic Leaders Executive Summary**

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

- **Accelerate trade and investment liberalization.** ABAC continues to believe that the WTO remains the cornerstone underpinning global and regional trade. However, to maintain confidence of the business sector in the WTO, it is vital that the 9<sup>th</sup> WTO Ministerial Conference in Bali in December 2013 agree to a tangible package of Doha-related decisions. ABAC urges APEC to show leadership in developing and promoting this Doha package as well as in supporting the conclusion of the WTO Information Technology Agreement expansion negotiations. APEC must also show the way to the global community by accelerating trade and investment liberalization in the region. ABAC calls for substantive progress to be made towards an FTAAP, including through the broadest possible participation in FTAAP initiatives. ABAC urges APEC economies to continue to engage in focused capacity building activities to address barriers to foreign direct investment and to strengthen the implementation of good regulatory practices in order to reduce or eliminate barriers to free trade and investment. To ensure effective monitoring of progress towards the Bogor Goals, ABAC recommends that APEC undertake an annual or bi-annual basis the APEC Dashboard exercise.
- **Initiate the new services agenda.** Given the significant potential for growth and benefits to be had from trade in services, APEC economies should seek new opportunities to liberalize services trade and investment, starting with a commitment to improve the region's official statistics on services, removing regulatory barriers that exist behind the borders and addressing labor mobility issues. ABAC calls on APEC to complete and implement the APEC skills mapping project and encourage uptake of the skills mapping tool by all APEC economies. ABAC encourages APEC economies to commit to the full and smooth operation of the APEC Business Travel Card scheme, in particular by addressing the priority issues identified by business.
- **Enhance supply chain connectivity.** ABAC applauds APEC's efforts to enhance competitiveness in the region by making it easier, cheaper and faster to conduct trade in goods and services across borders. To help meet APEC's 10% target for improving supply chain performance in terms of time, cost and uncertainty by 2015, ABAC urges APEC to develop a region-wide framework for global data standards to target specific supply chain chokepoints. ABAC sees a greater role for APEC in the leadership, governance and oversight of standardization initiatives within supply chains and supports the systematic approach to improving supplying chain performance.

- **Foster the development of SMMEs.** SMMEs are the key drivers of economic growth in the APEC region. They are the main generators of employment, represent more than 95% of total private establishments, contribute about 25% of total exports in each of the APEC economies and represent more than 45% of the region's GDP. ABAC calls for policies that promote entrepreneurship and the creation of new businesses as well as policies that promote innovation and new forms of businesses. APEC economies should promote the use of internet technologies to enhance SMME access to international markets and to promote SMME growth. Capacity building initiatives such as APEC SME Summits are particularly helpful in this respect and we urge APEC economies to encourage and support the holding of such summits. Steps should be taken to enhance SMME access to finance as this remains a significant barrier to SMME expansion. ABAC recommends that banking regulators add an appropriate refinement to the Basel rules on risk weighting for trade finance to reflect its low risk feature. [to be updated by SMMEEWG]
  
- **Engage Women in the Economy.** Engaging women in the economy is a fundamental element of the inclusive growth that APEC strives to promote and is vital to future competitiveness. The United Nations estimates that various limitations on the economic participation of women cost the Asia-Pacific region US\$89 billion a year. The business community in particular has a vested interest in a diverse, skilled and engaged workforce. ABAC calls on APEC economies to take further steps to implement the key policy pillars of the San Francisco Declaration, in particular by promoting access to capital and markets for women in the private sector, encouraging capacity and skill building programs, including science, technology, engineering and mathematics (STEM) education for women, and addressing barriers that discourage women from assuming leadership positions in the public and private sectors. [to be updated by SMMEEWG]
  
- **Encourage infrastructure investment and development.** APEC economies need to take deliberate steps to evaluate and improve their ability to attract foreign direct investments in infrastructure. Successful infrastructure investment outcomes are enabled by bringing together a diverse set of critical policy elements that require a multi-disciplinary and interagency approach. Governments need to address barriers to private sector FDI and create an environment conducive to infrastructure finance, public-private partnerships and transparent government procurement processes. ABAC encourages APEC economies to utilize its "Enablers of Infrastructure Investment Checklist" as a self-assessment tool as part of APEC's long term work plan on the development physical infrastructure.
  
- **Strengthen food security.** ABAC welcomes the development of a strategic, results-oriented roadmap to achieve the long-term goal of setting up a food system structure by 2020 sufficient to provide lasting food security to economies in the region. ABAC urges APEC Leaders to develop policies and to take concrete actions to ensure the roadmap's effective implementation, including, among others, by: facilitating the dissemination and absorption of food-related technology; reducing food losses and increasing food safety through more effective use of cold chain technology; and eliminating export bans on food products and enhancing market access and eliminating non-tariff barriers to trade.
  
- **Address energy security.** ABAC commends APEC for the groundbreaking agreement on the APEC List of Environmental Goods in 2012 and urges APEC economies to implement the

agreed tariff reductions on the 54 items included in the list. ABAC urges APEC economies to take further steps to address energy security, including by: creating a conducive legal and regulatory environment for trade and investment in the energy sector; facilitating the development of renewable energy infrastructure to meet green growth targets; expediting the identification and removal non-tariff barriers for environmental goods and services; and supporting the efficient regional trade of energy through transmission infrastructure and domestic power grids.

- **Facilitate technology dissemination and innovation.** Numerous barriers exist that prevent businesses from bringing cutting edge technologies to new markets through cross border trade and investment. ABAC is exploring the potential of an APEC Innovation Platform to facilitate the development and commercialization of cutting edge technology intellectual property for SMMEs throughout the region. It urges APEC Leaders to enhance opportunities for SMMEs to benefit from the development and application of cutting-edge technologies by simplifying legal and regulatory barriers. ABAC welcomes the business community's role in the newly-formed APEC Policy Partnership on Science, Technology and Innovation and calls for continued support for the partnership and strong private sector engagement in the policy conversation.
- **Accelerating regional financial market integration.** Following widespread support at the symposium held in Sydney for the concept and objectives of the Asia-Pacific Financial Forum (APFF), ABAC recommends that APEC economies endorse the launch of APFF, which would serve as a regional platform for enhanced collaboration among regulators, officials, the financial industry and multilateral, standard-setting and capacity building bodies in developing region's financial markets. APFF can add value to ongoing initiatives under various fora by bringing the private sector to work with public officials to identify crucial gaps not yet currently being addressed and unintended consequences of new regulations, as well as to help financial authorities take a more active role in shaping global financial regulatory standards.

## **ABAC 2013 Report to APEC Economic Leaders**

### **I. Introduction**

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

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

- deepening regional economic integration
- promoting infrastructure growth and sustainable development
- fostering SMME development and entrepreneurship
- promoting the development and integration of financial markets

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

### **II. Regional Economic Integration**

Regional economic integration provides the means to deliver APEC’s hopes for economic recovery and growth, job creation and financial stability. ABAC has long championed the need for deliberate steps towards regional economic integration and is encouraged by the progress that is being made. ABAC encourages APEC Leaders to ensure their economies stay on track with their Individual Action Plans in pursuit of the Bogor Goals. ABAC endorses the APEC Dashboard approach to monitoring progress towards the Bogor Goals but in order for it to be truly effective it cannot be a one-off exercise. ABAC would like to see the Dashboard exercise repeated regularly in the lead up to 2020.

#### **Recommendation:**

- Undertake on annual or bi-annual basis until 2020 the APEC Policy Support Unit’s Dashboard exercise to ensure effective monitoring of progress toward the Bogor Goals.

## **A. Accelerating trade and investment liberalization**

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

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

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

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

#### **Recommendations:**

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

### **2. Attracting growth-producing foreign direct investment**

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

We urge APEC Ministers to increase their focus on ways of facilitating and encouraging further growth in FDI, while convincing public stakeholders that openness to FDI brings important benefits for government, business and communities in the economies receiving such investment. We call upon Ministers to take the lead in ensuring that their economies

remain open for FDI while explaining the benefits of FDI as a driver of sustainable growth and employment.

**Recommendations:**

- Continue to engage officials and private sector experts in focused capacity building activities to address barriers to FDI.
- Take further measures to highlight the benefits of FDI to government, business and communities in recipient economies, enabled by business friendly regulatory policies.
- Implement the IFAP fully across all APEC economies.
- [Add recommendations on FDI from Marshall Business School report in due course].

3. Promoting good regulatory practices

ABAC firmly believes that good regulatory practices (GRP) strengthen and deepen regional economic integration, prevents barriers to trade from occurring, as well as lead to increases in trade and economic growth. GRPs are neither about less regulation nor about more regulation. GRPs improve the process by which economies develop regulations, develop best practices and find common standards and timing acceptable to multiple economies. The trade costs that result from divergent regulations are significant. For consumers, regulatory divergence is tantamount to a concealed “inefficiency tax” that citizens pay on everything they purchase. This tax is the sum of the costs of duplicate regulations, cross border administration delays and fees, and other regulatory impediments.

A 2012 study by the Pacific Economic Cooperation Council (PECC) cited lack of transparency in regulations as the most important issue for Asia-Pacific free trade agreements, and lack of transparency in regulatory practices as most serious challenges to doing business in the Asia-Pacific region. Regulatory impediments to business were also identified at a priority issue for APEC. For businesses, and in particular SMMEs, higher compliance costs hinder international competitiveness and complicate the most efficient deployment of economic resources.

**Recommendations:**

- Strengthen the implementation of GRPs identified by APEC Leaders in the Honolulu Declaration and encourage the exploration of additional GRPs for implementation beyond 2013, including transparent and equitable implementation/enforcement of regulation as well as voluntary alternatives to regulation, in order to reduce or eliminate barriers to free trade and investment. Specifically, APEC should:
  - Support efforts that more closely align APEC economies’ regulations with global best practices by promoting international standards as the basis for domestic regulation and utilizing performance-based rather than prescriptive-based regulations.
  - Design regulatory institutions that promote trade-friendly regulations and increase domestic and regional coordination through strengthening internal (domestic) and regional cooperation as well as addressing unnecessary costs of regulation.



- Implement regulatory impact assessments to mitigate the negative impact of regulations on commerce.
  - Strengthen public-private cooperation through the use of consultation mechanisms to enhance accountability, promote mutual learning, and encourage best practices.
  - Create fair and consistent enforcement mechanisms to promote transparency, equity, and stability.
  - Improve efficiency by identifying alternatives to regulation that offer administrative simplicity, flexibility, efficiency, certainty and equity.
- Strengthen public-private cooperation on the development of a GRP toolkit that focuses on best practices and capacity building to help APEC economies implement effective regulatory design which achieve intended aims at the least cost to businesses and citizens.
  - Support sectoral public-private partnerships for addressing industry specific regulatory issues. The APEC LSIF Regulatory Harmonization Steering Committee (RHSC) and APEC Harmonization Center (AHC) are examples of how APEC economies can create multi-year public-private partnerships and advance these vital regulatory issues future trade flows through targeted sectoral regulatory reforms. Specifically, a code of ethics proposed to facilitate the approval of clinical research in APEC economies will bolster near term investment.

#### 4. Expanding the Information Technology Agreement

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

#### **Recommendations: [May change after the June negotiation round]**

- Play a leadership role once again to support (a) the commercially significant expansion of the ITA's product coverage to reflect dynamic technological developments, (b) an increase in the number of participating members in the ITA, and (c) the successful completion of WTO ITA expansion negotiations in Geneva by the middle of this year.

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

The pursuit of liberalized trade and investment in services remains one of ABAC's key priorities given the huge importance of the services sector to APEC economies. Trade in services has significant potential for growth. The WTO estimates that 50% of world trade will be in services by 2020. As was highlighted in the 2012 report "Trade in Services in the APEC Region" by the University of Southern California's Marshall School of Business, current levels of trade in

services within the APEC region are surprisingly low, and the associated benefits of regional services trade are potentially being lost. In 2010, only 6 percent of total services produced within APEC were exported, compared with 63 percent of total goods.

Regulatory barriers continue to have a chilling effect on services trade. There are many examples where domestic standards and regulations have become non-tariff barriers for foreign services firms. The Marshall School report found that the cumulative impact of different regulations and standards across economies creates a level of heterogeneity which raises transaction costs to levels that discourage trade. A 10% reduction in trade costs could result in US\$100 billion of additional services-related GDP within APEC.

**Recommendations:**

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

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

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

**Recommendations:**

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

2. Improving business mobility

The APEC business community has long regarded the APEC Business Travel Card (ABTC) as one of the most significant and material business facilitation initiatives in the region. ABAC appreciates the continuing efforts of the APEC Business Mobility Group (BMG) and individual economies to improve the operation of the ABTC. However, ABAC still finds various difficulties. This year, ABAC undertook a survey to identify and prioritize the issues that business leaders believe need to be addressed. ABAC encourages APEC economies to commit to the full and smooth operation of the ABTC.

**Recommendations: [to be amended once survey results are in at ABAC 3]**

- Encourage ABTC transitional economies to accelerate efforts towards complete membership status, including the issuance of cards.

- Improve the operation of the ABTC by expediting the issuing process without prejudice, simplifying the renewal process, improving online services, and ensuring recognition of ABTC at the borders by providing clearly marked ABTC priority lanes.
- Improve ABTC operations by carrying out capacity building.
- Encourage transitional economies to accelerate efforts towards complete membership status, including the issuance of cards.
- Ensure widespread awareness of the ABTC program.
- Consider additional benefits for ABTC holders, e.g. expanding the area of usage of ABTC beyond APEC economies, especially to include the EU.
- Support APEC BMG's experimental use of ABTC cardholders' biometrics and use of the other advanced Information Communication Technology to reduce costs and procedure time.
- Urge APEC BMG's formal decision on extending the validity period of ABTC from three (3) to five (5) years.
- Request each economy expediting the renewal application process to complete within six months or otherwise issue the temporary card to fill the gap period.

### **C. Enhancing supply chain connectivity**

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

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

The benefits of an efficient, reliable and secure global supply chain are tremendous for both the business sector and APEC economies as a whole. ABAC advocates greater use of global data standards to address supply chain connectivity and complexity challenges. ABAC has identified a need for new forms of public-private partnership to create more connected, efficient, safer and sustainable supply chains. ABAC has partnered with the GS1 not-for-profit organization to develop a regional framework for global data standards, starting with a number of capacity building activities in which global data standards are deployed to target specific supply chain chokepoints. ABAC believes this will help APEC to meet its 10% target for improving supply-chain performance in terms of time, cost and uncertainty by 2015.

**Recommendations:**

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

**2. Pursuing standardization initiatives**

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

**Recommendations:**

- Complete inventories of policies and practices, and commence diagnostic reports to measure variances between existing domestic policies and regional best practices in order to guide the drafting and implementation of a targeted capacity building plans.
- Engage with ABAC and the private sector as a source of expertise on targeted, focused, and economy-specific capacity initiatives aimed at building a supply chain toolkit to help enable economies to meet APEC Leaders' 10% improvement goal by 2015.

**3. Achieving a balanced approach to trade security and facilitation  
[this language will be updated by ABAC Japan in last week of June]**

Facilitating a better trade environment is a key requirement for improving supply chain connectivity. Towards this goal, ABAC continues to advocate for a coordinated and holistic approach to facilitating the development of a mutual recognition scheme for Authorized Economic Operator (AEO) programs in APEC economies alongside the APEC-wide AEO program. However, the challenge is how to address the specific security needs in recent customs environment with the other trade security programs in place, while strengthening procedures to facilitate the movement of goods across borders. ABAC acknowledges the importance of the trade security feature of the AEO Program, however ABAC believes that specific benefits should be granted to AEOs meeting minimum security requirements in order to further promote trade in the region.

**Recommendations:**

- Develop an AEO certification system for AEO-qualified corporations in economies where AEO programs do not exist and promote mutual recognition of the respective economy's AEO.
- Encourage efforts to develop the APEC-wide AEO program's mutual recognition scheme based on existing AEO programs designed for trade security using common principles and common application processes.

- Avoid redundancy with other supply chain security programs while balancing the need for trade facilitation and trade security.
- Explore ways to include benefits identified by ABAC in its 2011 recommendations to APEC Leaders in the AEO action plan.
- Waive pre-departure/pre arrival data requirements by “24 hour rules” and “10+2 rule” as part of benefits granted to AEO certified operators.

### **III. Sustainable Development**

Sustainable development is a fundamental objective of APEC to achieve human prosperity and a healthy environment. In line with this objective, ABAC addressed the following themes in 2013: strengthening food security by overseeing the implementation of the PPFS Action Plan for 2013; promoting blue economy growth and sustainability; promoting green growth by improving energy efficiency and facilitating trade in environmental goods and services; facilitating technology dissemination by developing an effective approach, mechanism and platform; and accelerating infrastructure development by improving the investment environment.

#### **A. Strengthening food security**

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

#### **Recommendations:**

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

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

ABAC commends APEC for the groundbreaking agreement on the APEC List of Environmental Goods (EG) in 2012. ABAC firmly believes that facilitating trade on the 54

items on the List will contribute to reducing the energy intensity of the region. ABAC requests that APEC take steadfast actions to reduce the applied tariff rates for the 54 items to 5% or less by the end of 2015 as agreed by APEC Economic Leaders in the 2012 Vladivostok Declaration. In addition to tariff reductions, the removal of non-tariff trade barriers will increase trade in these goods and services which will continue to be the driving force in reducing APEC's energy intensity. By doing so, APEC will expand the growth of all viable energy sources and increase both the use and availability of energy efficient products and low-carbon technology.

**Recommendations:**

- Adopt an accelerated timetable to implement the tariff reductions on the 54 EG items.
- Create a conducive legal and regulatory environment for trade and investment in the energy sector.
- Provide greater attention to policies to facilitate the development of renewable energy infrastructure to meet green growth targets.
- Expedite the identification and removal of non-tariff trade barriers for environmental goods and services.
- Continue to support the efficient regional trade of energy through improving integrated transmission infrastructure and domestic power grids.

**C. Ensuring water security**

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

**Recommendations:**

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

**D. Encouraging infrastructure investment and development**

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

investment outcomes are enabled by bringing together a diverse set of critical policy elements that require a multi-disciplinary and interagency approach. Governments not only need to address barriers to private sector FDI but also effectively harness it through measures such as creating an environment conducive to infrastructure finance, emphasizing long-term planning and cooperation through public-private partnerships and facilitating transparent government procurement processes.

**Recommendations:**

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

**E. Promoting transparency and efficiency in government procurement**

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

**Recommendations:**

- Ensure open, transparent bidding processes supported by consultations with private sector.
- Provide effective mechanisms for resolving disputes relating to investment, government actions and other commercial matters, including private arbitration services and mechanisms for the enforcement of arbitral awards and the recognition and enforcement of overseas judgments and awards.
- Seek a provision requiring economies to create a review body independent of any procuring entity. An independent review body would dissuade reservations regarding the dispute settlement process and increase transparency.
- Award contracts on the basis of objective criteria, such as lifecycle costing, which ensure compliance with the principles of transparency, non-discrimination and equal treatment and which guarantee that tenders are assessed in conditions of effective competition.
- Limit the qualification and screening of commercial operators to factors essential to performance of government procurement bids.

- Simplify international bidding on procurement contracts by making it easier for firms to identify potential cross border contracts. APEC economies should identify a threshold, or level of purchase, which is subject to the rules governing procurement.

#### **F. Promoting technology dissemination and innovation**

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

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

#### **Recommendations:**

- Continue support for PPSTI and encourage strong private sector engagement in the policy conversation.
- Continue to take concrete steps to implement the 14 non-discriminatory market-driven innovation policies endorsed by APEC Leaders in 2011.

### **IV. SMME & Entrepreneurship**

**SMMEEWG to provide**

### **V. Finance & Economics**

#### **A. Launching of the Asia-Pacific Financial Forum**

In 2012, APEC Finance Ministers welcomed ABAC's proposal to explore the creation of an Asia-Pacific Financial Forum (APFF), a regional platform for public-private collaboration to help accelerate the development of integrated financial markets. A symposium was co-organized by ABAC and hosted by the Australian Government in Sydney for this purpose in April 2013. The Symposium was attended by 98 representatives from public and private sectors across APEC and concluded with wide support for the concept and objectives of APFF, underscoring the importance of such collaboration in promoting financial market development to support the needs of the real economy and regional aspirations for sustained, balanced, inclusive and innovative growth. APFF can add value to ongoing initiatives under various fora by bringing the



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

**Recommendation:**

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

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

1. Mobilizing regional savings for long-term investments

To enhance investment flows across the region, ABAC is supporting an initiative involving a three-year program to encourage greater predictability and transparency in investment decision-making. An aspect of the program is to encourage institutional savings held in sovereign wealth funds (SWFs), superannuation, insurance and others to be invested in domestic and cross border long-term infrastructure projects, subject to prudent investment principles. Research is presently being undertaken on the project and a dialogue involving officials, business, academia and representatives of SWFs and SOEs will be convened in Beijing in September, 2013. An additional piece of work would be to update a paper on SWFs prepared for ABAC in 2008. The outcomes and recommendations from the Beijing dialogue will be reported back to the Finance Ministers as a means of enhancing investment flows in the region.

**Recommendation:**

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

2. Promoting Asia-Latin America Financial Cooperation/Integration

Intra-regional collaboration is one of the key issues in promoting trade among APEC economies as a main engine of growth. However, ABAC needs to consider the differences in levels of development between each of the sub-regions even as we encourage progress toward the FTAAP.

Focusing on Asia-Latin America sub-regional collaboration, from the view of the Pacific Alliance, Trans-Pacific economic ties between Asia and Latin America have certainly been deepening recently. Trade between both sides has steadily increased, mainly in terms of commodity-for-manufactured goods. Compared with the economic ties between other sub regions like North Asia-South Asia or Asia-North America, however, it is clear that the depth and width of collaboration and linkage of these two markets still need to be developed further with respect to trade in goods and services, investment and capital and financial market transactions.

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

**Recommendations:**

- Promote closer economic ties between Latin America and Asia as well as the improvement of policy coordination between markets in the two areas.
- Develop the financial component supporting Asia-Latin America cooperation such as collaboration between the Asian Development Bank and the Inter-American Development Bank on a trade finance program to enhance linkages with respect to trade in goods and services.

3. Mitigating the unintended consequences of new financial regulations

Despite letters sent to relevant authorities last year highlighting the unintended consequences of new financial regulations, ABAC has become increasingly concerned about the serious extraterritorial impact of new financial regulations being introduced in certain jurisdictions on market activities in the rest of the world. This is particularly the case in the Asia-Pacific region, where the impact of such regulations on investment may hinder the prospects of its further development as a much-needed engine of growth for the global economy at this critical point in time.

ABAC has written APEC Finance Ministers, the G20 and the Basel Committee on Banking Supervision in May 2013 urging relevant authorities to collaborate with each other in addressing the potential negative impact on other markets of the US Dodd-Frank Act and the EU Financial Transaction Tax. Given the current unstable and uncertain economic circumstances, ABAC urges further and careful consideration of new financial regulations to address their negative effects on trade finance, which is a major engine of economic growth in the Asia-Pacific and other regions.

**Recommendations:**

- Undertake a regular global dialogue with regard to the debate on financial regulatory and supervisory policy and support a global minimum regulatory standard which allows domestic authorities in the region flexibility in dealing with particular domestic circumstances.
- Take appropriate measures to ensure that financial regulations facilitate SMMEs' access to trade finance.

4. Internationalizing Emerging Economies' Currencies

ABAC notes the development of the Renminbi (RMB) in trade and investment has captured the attention of the corporate sector and financial community worldwide. The RMB has advanced six places as a world payments currency to 14th in 2012, and today stands as the 13th most-used currency over SWIFT. As the RMB becomes increasingly interwoven into the fabric of international finance and trade, it is important that the public and private sectors step back and take a holistic view of RMB internationalization, working in

collaboration and avoiding unilateral actions that could disrupt the path towards sustainable growth.

Given that harmonization and transparency are necessary attributes for the RMB to become a truly international currency, there are two main areas where concrete measures can promote continued growth – improve RMB liquidity and operations.

#### **Recommendations:**

- Promote the expanded role of emerging markets' currencies in trade and investment flows in view of their potential to become anchors.
- Improve RMB liquidity and operations to enable it to become a truly international currency:

##### Liquidity:

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

##### Operations:

- Enhance straight-through-processing.
- Enhanced platform for longer operating hours to cover various time zones and lower the amount and cost of liquidity required to support the transactions.
- Ensure that needed market infrastructure are in place, including the new China International Payment System for cross-border RMB flows, in conjunction with global standardization, efficiency and a faster clearing and settlement system.

#### **5. Implementing the International Financial Reporting Standards**

In its 2010, 2011, and 2012 Report to APEC Economic Leaders, ABAC expressed strong support for adoption of the International Financial Reporting Standards (IFRS) throughout the APEC region as part of APEC's goal of encouraging regulatory coherence and of promoting regional economic integration. IFRS is an important means of converging financial standards, regulations and practices as well as shaping global financial regulatory reforms in support of the region's financial development goals. These objectives constitute a core component of ABAC's proposed Asia-Pacific Financial Forum, which will enhance regional public-private collaboration with the aim of helping the region develop sound, efficient and integrated financial markets.

However, ABAC has consistently voiced concerns that some of the newly-proposed accounting standards may result in potential negative business and economic impact. ABAC has noted that the improper implementation of IFRS in lease accounting will reduce the ability of businesses, particularly SMMEs, to access funding. ABAC is also concerned that IFRS for insurance contracts will subject insurance companies in the region to possible negative impacts, including non-economic volatility in earnings and shareholder equity along with a lack of transparency in the reported results of insurance companies in the region. Finally, harmonized international standards for reporting revenue are in need of

improvement, and as a result regulatory bodies are attempting to clarify principles for recognizing revenue from contracts with customers. ABAC is concerned that replacing all of the existing industry specific guidance with a single general principle will fail to address many unique, industry-specific matters and this is a significant step away from these rules. ABAC has an obligation to underscore at a policy level that financial regulatory standards be implemented in a way that does not impair APEC's overarching themes of Inclusive Growth.

#### **Recommendations:**

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

#### **6. Facilitating Convergence of Credit Rating Practices to Promote Cross-Border Investment in Asian Local Currency Bonds**

Robust and reliable credit ratings that are comparable across markets can promote cross-border bond investments and greater market depth and liquidity. Much remains to be done to create favorable conditions for domestic credit rating agencies (CRAs), the dominant industry players in the region's emerging bond markets, to provide such ratings.

Key challenges are divergent rating practices; the technical difficulty of using domestic ratings to compare issues across borders; varying levels of development, accounting standards, disclosure practices and legal and regulatory regimes; and insufficient trust of investors in relatively young domestic CRAs.

#### **Recommendations:**

- Endorse a project to develop a regional guidebook on common basic rating methodologies and basic rating criteria for key industries and sectors with the collaboration of the Association of Credit Rating Agencies in Asia; convergence of accreditation criteria for CRAs across markets; and convergence of financial standards and regulations to facilitate comparable credit ratings across markets.

#### **7. Facilitating Cross-Border Data Flows**

Information technology has created a more competitive, efficient, and flexible commercial landscape. The global economy is poised to benefit from a new wave of innovation rooted in the convergence of industrial equipment and advanced computing. Data processing operations are a critical component of financial services providers' information technology environment, and an important facet of APEC's Inclusive Growth agenda. Cross-border data transfers can be considered a necessary instrument to facilitate the provision of credit and other financial services in a globalized world, as well as for financial supervisory purposes. As a result of cross-border businesses, migration and other factors, businesses or individuals entering a new country need to establish a relationship with a local financial

entity. When this activity takes place across international boundaries, it is important that economies work together to ensure differing regulatory regimes do not hinder cross-border data flows and international trade.

A regulatory environment that allows the private sector to move business-related data across borders will be an important determinant of the financial service industry's ability to grow over the next decade, and is a key element of the region's ability to remain globally competitive. Despite the potential benefits of cross-border data flows, emerging technologies such as cloud computing have implications such as security, ownership, and privacy. Of particular concern are cyber security risks, and APEC economies' desire to create safeguards that buttress them against national security threats beyond their jurisdiction or geographic borders. These issues must be addressed in order for this new technology to flourish.

ABAC is conducting a stock-take of policies and legislation that APEC economies currently have implemented or are considering implementing, and using this data to promote a best practices approach to the regulation of cross-border data flows that is complementary to APEC's Cross-Border Privacy Rules (CBPR) system. This report will highlight regulations to data flows that provide a high level of security, privacy, accountability while also facilitating the international flow of data as a necessary component of regional connectivity.

**Recommendation:**

- Note the work being undertaken by ABAC on sharing best practices on the subject of cross-border data flow as a means to enhancing regional connectivity.

**C. Promoting PPP and infrastructure finance**

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

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

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

**Recommendations:**

- Effect further improvements in the environment for PPPs, especially through active engagement with APIP.
- Establish a regional framework to coordinate capacity building and sharing of best practices, with the collaboration of the APIP.

**D. Promoting practical solutions to financial inclusion****1. Harnessing Innovation to advance financial inclusion**

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

Within the past few years, the development of mobile and branchless banking, improvements in credit information systems and risk analytics, and improvement in electronic data security have made considerable progress in developing economies, enabling a growing number of such households and enterprises to gain access to finance, which in turn, is expanding the prospects of improving people's standard of living and increasing the opportunities for economic growth.

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

**Recommendation:**

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

**2. Undertaking legal architecture reforms to expand finance**

Well-defined legal systems with effective enforcement mechanisms expand funding and lower borrowing costs, especially for SMMEs, as well as for projects that require foreign financing, by providing a highly predictable environment that reduces non-commercial risks faced by lenders and investors. Measures in the areas of secured lending (particularly in relation to security interest creation, perfection and enforcement, floating charges and accounts receivable financing) and insolvency, where lenders and investors in the region face major issues, will significantly benefit member economies.

**Recommendations:**

- Adopt (a) key elements of an APEC Model Code for Secured Financing to guide reforms in member economies; (b) a set of Regional Guidelines for Informal Workouts and (c) a Model Agreement to Promote Company Restructuring by Informal Workout for endorsement by APEC Finance Ministers.

## **VI. APEC Engagement & the Advocacy Plan**

**APAWG to provide**