ABAC FINANCE AND ECONOMICS WORKING GROUP MATRIX

Agenda Item		ABAC USA Action
2. G20/B20 Update		Monitor
Issue		
No document available at this time		
Deliverable/Objective		**Status**
For information		
Supporting ABAC Economies	**Dissenting ABAC Economies**	**USG Position (if known)**
ABAC Russia Presenting		
ABAC USA Position/Talking Points/Recommendations		
No document available at this time		

Agenda Item		ABAC USA Action
3. Perspectives on Global Financial Reform		Monitor
Issue		
Domestic financial regulations can have unintended and unpredictable consequences affecting its economic growth		
Deliverable/Objective		**Status**
		ABAC issued letters to the G20, APEC Finance Ministers, and Basel Committee on May 28 expressing concerns on the international consequences of domestic regulation
Supporting ABAC Economies	**Dissenting ABAC Economies**	**USG Position (if known)**
Japan	**None**	
ABAC USA Position/Talking Points/Recommendations		
- ABAC USA is supportive of these letters. - Appropriate capital requirements are necessary to promote financial stability but excessive requirements reduce the lending needed to fuel growth and innovation in the overall economy. - ABAC USA encourages APEC to avoid excessive capital requirements that do not provide additional financial stability - ABAC USA is supportive of utilizing ABAC and APEC as a forum to coordinate policy development.		

Agenda Item		ABAC USA Action
4. Internationalization of Emerging Economies Currencies		Monitor
Issue		
No document available at this time.		
Deliverable/Objective		**Status**
		ABAC has endorsed similar presentations from ABAC China, Russia, and Japan in the past 2 years.
Supporting ABAC Economies	**Dissenting ABAC Economies**	**USG Position (if known)**
Japan, Russia, China, Chinese Taipei	None	

ABAC USA Position/Talking Points/Recommendations
ABAC USA is supportive of this proposal and will monitor accordingly.

Agenda Item		ABAC USA Action
5. Mobilizing Savings for Long-Term Investment		Monitor
Issue		
Deliverable/Objective		**Status**
ABAC Participate in a SWF dialogue in October ABAC update a 2008 paper on SWF greater transparency and accountability of the activities of SWFs		This is a new issue presented at ABAC I this year.
Supporting ABAC Economies	**Dissenting ABAC Economies**	**USG Position (if known)**
ABAC Papua New Guinea	**None**	
ABAC USA Position/Talking Points/Recommendations		
ABAC USA is supportive of measures that create greater transparency and accountability in regional financial markets		

Agenda Item		ABAC USA Action
6. Asia-Latin America Cooperation		Monitor
Issue		
Trade between Latin America and Asia is increasing. Additional collaboration between these two regions would be beneficial.		
Deliverable/Objective		**Status**
Invite the ADB to participate in the ABAC III meeting in Kyoto		This issue was first introduced in 2013. A representative from the IDB spoke at ABAC I and identified the need to promote closer economic ties as well as to improve policy coordination.
Supporting ABAC Economies	**Dissenting ABAC Economies**	**USG Position (if known)**
Japan	None	
ABAC USA Position/Talking Points/Recommendations		
- ABAC USA is supportive of enhanced Intra-regional collaboration for promoting regional economic and financial integration.		

Agenda Item	ABAC USA Action
7. IFRS	**Tom Clark Presentation**
Issue	
The promotion of International Financial Reporting Standards to increase regulatory coherence in financial reporting across the Asia-Pacific	
Deliverable/Objective	**Status**

Draft a letter from ABAC to the IASB/FASB on the implementation of IFRS and impact on SME Lending	**ABAC sent a letter to the IASB/FASB in 2011 when the IFRS Lease Accounting draft rules were created. A new set of draft rules were released in June 2013. ABAC will provide comments on these rules.**

Supporting ABAC Economies	Dissenting ABAC Economies	USG Position (if known)
ABAC Japan, ABAC USA, ABAC Chinese Taipei	**None**	Treasury is not opposed to IFRS, but has raised concerns that APEC is not the right forum for discussion.

ABAC USA Position/Talking Points/Recommendations

- ABAC should continue to encourage a dialogue between business groups and IASB/FASB on ways that would align IFRS principles with the interests of SMMEs and other business groups that will be affected.
- Adoption by economies of IFRS should take into account ways of satisfactorily dealing with the concerns raised by business groups.

Agenda Item	ABAC USA Action
8. Advisory Group Update	Monitor

Issue

The advisory group will update the FEWG on the Asia-Pacific Infrastructure Partnership (APIP), the Asia Pacific Financial Forum (APFF) Financial Inclusion Forum (FIF) and other regional initiatives.

Deliverable/Objective	Status
For information, possible endorsement	The APIP has been active since 2010. Financial Inclusion Forum (FIF) active since 2010. The APFF was endorsed by ABAC in 2012.

Supporting ABAC Economies	Dissenting ABAC Economies	USG Position (if known)
Broad support. ABAC Japan, Australia are key supporters	None	U.S. Treasury is supportive of the APFF but not convinced of the "staying power" of an additional forum.

ABAC USA Position/Talking Points/Recommendations

- ABAC USA strongly supports the work of the Advisory Group.
- ABAC USA is engaged on the APIP, APFF, and FIF initiatives and have identified topics and speakers for each forum.
- The APFF is a key forum to raise ABAC USA issues that don't fit neatly in ABAC or APEC fora.
- ABAC must emphasize the importance of creating a robust, results oriented agenda for the APFF in order to avoid the forum becoming a "talk-shop."

Document: FEWG 33-026 Draft: **FIRST** Date: 1 July 2013 Source: FEWG Chair Meeting: Kyoto, Japan

<u>Agenda</u>
Finance and Economic Working Group
09.45-11.45 Wednesday, 10 July 2013
Venue: Level 4 GYOUN, Kyoto Hotel Okura

Agenda Item No.	Issue	Lead Economy/Speaker	Doc. No.
1.	**Introduction** - Opening Remarks - Approval of the ABAC II 2013 FEWG meeting minutes	Mr. John Denton (Acting Chair) ABAC Australia	 FEWG 33-026 FEWG 33-025
2.	**G20/B20 Update** - Update from B20 Summit held in St. Petersburg on June 20, 2013	Mr. Nikolay Samylitchev ABAC Russia	FEWG 33-028
3.	**Perspectives on Global Financial Reform** - Review letters to financial regulators and discuss next steps	Mr. Yoshihiro Watanabe ABAC Japan	FEWG 33-029
4.	**Internationalization of Emerging Economies Currencies** - Update and review proposed recommendations	Mr. Yoshihiro Watanabe ABAC Japan Ms. Rebecca Terner Asia Securities Industry & Financial Markets Assoc. Ms. Beth Smits, SWIFT Mr. Boong-Hiong Chan Deutsche Bank AG	FEWG 33-030
5.	**Mobilizing Savings for Long-Term Investment** - Update on on-going work for first stage of the three-year initiative	Mr. Wayne Golding ABAC PNG	FEWG 33-033
6.	**Asia-Latin America Cooperation** - Expanding financial integration through trade finance (ADB) - Colombian perspectives	Mr. Yoshihiro Watanabe ABAC Japan Mr. Haruya Koide Mr. Steven Beck Asian Development Bank Ms. Ana Milena Cortázar National Business Association of Colombia	FEWG 33-031 FEWG 33-031A FEWG 33-031B FEWG 33-031C FEWG 33-031D
7.	**IFRS** - ABAC engagement update	Mr. Tom Clark ABAC USA	FEWG 33-032

8.	**Advisory Group Update** - Update on APFF, financial inclusion, legal architecture, credit ratings, angel/venture capital	Mr. Mark Johnson Mr. JC Parrenas Advisory Group	
9.	**Other Issues** - Any other business - Closing remarks	Mr. John Denton (Acting Chair) ABAC Australia ABAC	

Document: FEWG 33-028
Draft: **FIRST**
Date: 1 July 2013
Source: ABAC Russian Federation
Meeting: Kyoto, Japan

Meeting Document Summary Sheet Template

Document Title:
Report to ABAC – G20/B20 update

Purpose:
For information

Issue:
B20 Summit

Background:
Russia assumed the G20 2013 Presidency on December 1, 2012. The core objective of the Russian Presidency is to concentrate the efforts of the G20 on developing a set of measures aimed at boosting sustainable, inclusive and balanced growth and jobs creation around the world. The B20 activity, including the elaborating of recommendations for G20 Leaders, is traditionally coordinated by the presiding country's business leaders. Seven B20 Task Forces were established and focused on the areas crucial for global development: Trade, Investments and Infrastructure, Finance, Global Priorities for Innovation and Development, Job Creation and Investments in Human Capital, Transparency and Anticorruption Activity, the G20-B20 Dialogue Efficiency.

Business 20 Summit was held on June 20 in St. Petersburg. The program of the Summit included the B20 Task Forces Sessions, where their recommendations were presented.

The results and effectiveness of the actions taken by the international financial institutions to improve global and multilateral financial regulation within the framework of the G20 were among the key topics of the session "Financial System - Restoring Confidence and Growth". The participants shared their vision of what can be perceived as the optimum financial market regulation aimed to achieve an ideal balance between stability and growth, and to make funding for SMEs more available. They paid special attention to securing innovation-oriented economic development and to the financial markets development in the emerging economies.

The Task Force Sessions continued with Business 20 Summit Plenary Session entitled "Promoting a New Mode of Economic Growth as the B20 Priority for 2013". The participants discussed the draft recommendations for the G20 Leaders covering the areas of task forces' activities. The participants also discussed the necessary pre-conditions for the transition to the new global economic development mode that would ensure sustainable growth. They paid special attention to the need of the business community's recommendations transformation into G20 Leaders' decisions.

The commentary emerging from the Summit's discussions will be reflected in the White Book - the final version of the Business 20 proposals for the G20 Leaders providing recipes to tackle key economic challenges faced by the international community.

The G20 Leaders Summit will take place in St. Petersburg on September 5-6, 2013.

Decision Points:
Take into consideration.

Document: FEWG 33-029 Draft: **FIRST** Date: 1 July 2013 Source: ABAC Japan Meeting: Kyoto, Japan

Meeting Document Summary Sheet

Document Title: Report to ABAC – Letter on Financial Regulations to Relevant Authorities
Purpose: For information
Issue: Unintended consequences of the implementation of new financial regulations
Background: ABAC FEWG agreed in Singapore that ABAC should continue to voice its concerns about potential unintended consequences of the new financial regulations on the financial market and the real economy. ABAC FEWG agreed to draft a letter on this issue to be sent by ABAC to relevant authorities. With agreement of ABAC members to the circulated letter drafted by ABAC FEWG, ABAC has sent the letter to the G20 Chair, the Basel Committee on Banking Supervision and the Chair of APEC Finance Ministers' Meeting last May. ABAC has received an acknowledgement from Basel Committee on Banking Supervision.
Proposal /Recommendations: Please see the attached. Key Points: • ABAC notes that given the high-level of linkage among today's markets, the extraterritorial impact of financial regulations can spread quickly, deeply and extensively across multiple financial markets. • ABAC sent a letter highlighting the unintended consequences of new financial regulations to relevant authorities last year. 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. • Considering its potential negative impact on other markets, ABAC urges relevant authorities to collaborate with each other in addressing the cross-border and extraterritorial effects of these financial regulations • Among those effects, cost of new regulations transferred to end user of financial services should also be reviewed.
Decision Points: • N/A

Ziyavudin Magomedov
ABAC Chair 2012

April 3, 2012

The Honorable Anton G. Siluanov
Chair, APEC Finance Ministers' Meeting
Minister of Finance
Russian Federation

Dear Minister Siluanov:

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 ensuring the success of APEC by providing private sector insights on how best to achieve APEC's goals, both through APEC's own initiatives, and in dialogue with other international organizations.

ABAC supports APEC's goal of accelerating trade and investment liberalization and promoting regional economic integration, as well as efforts to promote capacity building to develop financial markets and encourage greater regulatory coherence. We are deeply concerned about the Eurozone debt crisis, and look to individual and collective efforts by APEC economies and dialogue among relevant authorities in safeguarding the overall stability of financial systems within and beyond our region.

ABAC understands the importance of sound financial regulation in maintaining sustainable growth and stable financial systems. In particular, we agree that the issue of excessive speculative movements of capital across financial markets needs to be addressed. We note, however, that given the high-level of connectivity among today's markets, the impact of financial regulations extend beyond jurisdictional borders and can spread quickly, deeply and extensively across multiple financial markets.

ABAC is concerned that new financial regulations being introduced in some jurisdictions may have unintended and unpredictable consequences affecting other markets that could impede the healthy growth of our economies. We urge relevant authorities in APEC member economies to address these concerns.

We particularly request your kind attention on the following two issues.

First, we request that due account be taken of the cross-border and extraterritorial effects of financial regulations and that relevant authorities collaborate with each other in addressing these concerns.

Second, we would like to point out the unintended consequences for market makers across the region and the real economy of new regulations that unduly constrain market liquidity, hinder pricing mechanisms and distort markets. The requirement to provide counter party information on a cross-border basis is also an issue that we believe requires more careful consideration.

Given the current unstable and uncertain economic circumstances, ABAC highly appreciates your further careful consideration and review of new financial regulations with a view to avoiding pro-cyclical effects on APEC economies and ensuring our region's continued growth and prosperity.

Respectfully yours,

Ziyavudin G. Magomedov	**John W. H. Denton**
ABAC Chair 2012	Chair, ABAC Finance & Economics Working Group

May 31, 2013

Dr. M Chatib Basri
Chair, APEC Finance Ministers' Meeting
Minister of Finance
Republic of Indonesia

Dear Minister Basri:

On behalf of the APEC Business Advisory Council (ABAC), we would like to congratulate you on your appointment as Minister of Finance of the Republic of Indonesia. We assure you of ABAC's support and cooperation in your role as Chair of the APEC Finance Ministers' process and look forward to continuing the close collaboration we have developed with APEC Finance Ministers and Officials over many years.

We will be providing you and your fellow Ministers with a full set of ABAC's recommendations on financial market issues before the APEC Finance Ministers' Meeting in September this year.

Ahead of these recommendations, ABAC would like to bring to your attention a specific issue regarding the unintended consequences of new financial regulations. In April last year, we wrote to the Chair of APEC Finance Ministers' Meeting on this issue (Attachment 1).

Since then, we have become increasingly concerned about the serious extraterritorial impact of new financial regulations being introduced in certain jurisdictions on market activities in the rest of the world. We believe this to be particularly the case in our 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.

Of particular concern is the extraterritorial application of the US Dodd-Frank Act and the EU Financial Transaction Tax. Considering its potential negative impact on other markets, we urge relevant authorities to collaborate with each other in addressing the cross-border and extraterritorial effects of these financial regulations.

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

Given the current unstable and uncertain economic circumstances, ABAC highly appreciates further careful consideration and review by the APEC Finance Ministers of new financial regulations with a view to addressing their negative effects on trade finance, which is a major engine of economic growth in our region.

We thank you for your cooperation.

Yours sincerely,

Wishnu Wardhana
ABAC Chair 2013

Cher Wang
Chair, ABAC Finance & Economics Working Group

May 28, 2013

His Excellency Vladimir Putin
Chair, G20 Meeting
President of the Russian Federation
Moscow, Russian Federation

Your Excellency:

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 ensuring the success of APEC by providing private sector insights on how best to achieve APEC's goals, both through APEC's own initiatives, and in dialogue with other international organizations.

ABAC supports APEC's goal of accelerating trade and investment liberalization and promoting regional economic integration, as well as efforts to promote capacity building to develop financial markets and encourage greater regulatory coherence.

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

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

Of particular concern is the extraterritorial application of the US Dodd-Frank Act and the EU Financial Transaction Tax. Considering its potential negative impact on other markets, we urge relevant authorities to collaborate with each other in addressing the cross-border and extraterritorial effects of these financial regulations.

ABAC Indonesia
Mitra Building, 2nd Floor, Jl. Jenderal Gatot Subroto Kav. 21, Jakarta 12930, Indonesia
Tel: (62 21) 2557 9888 ext. 8245 ● Fax: (62 21) 2557 9889 ● Email: contact@abacindonesia.org

Given the current unstable and uncertain economic circumstances, ABAC highly appreciates further careful consideration and review by the G20 of new financial regulations with a view to addressing their negative effects on trade finance, which is a major engine of economic growth in the Asia-Pacific and other regions.

Yours sincerely,

Wishnu Wardhana
ABAC Chair 2013

Cher Wang
Chair, ABAC Finance & Economics Working Group

May 28, 2013

Mr. Wayne Byres
Secretary General
Basel Committee on Banking Supervision
Centralbahnplatz 2
CH-4002 Basel, Switzerland

Dear Mr. Byres:

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 ensuring the success of APEC by providing private sector insights on how best to achieve APEC's goals, both through APEC's own initiatives, and in dialogue with other international organizations.

ABAC supports APEC's goal of accelerating trade and investment liberalization and promoting regional economic integration, as well as efforts to promote capacity building to develop financial markets and encourage greater regulatory coherence.

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

Although ABAC has sent you a letter highlighting the unintended consequences of new financial regulations last year, we have become increasingly concerned about the serious extraterritorial impact of new financial regulations being introduced in certain jurisdictions on market activities in the rest of the world. We believe this to be particularly the case in the Asia-Pacific region, where the impact of such regulations on investment may hinder the prospects of its further development as a much needed engine of growth for the global economy at this critical point in time. We are urging relevant authorities in APEC and the G20 to address these concerns.

We particularly request your kind attention on the following three issues.

First, we request that further attention be paid to the Basel Committee's rules with respect to risk weighting and waivers of trade finance for small and medium enterprises. We also request greater support for and use of further work by the International Chamber of Commerce on trade finance data collection and analysis.

Second, we request that further attention be paid to the Basel Committee's rules on OTC Derivatives and Non-centrally Cleared Derivatives, with respect to their impact on trade finance.

Third, we request that the implementation of Basel III be undertaken by regulators in each jurisdiction with a careful eye on the actual economic situation, market conditions and its impact on access to finance by small and medium enterprises.

Given the current unstable and uncertain economic circumstances, ABAC highly appreciates further careful consideration and review by the Basel Committee of new financial regulations with a view to addressing their negative effects on trade finance, which is a major engine of economic growth in the Asia-Pacific and other regions.

Yours sincerely,

Wishnu Wardhana
ABAC Chair 2013

Cher Wang
Chair, ABAC Finance & Economics Working Group

Basel Committee on Banking Supervision

BANK FOR INTERNATIONAL SETTLEMENTS

Secretary General

Restricted

Via email: contact@abacindonesia.org

Wishnu Wardhana and Cher Wang
APEC Business Advisory Council (ABAC)
Indonesia
Mitra Building, 2nd Floor
JL Jenderal Gatot Subroto Kav. 21
Jakarta 12930
Indonesia

6 June 2013

Global Financial Regulation

Dear Mr Wardhana and Mr Wang

Thank you for your letter of 28 May. We take note of the three issues that you raise, each of which is related to the impact of the new Basel regulations and their implementation.

I would like to take the opportunity to assure you that the Committee always tries to be mindful of the potential for "unintended consequences" when it makes policy decisions, including the potential impact on particular regions (Asia-Pacific representatives on the Committee come from Australia, China, Hong Kong SAR, Indonesia, Japan, Korea, Singapore), as well as economies outside of the Basel Committee's direct membership. We have established several ways of involving those jurisdictions, for example through our so-called Basel Consultative Group which consists of a number of jurisdictions which are not member of the Basel Committee, some regional groups of banking supervisors (including EMEAP from the Asia Pacific region), the IMF, World Bank and the Islamic Financial Services Board. In addition, we value receiving comments to our consultative documents as well as receiving letters, like yours, from wider stakeholders. This ensures the Committee can be fully aware of the wide range of implications of the policy decisions that it is required to make.

Yours sincerely

Wayne Byres

Document: FEWG 33-030
Draft: **FIRST**
Date: 1 July 2013
Source: ABAC Japan
Meeting: Kyoto, Japan

Meeting Document Summary Sheet

Document Title:

Emerging Economies' Currencies Internationalization

Purpose:

For consideration

Issue:

RMB Internationalization : Continuing the Growth

Background:

With the rise of the emerging economies in the world, ABAC continues to consider and recommend further action to facilitate the internationalization of emerging economies' currencies in 2013, especially the RMB.

In Manila and Singapore, ABAC discussed how emerging economies' currencies could play larger roles as the global currencies.

ABAC invited the following speakers to speak on the ongoing internationalization of the RMB in the APEC region:

- Ms.Beth Smits, SWIFT
- Ms. Rebecca Terner, Asia Securities Industry & Financial Markets Association
- Mr. Boon Hiong-Chan, Deutsche Bank

ABAC intends to share best practices in further promoting the internationalization of emerging economies' currencies.

Proposal /Recommendations:

ABAC urges the following measures to improve RMB liquidity and operations in this currency:

- Liquidity
  - Ensuring 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
  - Encouraging more and greater cross-currency swap lines
  - Harmonising reporting, record keeping and settlement procedures
  - Improving the availability of RMB liquidity pools

- Operations
  - Enhancing 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

- Ensuring that needed market infrastructure are in place, including the new China International Payment System for cross-border RMB flows, in conjunction with global standardisation, efficiency and a faster clearing and settlement system
Decision Points: • Endorse the recommendations outlined above.

RMB Internationalisation: Promoting continued growth

The development of the Renminbi (RMB) in trade and investment has captured the attention of the corporate sector and financial community worldwide. Today, not only is it used to *do* business, it has also *created* new business, and 47 economies are now using the RMB for more than 10% of their payments with China and Hong Kong. The RMB climbed up six places as a world payments currency to #14 in 2012 alone, 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 internationalisation, working in collaboration and avoiding unilateral actions that could disrupt the path towards sustainable growth.

What needs to be done in order to facilitate the development of the RMB from a trade facilitation currency to global investment currency and beyond?

Starting from the point of view that harmonisation and transparency are necessary attributes for the RMB to become a truly international currency, we can identify two main areas where the needed impact could be achieved today to promote continued growth while recognising the need, as expressed by ABAC China in January 2013, to maintain the "orderly" expansion of this currency.

First, the public and private sectors could collaborate to **improve RMB liquidity**. Some specific areas for attention could include:

- Ensuring a consistent definition of eligible trades, with greater transparency and flexibility on the eligibility to conduct FX transactions at onshore or offshore rates, as well as related documentary evidence and records, across the different clearing hubs. We note the positive trend in deregulation continues, with the most recent announcement by SAFE on 22 May 2013.

- Encouraging more (and larger) cross-currency swap lines; to date, 19 economies have signed up for a total of RMB 2012.5 billion cross-currency swap lines with China. On 8 March 2013, the PBoC and MAS (Singapore) renewed the RMB SGD cross-currency swap lines for another three years and doubled it to RMB300 billion. Actions such as this can facilitate RMB clearing and liquidity for RMB cross-border trade settlement and investments between China and other nations.

- Harmonising reporting, record keeping and settlement procedures across jurisdictions to avoid bespoke requirements cropping up in every off-shore centre, which drives up costs and complexity for users.

- Improving the fungibility of RMB liquidity pools, through mutual recognition regimes that would ensure that the RMB in every offshore clearing centre will move capital and attract a broad investor base in RMB-denominated products.

Liquidity considerations can also include an "inventory taking" of the various initiatives and the rate of creation of the offshore RMB pool. For example, this could include potential impacts / outflows of Hong Kong's RMB liquidity due to the successes of RQFII programme, the planned Hong Kong-China fund mutual recognition initiative, the Qianhai special economic zone initiatives, and ASIFMA's work in RMB Repo. In addition, pre-emptive identification of risks and their channel of transmissions, eg between onshore and offshore markets, between capital markets and trade settlement markets, etc, can aid sustainable growth.

Second, the industry believes that more should be done in terms of **improving the operations** that are needed to deal in RMB – or in any currency. This is because enhancing straight-through-processing not only reduces risk and cost, it ensures that the industry can process the growth that is yet to come. For example, the current RMB clearing model has served the industry well to date. Commendable progress has been made by BOC HK, HKMA, HKICL and the industry in infrastructure developments. In the medium-to-long term, however, it may be important to have an enhanced platform that can address the need for longer operating hours to cover various time zones and lower the amount and cost of liquidity required to support these transactions.

Actions in this area include ensuring that market infrastructures, including the new China International Payments System (CIPS) for cross-border RMB flows align with global standardisation, efficiency and improved speed of clearing and settlement system -- and as a result encourage adoption in the global markets.

(Jointly worked by ASIFMA, SWIFT and Deutsche Bank)

Document: FEWG 33-031 Draft: **FIRST** Date: 1 July 2013 Source: ABAC Japan Meeting: Kyoto, Japan

Meeting Document Summary Sheet

Document Title:

Regional Financial Integration

Purpose:

For consideration

Issue:

Asia - Latin America Financial Cooperation / South-South Cooperation

Background:

Intra-regional collaboration is one of the key issues in promoting trade among APEC economies as a main engine of growth.

ABAC realizes that intra-region trade between Asia and Latin has steadily increased and Trans-Pacific economic ties between Asia and Latin America have certainly been deepening. Considering the further economic linkage with Asia and Latin America for the growth, ABAC invited the speaker from Inter-American Development Bank (IDB) in Manila Meeting in January. From the Latin American's view, IDB pointed out the need to promote closer economic ties in the two sub-regions of APEC and beyond as well as to improve policy coordination and further developing linkages with respect to trade in goods and services, and investment.

For the further consideration, ABAC invites the following speakers in Kyoto Meeting:

- Mr. Haruya Koide from Asian Development Bank (ADB) to input the Asian view on Asia-Latin America South-South cooperation (SSC).
- Ms. Ana Milena Cortázar from National Business Association of Colombia (ANDI) to input the perspective on Pacific Alliance

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 serious constraint to future growth.

Main topic is the cooperation for trade finance in Asia-Latin America SSC, as promoting trade finance should benefit SME in the regions. Trade Finance Program with ADB/IDB will support the financial SSC.

Proposal /Recommendations:

- ABAC recommends the promotion of closer economic ties between Latin America and Asia as well as the improvement of policy coordination between markets in the two areas.
- Enhancing the linkages with respect to trade in goods and services, ABAC recommends the development of the financial component supporting South-South cooperation, including collaboration between the Asian Development Bank and the Inter-American Development Bank on a trade finance program.

Decision Points:

- Endorse the recommendations outlined above.

Document: FEWG 33-031A
Draft: **FIRST**
Source: ABAC Japan
Date: 1 July 2013
Meeting: Kyoto, Japan

APEC Business Advisory Council (ABAC) Meeting III
Finance and Economics Working Group
10 July 2013

Trade Finance Program

Building Partnerships for Trade

Trade Finance and Global Financial Crisis

- **About 80~90 % of world trade relies on some form of trade finance**
- **Trade finance is, to a large extent, a very secure, short-term, self-liquidating form of finance**
- **GFC Impact**
  - Spreads on 90-day letters of credit went through the roof over the course of 2008 (rising from 10–16 basis points to 250–500 basis points for letters of credit issued by emerging and developing economies).

Trade Finance and Global Financial Crisis

- **GFC Impact**
  - Yet, this segment of the credit market displayed resilience since the sub-prime crisis began in mid 2007.
  - The Global Enabling Trade Report 2009 partially attributed the resilience to trade finance programs developed after the Asian financial crisis by public-backed regional or multilateral financial institutions such as ADB, EBRD, IDB, and IFC.

    (Source: World Economic Forum. The Global Enabling Trade Report 2009)
  - No ADB TFP guarantee has been called since 2004.

ADB TFP Trade Finance Program

TFP and Its Objectives

ADB's Trade Finance Program (TFP) provides guarantees and loans through banks to support trade.

- over 200 partner banks
- guarantees and loans in 24 hours

What are TFP Objectives?

- **Fill market gaps**
  - $4 billion (75% of deals supported SMEs in 2012)
  - $2.3 billion cofinancing
  - Closing knowledge gap

ADB TFP Trade Finance Program

Market Gaps in Trade Finance

ADB Trade Finance Survey (4th Quarter, 2012)

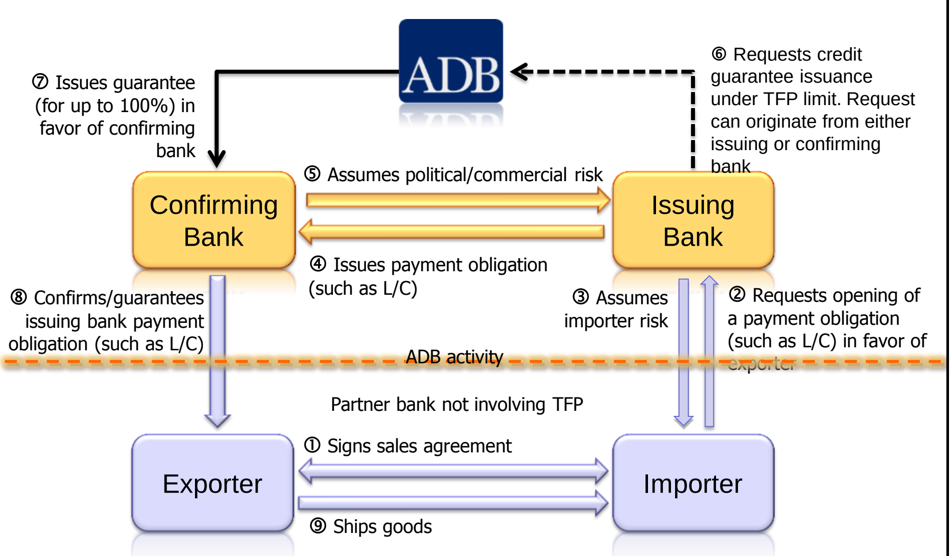
- assessed gaps and links to production and jobs
- TFP partner banks (147) and users (500 companies)

Key Findings

- **Trade finance gaps**
  - Unmet global trade finance demand: $1.6 trillion
  - Developing Asia: $425 billion
- **5% increase in availability of trade finance**
  - 2% production increase
  - 2% more jobs

Credit Guarantee Product

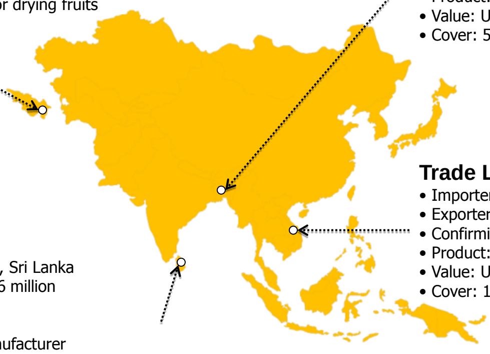
ADB provides guarantees in **24 hours** to confirming banks covering up to 100% of non-payment risk.



Sample Transactions Supported by TFP

Counter-Guarantee
- Importer: Azerbaijan
- Exporter: Germany
- Confirming bank: Germany
- Product: Capital equipment for drying fruits
- Value: US$600,000
- Cover: 100%

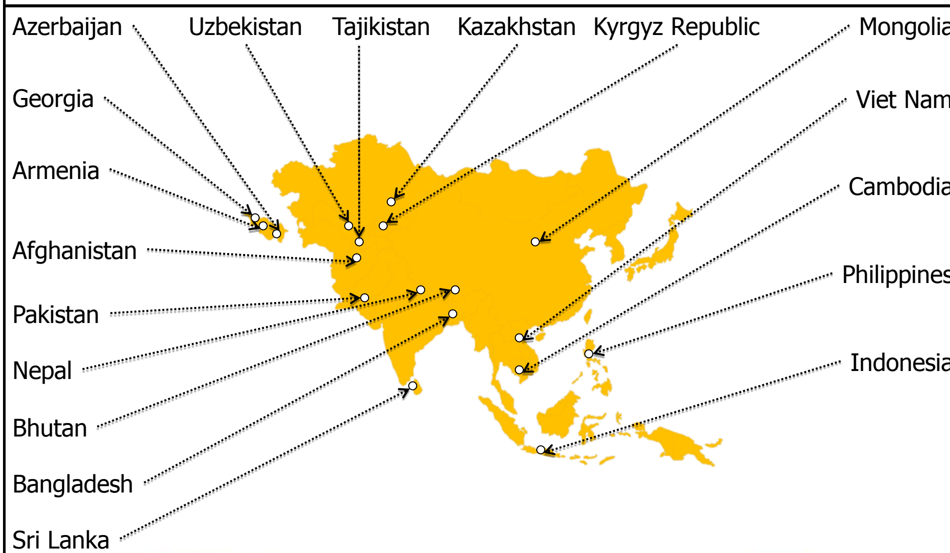
Counter-Guarantee
- Importer: Bangladesh
- Exporter: Hong Kong, China
- Confirming bank: Shenzhen, PRC
- Product: Telecommunications equipment
- Value: US$16 million
- Cover: 50%



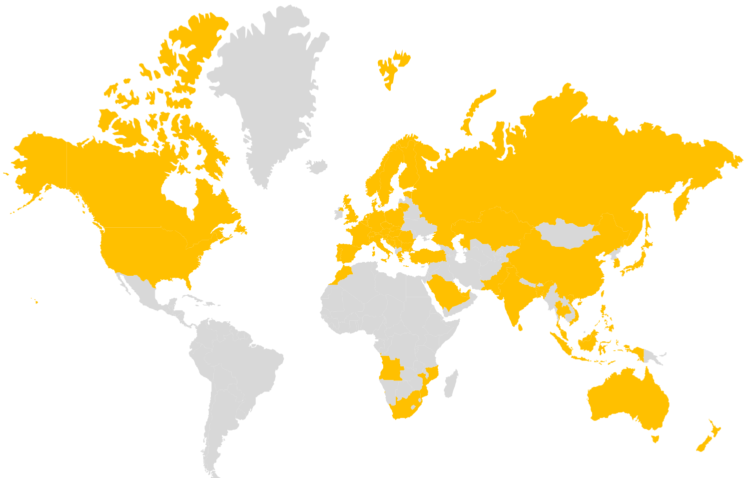
Trade Loan
- Importer: Viet Nam
- Exporter: Singapore
- Confirming bank: USA
- Product: Dump trucks and excavators
- Value: US$5 million
- Cover: 100%

Pre-Export Financing
- Who: Bank based in Colombo, Sri Lanka
- Revolving Credit Facility: US$6 million
- On-lend value: US$250,000
- Purpose: Pre-export finance
- Beneficiary: SME apparel manufacturer
- Location: Mawathagama
- Export markets: Europe, India, Russian Federation
- Export goods: Finished garments

90 Developing Country Banks in TFP

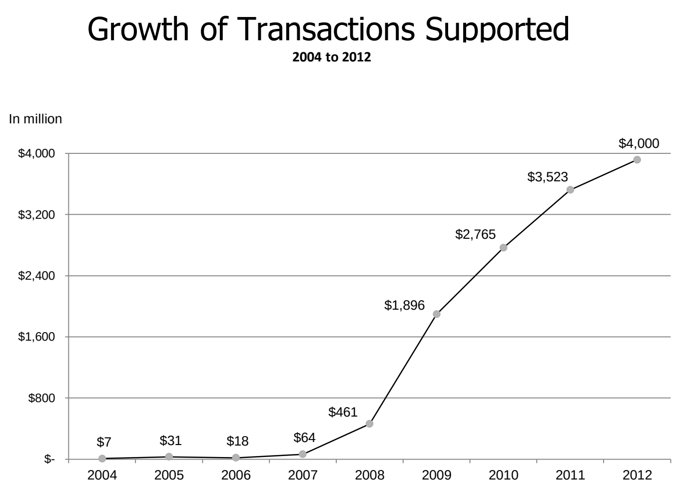


120 Non-DMC Banks in 86 countries



*Full list of partner banks at www.adb.org/tfp

Results



10

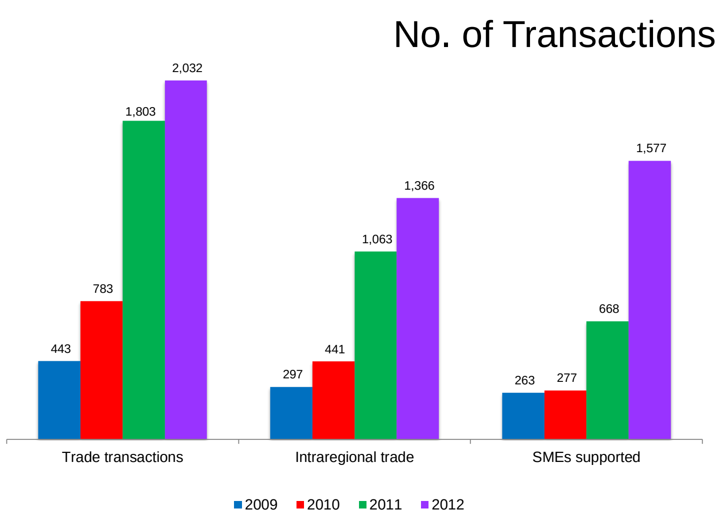
TFP Geographic Overview

- TFP focuses on the most challenging countries.
  - Assumes no PRC, Indian, Thai, or Malaysian risk.
- Top Six Countries during 2010-2012

2010		2011		2012	
Country	($ million)	Country	($ million)	Country	($ million)
Pakistan	833	Pakistan	1,812	Viet Nam	1,626
Viet Nam	770	Viet Nam	814	Pakistan	1,279
Bangladesh	325	Bangladesh	334	Uzbekistan	315
Uzbekistan	170	Sri Lanka	170	Sri Lanka	278
Sri Lanka	157	Indonesia	116	Bangladesh	201
Nepal	18	Nepal	29	Mongolia	26

ADB TFP Trade Finance Program

High Development Impact



ADB TFP Trade Finance Program

12

TFP Operations

- **Crowding-in banks**
  - 60% of 2012 TFP transactions are co-financed
- **Crowding-in private insurance and others**
- **Providing guarantees leads banks into new markets**
- **Filling data gap**
  - ICC-ADB Trade Finance Default Register: proof to regulators and commercial banks of relatively low risk

Development Impact of Knowledge

- **Market wants knowledge**
  - TFP filling knowledge gap
- **International banks are introduced to new markets and are establishing country and bank/correspondent limits**
- **Creates new partnerships for co-financing in the most challenging markets**

Collaboration for South-South Trade

- **TFP promoting south-south trade**
- **TFP works with other multilateral development banks**

ADB TFP Trade Finance Program

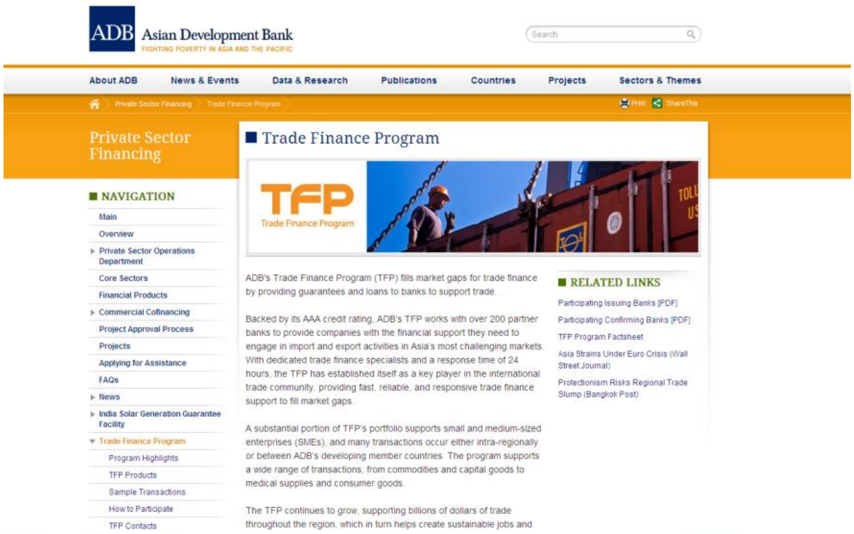
Market Recognition

2010, 2011, and 2012 winner

…… and
Cited in the World Economic Forum's
The Global Enabling Trade Report 2009

ADB TFP Trade Finance Program

Visit our website: www.adb.org/tfp



ADB TFP Trade Finance Program

ADB TFP Trade Finance Program

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Asian Development Bank
E-mail: sbeck@adb.org | Phone: 63-2-632-6599 | Fax: 63-2-636-2448

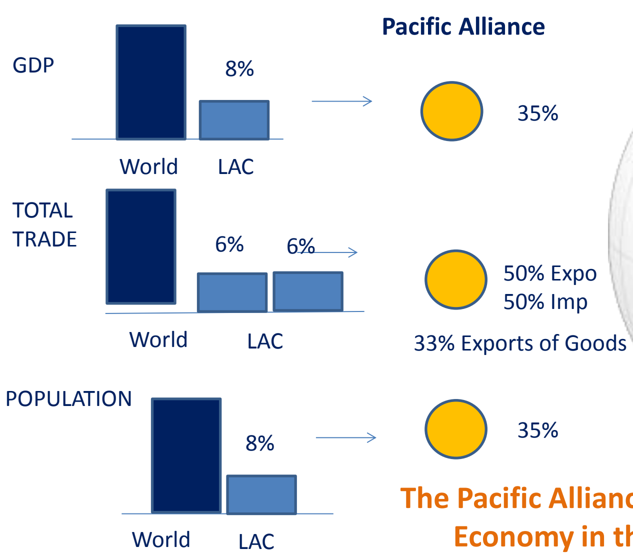
Building Partnerships for Trade

Document: FEWG 33-031B
Draft: **FIRST**
Source: ABAC Japan
Date: 1 July 2013
Meeting: Kyoto, Japan

Latin America and The Asia Pacific : Colombia´s Private Sector View

ANDI-National Business Association of Colombia

The Pacific Alliance is the most relevant economic block of Latin America. It is Composed by 4 out of 26 Countries in LAC



The Pacific Alliance is the 8th Largest Economy in the Global Rank

"The Pacific Alliance is the vehicle towards the integration of LAC into the Asia Pacific" -Pacific Alliance President´s declaration 2011, Lima, Peru-

INVESTMENT

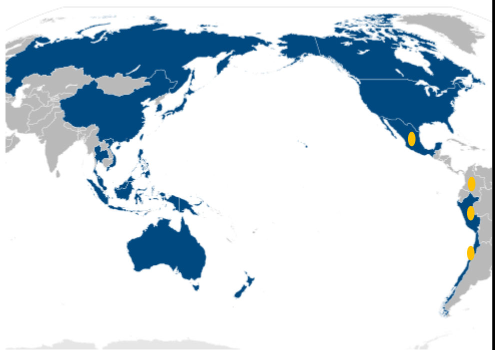
Pacific Alliance

122.486MM USD → 26%

LAT

IMPORTS + EXPORTS → 50%

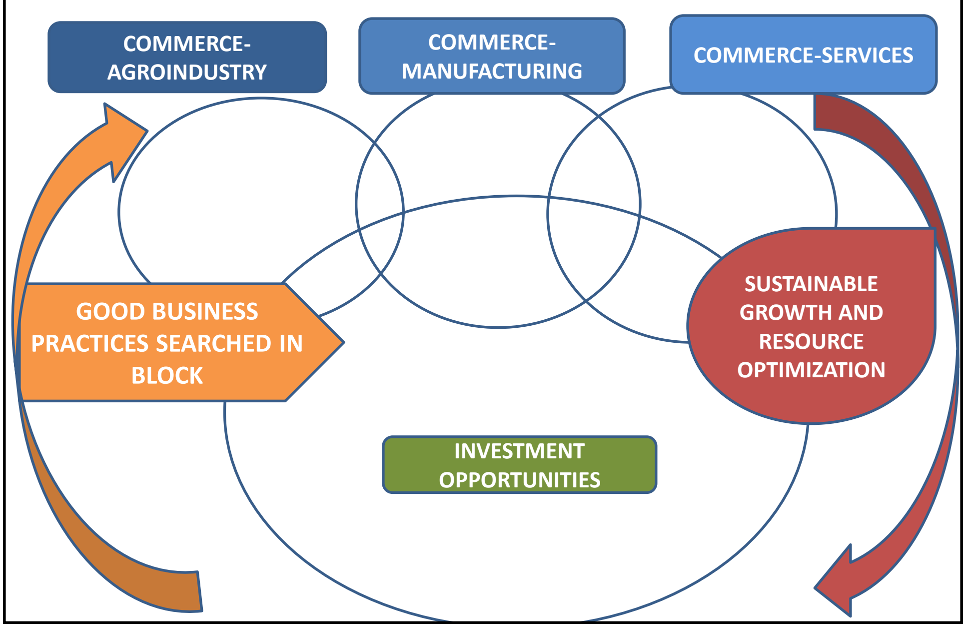
Asia ⟷ LAC



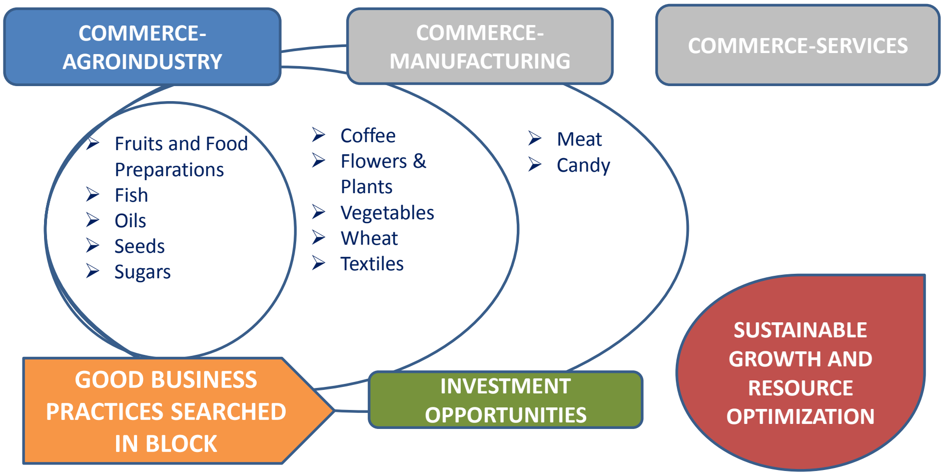
The Pacific Alliance & The Asia Pacific have a Market Economy and an Inclusive Growth Shared Vision

ANDI

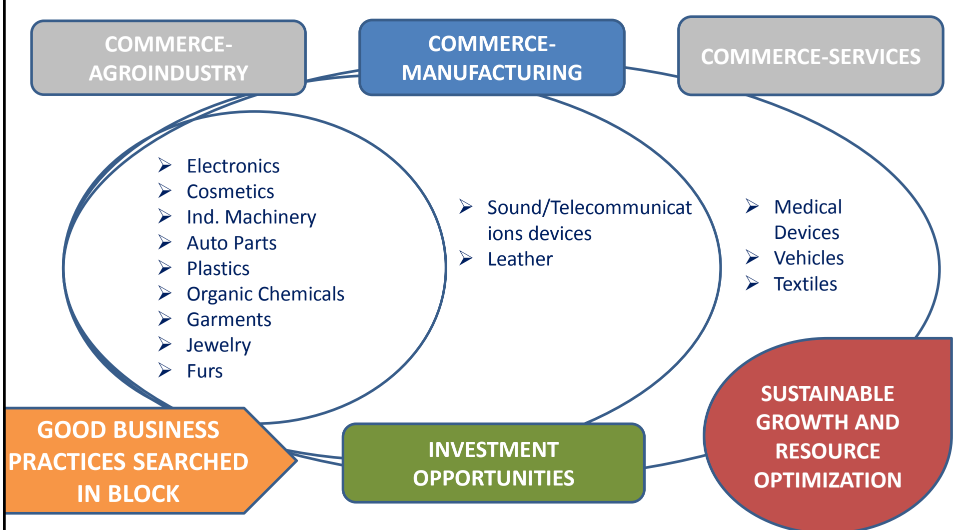
Such Integration will provide access to productive chains, human and technological resources + Good business Practices



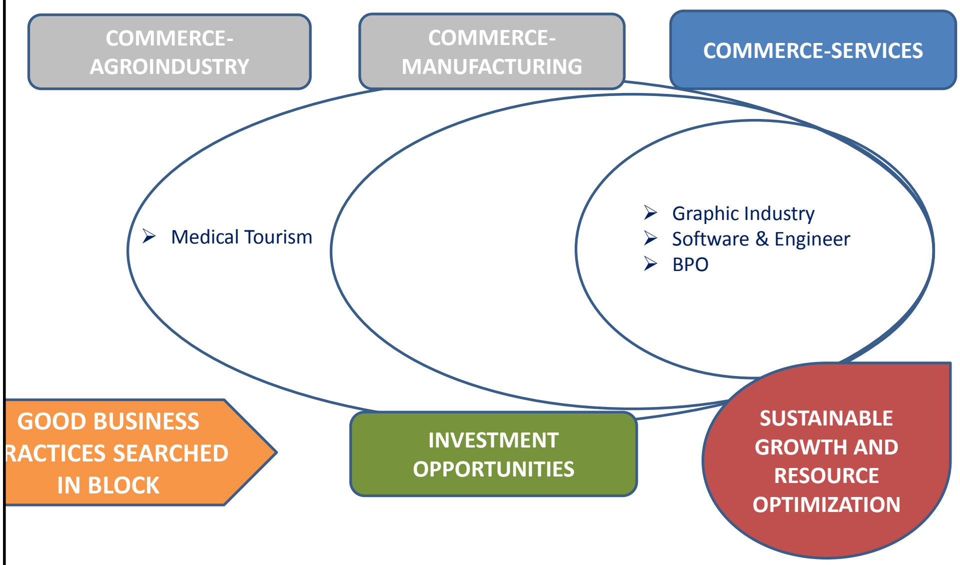
Such Integration will provide access to productive chains, human and technological resources + Good business Practices



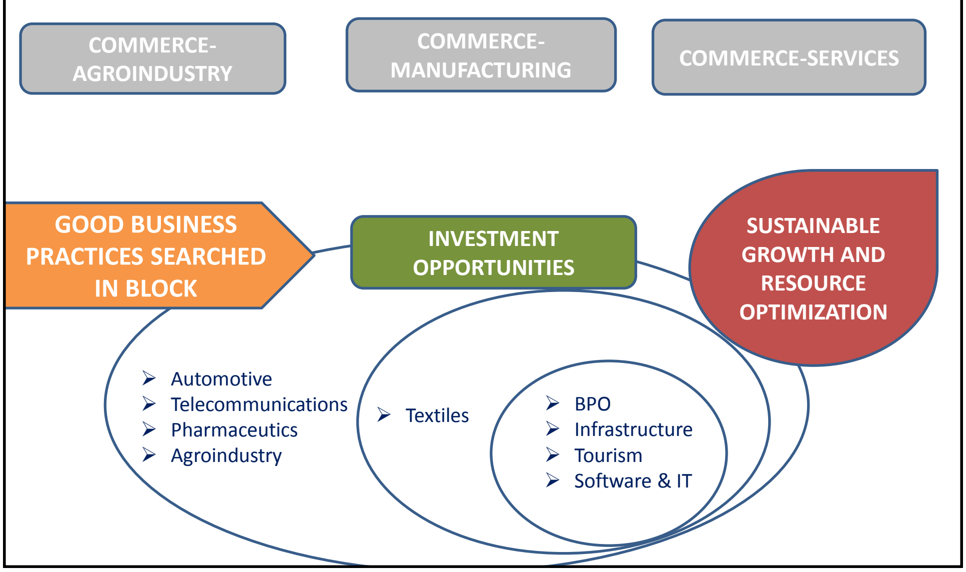
Such Integration will provide access to productive chains, human and technological resources + Good business Practices



Such Integration will provide access to productive chains, human and technological resources + Good business Practices



Such Integration will provide access to productive chains, human and technological resources + Good business Practices



Colombia looks forward for a deeper insertion with Asia Pacific and maintains its huge interest to be part of APEC

1. Third largest Economy of LAC
2. Third Largest FDI flow
3. Growing middle class
4. The country has 5 cities with more than 1 million inhabitants.
5. Young Population
6. Colombia has 6 FTAs with APEC Economies out of 13 signed globally
7. Committed with peace and Good Business practices-Invited to OECD

ANDI, by having the Presidency Pro-tempore of the PA Business Council, is ready to work for a further integration between Asia Pacific and LAC

どうもありがとうございます!

Thank You !

COLOMBIA ON THE ROAD TO APEC

GENERAL FACTS ABOUT COLOMBIA

- In terms of population, Colombia is twice as populous as Australia and its geographic area is larger than all of Central America combined.

- In Colombia, 54% of the population is younger than 30 years old.

- Colombia is the world's second most biodiverse country and is among the 12 megadiverse countries of the planet.

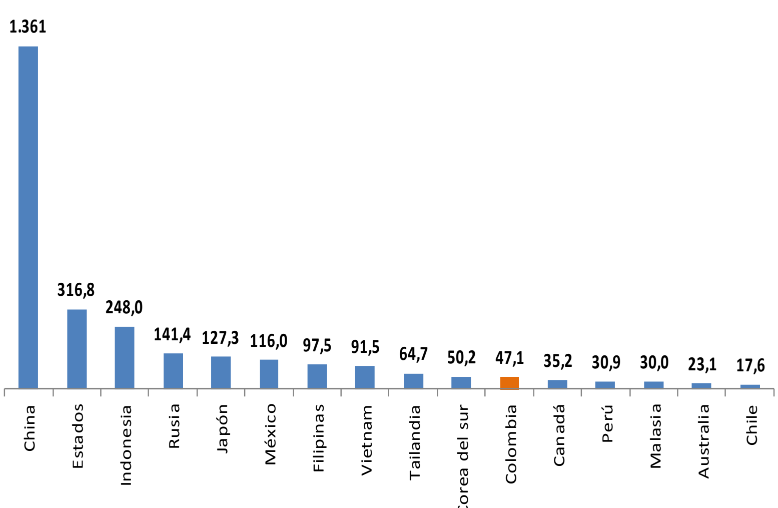
- Colombia is the only country in South America with access to both the Atlantic and the Pacific Oceans.

- By 2014, Colombia will consolidate preferential access to more than 1.5 billion consumers, due to international trade agreements.

- Colombia enjoys a competitive location with easy access to markets around the globe.

- Colombia is one of the oldest and stable democracies in Latin America. The country has always distinguished itself by having very strong democratic institutions

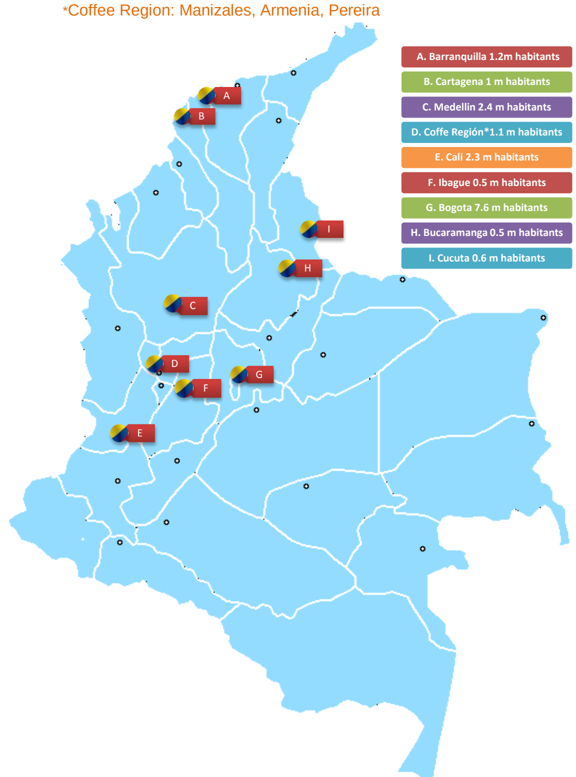
Population 2013*
Million
Source: DANE – International Monetary Fund (*Forecast)



- With 46,1 million inhabitants (2013, National Department of Statistics – Departamento Nacional de Estadísticas, DANE), Colombia has the third largest population in Latin America, is the second largest Spanish-speaking country in the world and is also the 27rd most populated.

- Colombia has a dynamic and young population spread throughout multiple development centers: 9 major urban centers with over 500,000 inhabitants.

Source: DANE
*Coffee Region: Manizales, Armenia, Pereira



COLOMBIA A SUCCESS STORY

Outstanding Macroeconomic Stability

- Through responsible and innovative reforms implemented over the last decades, a stable and solid macroeconomic framework has been achieved based on market openness, fiscal sustainability (decreasing Debt/GDP and fiscal deficit), a reliable monetary policy (decreasing and now low and stable inflation), as well as financial stability .

- This framework was made possible through a wide range of long-term reforms implemented over the last decades:

    - Inflation targeting regime and creation of a sound and independent Central Bank.
    - Adoption of countercyclical provisions and risk management frameworks.
    - Implementing a world-class fiscal framework, based on:
    - A Fiscal Sustainability Constitutional Reform that introduces Fiscal Sustainability as a criterion for guiding all public sector institutions.
    - A Fiscal Rule that imposes fiscal discipline to the Central Government with the objective of obtaining a primary fiscal surplus by 2012.
    - A Royalties' Reform that redistributes revenues generated by the oil and mining boom amongst all Colombian provinces, providing important resources for investment, infrastructure and innovation.

These amendments set the standard in today's global situation. In order to tie long-term incomes and expenses together, the government uses the Fiscal Rule, which is probably the best instrument a country can apply to guarantee its fiscal sustainability. In addition, this instrument will help avoid a Dutch disease scenario.

Thanks to the Fiscal Sustainability Constitutional Reform, all warrants will consider fiscal sustainability by including a fiscal sustainability principle in Colombia's Political Constitution. It is worth noting that very few countries have introduced such legal framework.

- This framework puts Colombia on a Medium Term Fiscal Path that :

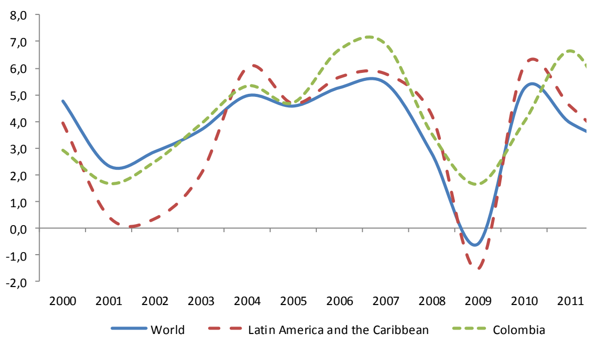
    - Provides predictability, sustainability and will support investor confidence.
    - Avoids accumulating imbalances.
    - Allows social expenditure for poverty reduction and compensating victims of violence; as well as winning the war on drugs, investing in infrastructure, and confronting fiscal liabilities like pensions or healthcare.
    - The cooperation and interaction with the OECD has been and will be a key factor in guiding the current reform and policy efforts.
    - Some of these policies have been extremely innovative and Colombia's experience implementing them will prove useful to other APEC members.
    - As many emerging markets are driving growth in today's economy, Colombia is ready to join in.

Sustainable Economic Growth

- From 2000-2012, Colombian economy displayed a real growth rate of around 4.0%, a figure in line with its historical average of 4.3%. Better yet, between 2005 and 2007, growth rates exceeded 6%, boosted by a buoyant domestic demand and an export boom.

- Colombia has experienced steady economic growth, and has proven to be resilient to the economic cycles. GDP growth is in line with potential output. In 2011 it grew at a healthy rate of 6.6% despite the external crisis. In 2012 it grew at 4.0% over the world rate growth. For 2013 we are expecting an expansion of 4.1%.

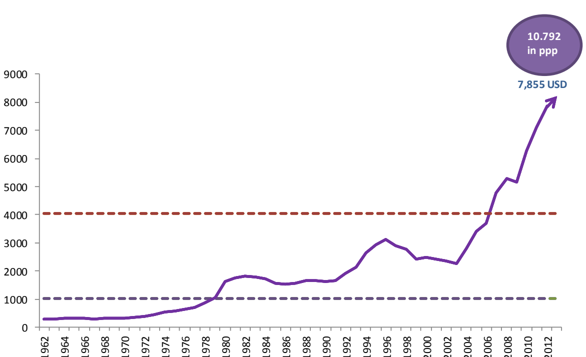
Gross Domestic Product (Annual Growth)



Source: IMF

- GDP per capita has doubled in ten years. It now stands at US$ 10.792 billion, moving the country from a medium-low income range to a medium-high range. It has also resulted in important social achievements; in 2011, 1.2 million people came out of poverty, which is reflected in a decrease of 3.1 points of the poverty rate (from 37.2% to 34.1%).

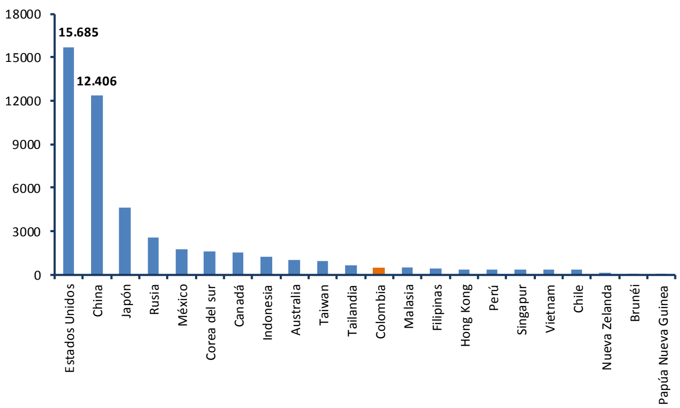
Per-Capita National Income * - Current USD



Source: IMF. * Classification based on a World Bank methodology.

- Colombia ranks as the 12th largest economy adjusted for PPP among APEC members.

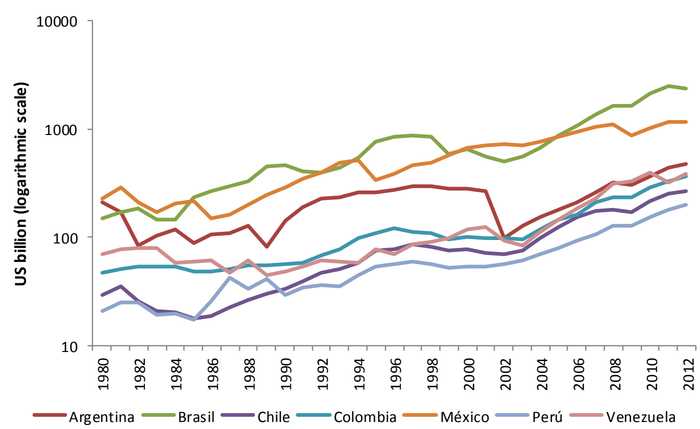
Gross Domestic Product: Colombia and APEC economies At PPP, current USD (billion USD 2012)



Source: IFM

- Colombia's economic growth in recent years has allowed the country to reach a high position among Latin American economies in terms of GDP in current USD.

Latin America GDP – Current US$

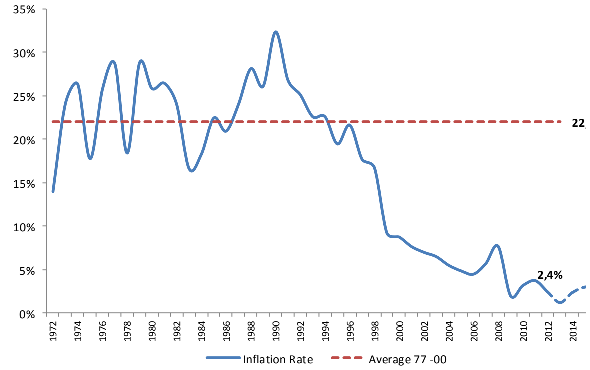


Source: IFM

Responsible Monetary Policy

- Over the last decade, the 1990's average inflation levels of 20% were reduced to single-digit figures due to the "inflation targeting" plan. The inflation rate is a proof of macroeconomic stability. It currently stands comfortably within the Central Bank's range (2%-4%) at a level close to 3%.

Inflation Rate 1972-2016



Source: DANE – IFM

Fiscal Sustainability

- Colombia is quickly reaching a fiscal equilibrium thanks to the solid institutional framework mentioned above. The fiscal sustainability constitutional reform and a strict fiscal rule are aimed at increasing savings in times of good performance, which will allow for countercyclical fiscal policy in times of an economic downturn, ensuring the stability of the fiscal accounts.

- The savings rate of the economy has increased by ten percentage points since 2000, reaching a level of 25% of GDP as of 2012. The new institutional fiscal framework has allowed a substantial increase in public savings (4.7% of GDP in 2012 vs. 1.0% of GDP in 2000).

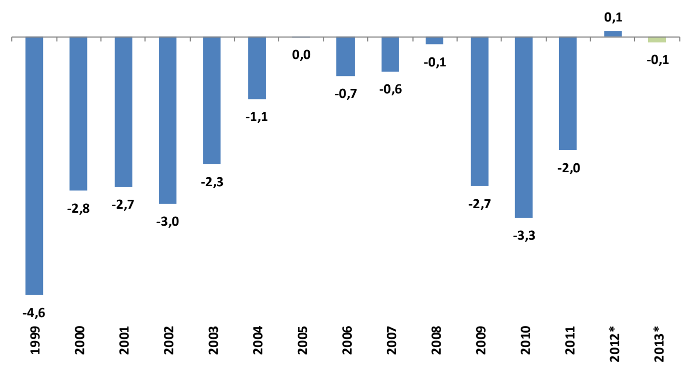
- The investment rate currently locates at 29.2% of GDP, reaching its historical maximum. Colombia exhibited the highest increase on the investment rate in Latin America for the last decade, surpassing Brazil, Chile and Mexico.

- Tax collection has reached record levels due to dynamic growth and rigorous administration. In 2012, tax collection reached a level of 15% of GDP.

- The consolidated public sector deficit has been reduced. In 2011 this deficit reached a level of 2% of GDP, and we expect to locate it at a level of GDP 0.7% of GDP in 2014.

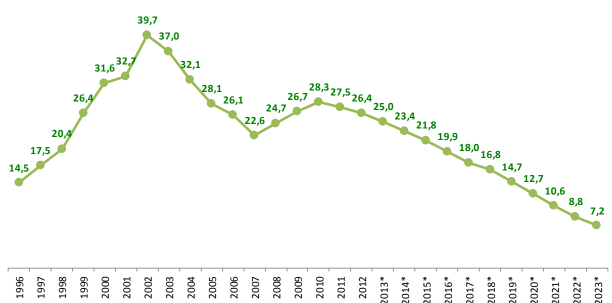
- Debt sustainability will continue to be the foundation of Fiscal Policy. The Net Debt of the Non-Financial Public Sector reached a level of 26.4% of GDP in 2012. At the beginning of the 2000's decade was close to 40% of GDP, a reduction of 15% in just ten years.

Balance of the Consolidated Public Sector (% of GDP)



Source: Ministry of Finance and Public Credit
(* Forecast)

Net Debt* of the Non-Financial Public Sector (NFPS) as % of GDP



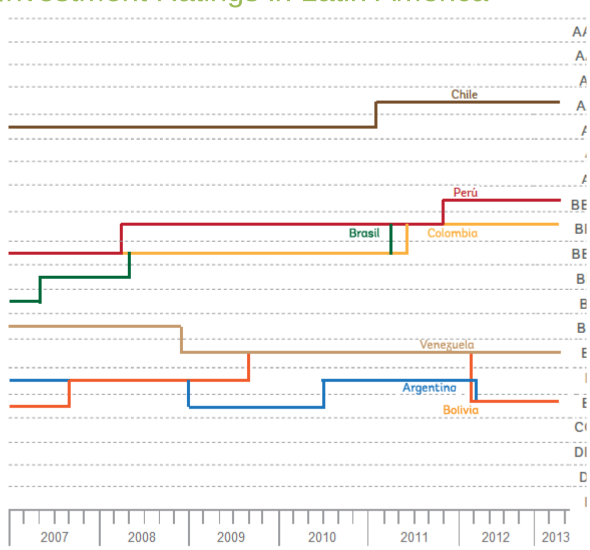
Source: Ministry of Finance and Public Credit
(* Forecast)

International Confidence in the Colombian Economy

- The economic reforms, sustained economic growth, and good perception by different economic players have resulted in a competitive position for Colombia that is better than many APEC economies.

- In 2013, Standard & Poor's, Moody's, and Fitch — the world's top three credit rating agencies- granted Colombia's sovereign debt the investment grade rating. The country's ability to recover from external crises, its historic fulfillment of obligations, the improvement of its macroeconomic credibility and evident improvement in security conditions were key factors in obtaining this recognition. Furthermore, in 2012, Standard & Poor's raised Colombia's sovereign debt perspective to positive based on the effective implementation of tax reforms that provide the country with a more solid financial outlook.

Investment Ratings in Latin America



Source: Fitch Rating.

Rating agency	Term	Rating	Date	Outlook
STANDARD & POOR'S	Long term Foregein currency	BBB	24/04/2013	Positive
	Short term Foregein currency	A – 3	16/Mar/2011	
	Long term Local currency	BBB +	5/Mar/2007	
	Short term Local currency	A -	5/Mar/2007	
FitchRatings	Short term Local currency	BBB	19/Jun/2012	Stable
	Short term Foregein currency	F – 3	22/Jun/2011	
	Long term Local currency	BBB	22/Jun/2011	
Moody's	Long term Foregein currency	Baa3	7/Feb/2012	Stable

Source: S&P Ratings

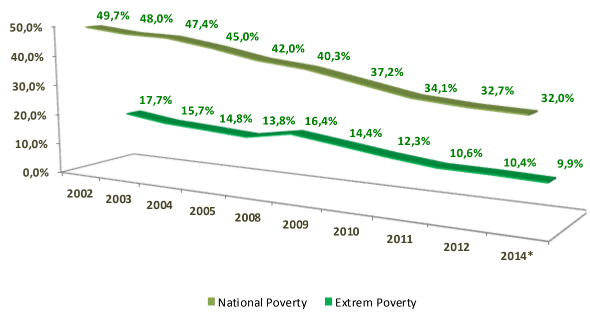
- Colombia's economic indicators remain positive. In addition to sensible fiscal policy decisions and low and sustained inflation levels, global markets also rely on the country's economic stability. Colombia holds the second lowest risk perception in the region, determined by the Credit Default Swaps Index, which measures the interest rate paid in USD for a Colombian bond abroad against the interest rate paid for a US bond. In comparison to other countries in the region, such as Brazil, Mexico and Peru, Colombia received a lower risk perception.

Social Reforms: Rising Standards of Living

Poverty Reduction

The population's poverty level improved from 49.7% in 2002 to 32.7% in 2012, while extreme poverty decreased from 17.7% to 10.4% during the same period.

National poverty and extreme poverty



Source: National Planning Department

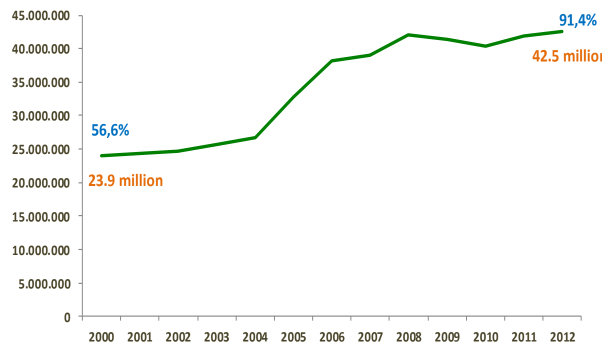
- Colombia has one of the most inequitable distributions of wealth in the world and high poverty levels. Aiming towards improving this situation, the government has recently created a comprehensive institutional framework.

- The Administrative Department for Social Prosperity (Departamento Administrativo para la Prosperidad Social, DAPS) is an official agency created during this governmental period with the goal of coordinating Colombia's efforts towards assisting vulnerable populations and overcoming poverty. This agency will have a key role in supporting and helping the victims of the Colombian conflict. One of the appointed entities is the National Agency for Overcoming Extreme Poverty Agencia Nacional para la Superación de la Pobreza Extrema, ANSPE), which has the purpose of leading the strategy to succeed against extreme poverty. The main goal is to help 350,000 families rise from extreme poverty (1,000,500 Colombian citizens).

Health Programs

- Over the past decade, Colombia's health coverage has improved from 56.6% to 91.4%.

Health Coverage

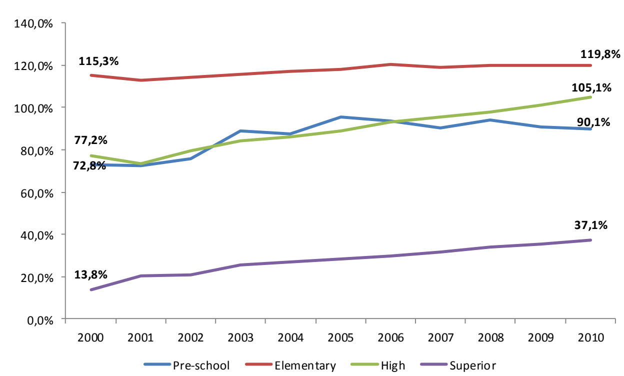


Source: Ministry of Health and Social Protection

Education

- Coverage education at pre-school, elementary and high school levels has significantly improved while higher education still has an opportunity to grow. The government has the challenge to improve the coverage of superior education and quality at all levels.

Education coverage



Source: Ministry of Education – National Planning Department

Job Formalization and Employment

The employment rate has improved continuously in the last years, reaching minimum historic levels of 10.8% by the end of 2011. For 2012 the unemployment rate stood at 10.4%, overlapping the Government's goal of attaining a single digit rate.

Unemployment Rate 2002 – 2012. Annual Average (%)

Source: DANE

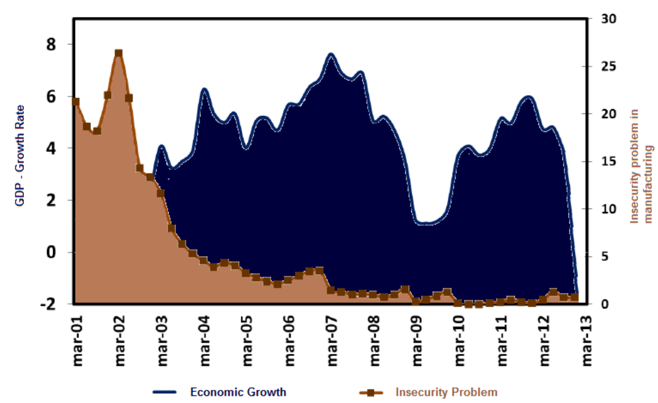
- With the purpose to drive job creation and strengthen job formalization, particularly to benefit the most vulnerable segments of the population in terms of the job market, the government enacted Law 1429 of 2010. The objective of this Law is to decrease the obstacles to become part of the formal employment sector through the following:
  - Exemption from non-wage labor-cost charges during the first two years of operation, as well as proportional payments of 25, 50 and 75% during the following three years.
  - Income tax exemption during the first two years of operation, as well as proportional payments of 25, 50 and 75% during the following years.
  - Exemption from the Trade Register fee during the first year of operation, as well as proportional payments of 50 and 75% during the following two years.

A Successful Security Policy

Economic Growth and Security

- During the last years, the economic growth in the country was achieved thanks to a successful security policy with conclusive results that have helped consolidate investors' confidence in Colombia. The last Joint Industrial Opinion Survey done in 2013 among members of different chambers of the National Business Association of Colombia (Asociación Nacional de Empresarios de Colombia, ANDI) showed that insecurity matters for industries are no longer among the main issues affecting industrial growth in Colombia.

Economic Growth and Security



Source: ANDI National Business Association of Colombia, 2013

The Road to Improve Security Level Conditions and Human Rights of Trade Unionists

- Between 2002 and 2010, homicides against trade union members fell by 81% as shown by the Presidential Program for Human Rights statistics. The Colombian government has engaged proactively with trade unions to address this situation.

- In 2006, a tripartite agreement was signed by members of trade unions, producer guilds and national government representatives to strengthen the defense of fundamental workers' rights and their unions promote decent work and free enterprise for employers. In May 2011, this agreement was updated and dubbed as the "Action Plan on Labor Rights" guaranteeing further protection for labor rights, such as the right to collective bargaining and also greater resources for improving security of trade unionists.

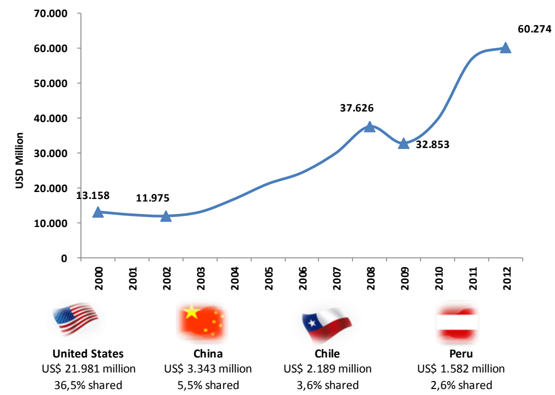
- Another remarkable achievement was the passing of the Land Restitution and Victims Reparations Law, aimed at providing humanitarian aid, care, assistance, and retributions to especially vulnerable populations, including members of trade unions.

Colombia as an Emerging Global Player

A Dynamic and Growing Foreign Sector

Exports have quadrupled, moving from US$ 13.129 billion in 2003 to US$ 60.274 billion in 2012. Between 2009 and 2011, there was a 73% growth.

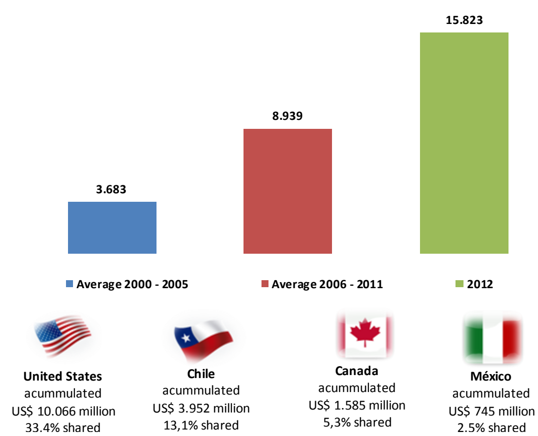
Exports, 2000 – 2012 US$ Million



Source: DANE (National Department of Statistics). Ministry of Commerce, Industry and Tourism calculations

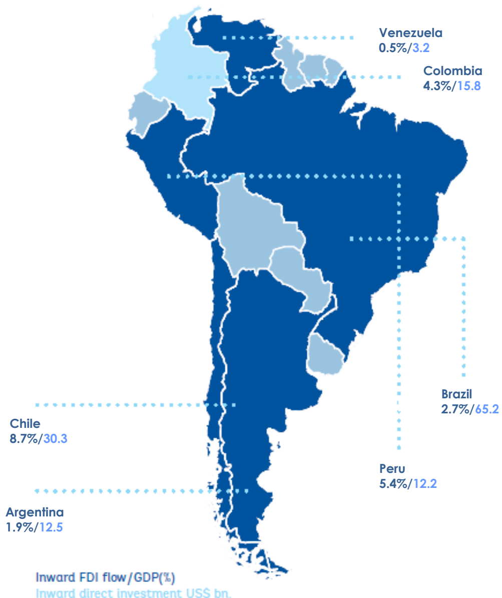
- Since 2003, Colombia has grown by 669% in Foreign Direct Investment, moving from US$ 1.720 billion to US$ 15.823 billion in 2012. In addition, the FDI grew by nearly 100% in the 2010 - 2011 periods. Furthermore, between 2000 and 2011, 53% of the world's FDI investment flows into Colombia came mainly from the United States, England, Spain, Canada and Chile.

FDI, 2000 -2012 US$ MILLION



Source: Variation 2011–2012: +17.8%
Figures obtained through the foreign currency balance of the Central Bank of Colombia.
*Share of all countries with positive cumulative investment, without reinvested profits or investments in the oil sector.
Accumulated value 2000 – 2012: US $91,557 million

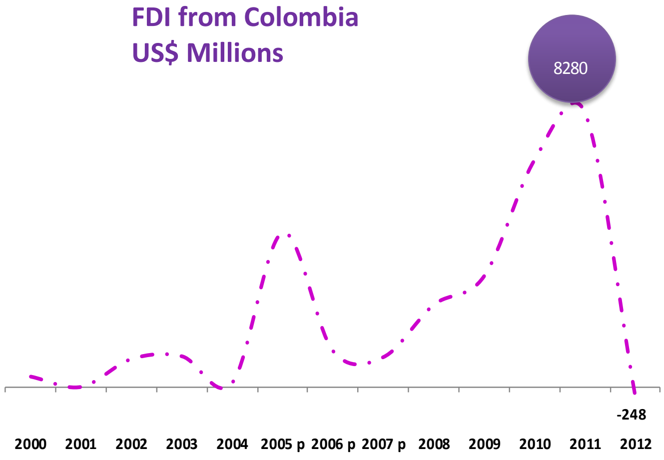
- Colombia is also the country in the region with the third highest FDI flow as a percentage of the GDP.



Source: The Economist Intelligence Unit and Central Bank of Colombia.

- Colombia has been increasing its investment flows abroad since 2007 where in 2011 it reached the record figure of US$8.289 million. Colombian investments for the most part go to the United States, the United Kingdom, Panama, Brazil and Peru. Energy and financial services are some of the top sectors of the investments for Colombian companies abroad.

FDI from Colombia
US$ Millions



Source: Central Bank of Colombia

World Class Tourist Destination

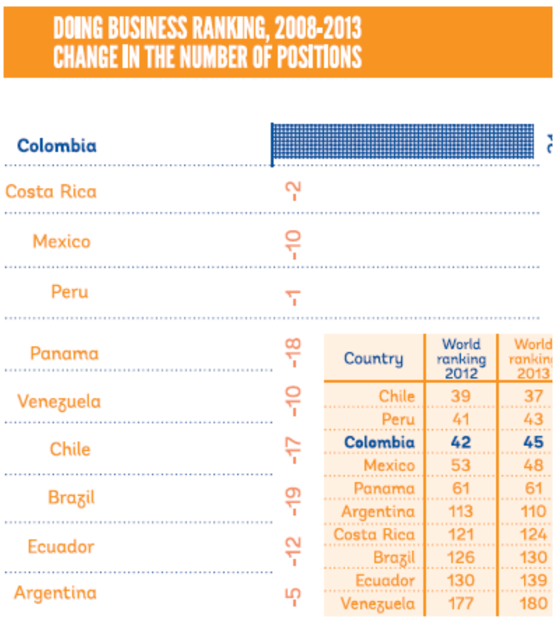
- The number of international visitors to Colombia has tripled in the last six years. In 2012, while world tourism grew by 4%, Colombia's tourism increased by 7%, reaching 1.69 million. Also, Cruiseline visitors multiplied six-fold in the last five years.

- In 2012 Colombia won the "Long Haul Up and Coming Destination of the Year" category of the prestigious Travel Agents Choice Awards 2012, which recognizes the best of the tourism business every year. The cities of Cartagena, Medellin, Cali, Santa Marta and Bogota are among the most popular Colombian destinations within the British travel market, as well as the ever-more popular coffee triangle. This recognition confirms the great potential of Colombia as a tourist destination for British travellers.

Improvement in Competitiveness Indicators

- Colombia is the third most business-friendly country and the top reformer in Latin America, as well as the sixth country in the world and the first in the region that best protects its investors, according to the World Bank's Doing Business Report 2013.

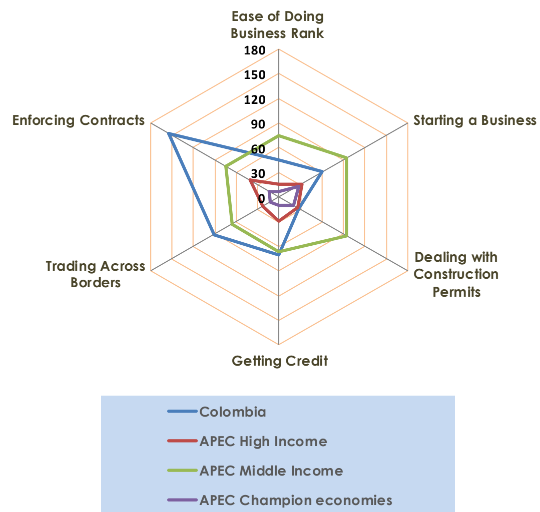
Doing Bu|siness Ranking, 2008 – 2013
Change in the number of positions



Source: Doing Business Report. 2013. World Bank

- Compared to APEC member countries, Colombia has had a dynamic performance in terms of quality and competitiveness in the business environment. Several of its International Finance Corporation (IFC) indicators obtained a similar score to that of countries with an average performance from that group and surpassed those countries on other indicators like building permits, labor legislation and investor protection.

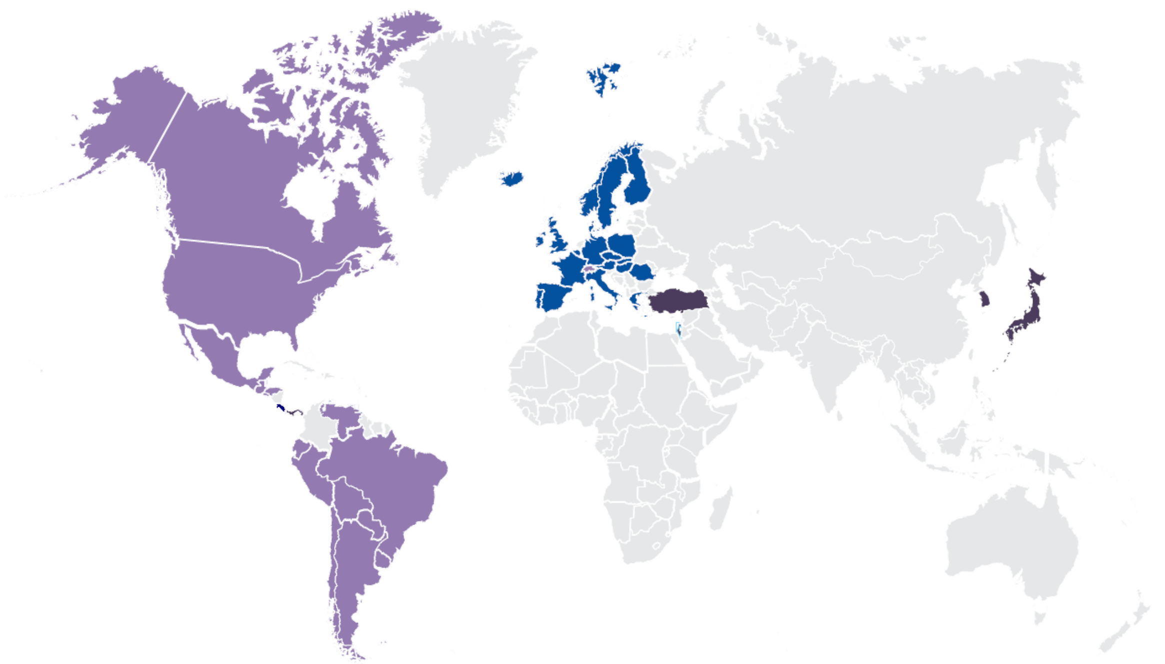
Percentile ranking 100: Best Practice



Source: Doing Business Report. 2013. World Bank.

International Trade Platform

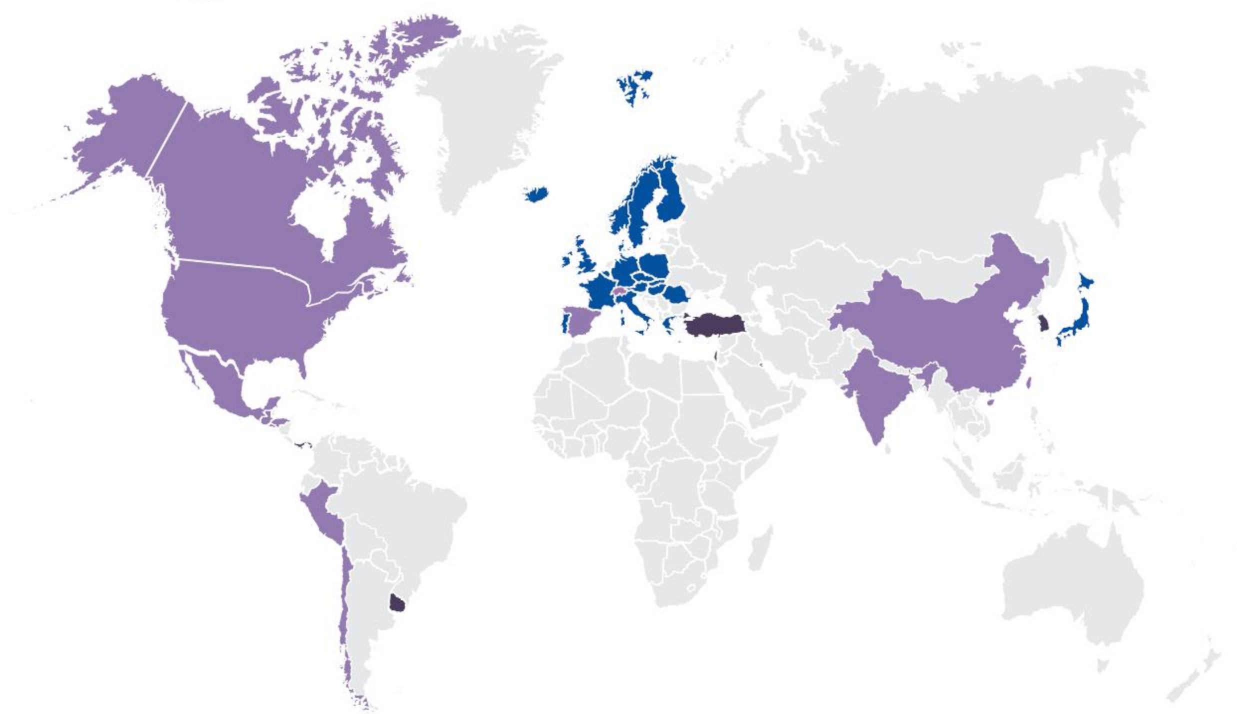
- The strengthening of economic and commercial relations is a priority for Colombia's development. As a result, the country has implemented nine free trade agreements (FTAs) with 16 countries. By 2014, it is expected that the country will have implemented FTAs with 49 countries, gaining preferential access to 1.5 billion consumers worldwide.



Free Trade Agreements
Source: Ministry of Trade, Industry and Tourism, 2013

- The country's trade integration agenda also includes 31 International Investment Agreements (IIA) (in force, signed and in process of negotiating), and 16 agreements to prevent double taxation (DTA) with 20 countries (in force, signed and in process of negotiating).

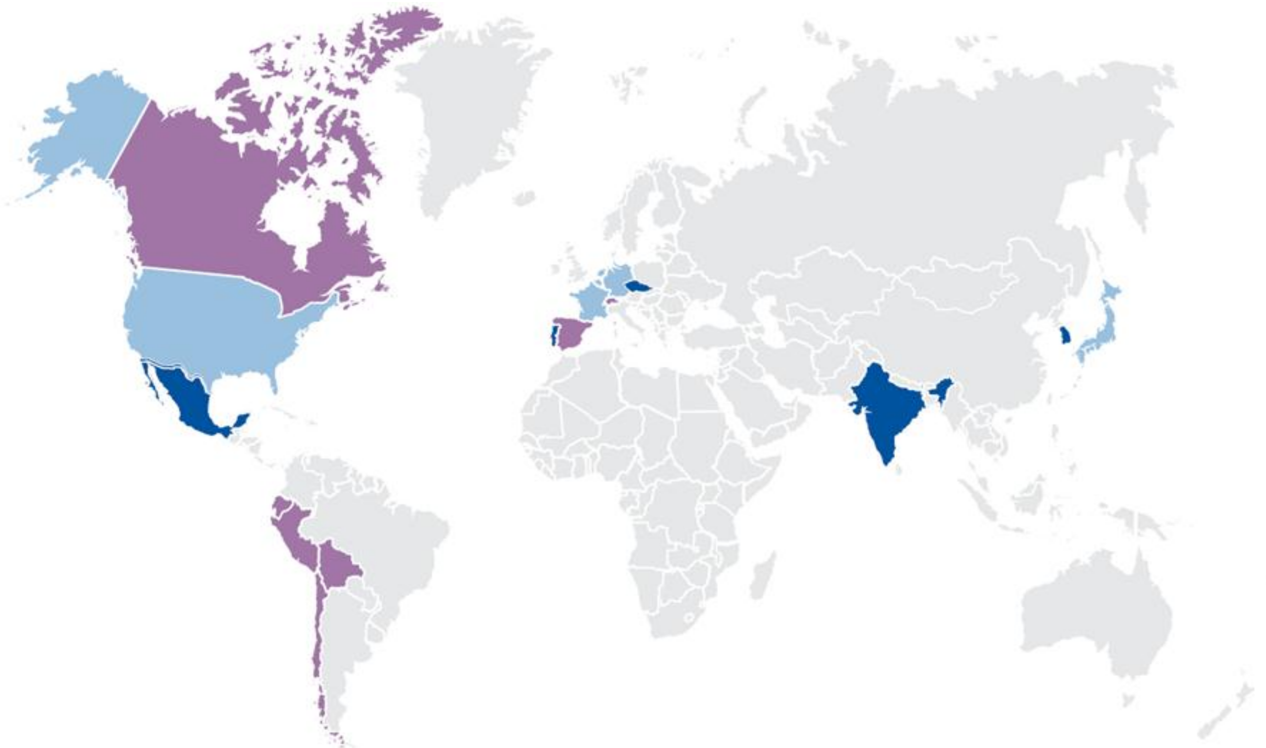
IN FORCE	SIGNED	IN NEGOTIATION
Argentina	European Union	Israel (Concluded)
Bolivia	Iceland	Japan
Brazil	Norway	Panama (Concluded)
Canada	Costa Rica	Turkey
Chile	South Korea	
Ecuador		
El Salvador		
Guatemala		
Honduras		
Liechtenstein		
Mexico		
Paraguay		
Peru		
Switzerland		
Uruguay		
United States		
Venezuela		



International Investment Agreements

Source: Proexport, 2013

IN FORCE	SIGNED	IN NEGOTIATION
Canada	European Union	Costa Rica
Chile	Iceland	Israel
China	Japan	Kuwait
El Salvador	Norway	Panama
Guatemala	UK	Singapore
Honduras	South Korea	Turkey
India		Uruguay
Liechtenstein		Qatar
Mexico		Azerbaijan
Peru		Russia
Spain		Ecuador
Switzerland		Belgium
United States		



Double Taxation Agreements

Source: Proexport, 2013

IN FORCE	SIGNED	IN NEGOTIATION
Bolivia	Czech Republic	Belgium
Canada	India	France
Chile	Mexico	Germany
Ecuador	Portugal	Japan
Peru	South Korea	Netherlands
Spain		United States
Switzerland		Czech Republic
		Curacao

One of the World's Leading Economies by 2050

- According to the Hong Kong and Shanghai Banking Corporation (HSBC) report on the growth projections of the economies of the world by 2050, Colombia is amongst the 30 best economies, ranking 26th and moving up 13 positions in the classification. The report estimates that the Colombian GDP will be US$725 billion in 40 years, which represents an increase of 155%. The report indicated a GDP growth per capita, demographics and investment environment as the variables with the highest relevance. "Assisted by a promising demographic growth perspective, Latin America generates good economic growth rates. Colombia has seemed to adjust to this trend by generating the highest growth rates in the region."

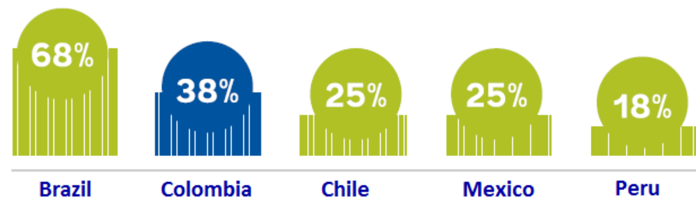
Colombia, the C on CIVETS

- The new BRIC countries are Colombia, Indonesia, Vietnam, Egypt, Turkey and South Africa (CIVETS). These are countries with large populations and dynamic and diverse economies, political stability and each with a bright future. Any company with global ambitions has to act immediately in these markets. Michael Geoghegan, former president of HSBC.

A Promising Market

Colombia is the second most promising market for investment in Latin America over the next three years.

If you were to invest in a Latin American country in the next three years, where would you invest?



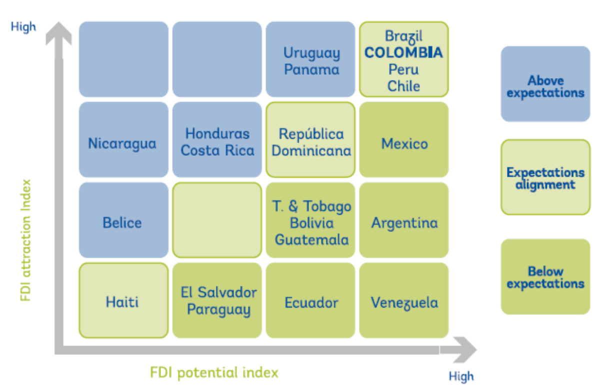
"Colombia is earlier in its growth cycle an 'more emerging' than many other countries in the region"

"Colombian government seems pro-business and is taking right steps toward encouraging investment in the country"

Source: North American and European Investors Opinion of Latin American Companies. J.P. Morgan. 2011

- The UNCTAD 2012 World Investment Report ranks Colombia as one of the countries in the region with the highest potential and effective attraction for direct foreign investment in line with the investor's expectations.

Source: World Investment Report, UNCTAD 2012



COLOMBIA'S CONTINUED EFFORTS TO JOIN APEC

Participation as "Guest" in APEC Working Groups

Investment Expert Group (IEG)

1. Objectives of Colombia in this Group.

The objective of Colombia in participating in the Investment Expert Group is to perform within the limits given to the guest economies status, as a means of contributing to the national expectation of becoming an APEC member economy.

Additionally, Colombia seeks to learn from the experiences and good practices of the APEC economies. As a whole, Colombia deems this scenario as an opportunity to exchange developments and critical issues on foreign investment with other economies which share the past and current concerns that our Country has had upon the realities of foreign investment for the permanent enhancement of the national investment policy.

2. Participation

Date	Place	Meeting	Contribution
July 2009	Singapore	Investment Expert Group (IEG)	Colombia made its standard "Country Presentation", which includes Proexport's message to explain the Colombian social, political, and economical context.
September 2009	Singapore	Investment Expert Group (IEG)	Colombia presented its latest developments regarding investment climate and its current international treaty negotiations.
February 2010	Hiroshima – Japan	Investment Expert Group (IEG)	Colombia presented its investment regime, including the benefits towards foreigners included in the law.
May 2010	Sapporo – Japan	Investment Expert Group (IEG)	Colombia presented its Investor – State Dispute Settlement Mechanism strategy for the "prevention and correction of administrative claims", which includes a policy document (CONPES).
September 2010	Sendai – Japan	Investment Expert Group (IEG)	Colombia explained its investment promotion strategy towards the Asia-Pacific Region, including treaty negotiations and Proexport's new offices.
February 2011	Washington – USA	Investment Expert Group (IEG)	Colombia presented its general investment policy and made an evaluation of APEC's Non-Binding Investment Principles in relation to the Colombian international commitments in order to understand the possibility of accepting such Principles.
May 2011	Big Sky – USA	Investment Expert Group (IEG)	Colombia made an update of its current investment work, and its participation in other international fora.

September 2011	San Francisco – USA	Investment Expert Group (IEG)	Colombia explained its process to adhere to the OECD's Declaration on International Investment and Multinational Enterprises.
February 2012	Moscow – Russia	Investment Expert Group (IEG)	Colombia presented its new policy to support Colombian Outward Foreign Direct Investment, as a result of a stronger insertion by national companies in the global market.
March 2012	Singapore	Investment Expert Group (IEG)	Colombia explained its national policy for the prevention and management of international investment disputes derived from International Investment Agreements. The presentation included the policy paper CONPES 3684 2010 and the explanation of the National System for the facilitation of Investment (SIFAI)
May 2012	Kazan, Russia	Investment Expert Group (IEG)	Colombia explained, in detail, the prevention strategy for international investment disputes. The presentation included the description of the methodology used in the workshops taught by the Directorate of Foreign Investment and Services, adjunct office of the Ministry of Trade, Industry and Tourism, which was provided to public servants of the national and municipal levels.
March 2013	Surabaya, Indonesia	Investment Expert Group (IEG)	Colombia presented the current investment policy towards sustainable investment. The presentation embodied the milestones from 2005 to the date of the presentations and supported a consistent position towards sustainability. This included local policy papers, Corporate Social Responsibility Agreements within International Investment Agreements, Colombia's Initiatives in regional integration processes (Andean Community and Pacific Alliance), and Colombia's adherence to the OECD Guidelines for Multinational Enterprises.

In addition, Colombia has participated in three APEC activities. In Kazan, Russia, Colombia participated in the workshop of public private dialogue, in which Colombia presented a complete explanation of Law 1508 0f 2012, Public and Private Alliances, which was in force at that time. Colombia supported the Disputes Prevention Strategies project, which was funded by the United States. This was finally published within an APEC official handbook, being a chapter titled, Colombian Case Study.

3. Perspectives and Conclusions

Colombia reached its objective of exchanging critical issues on investment. Through its participation in the Investment Expert Group, Colombia demonstrated how its investment framework meets various elements identified as good practices within IEG, specifically in relation to the prevention and management of international investment disputes.

Group on Services (GOS)

1. Objectives of Colombia in this Group.

The objective of Colombia in participating in the Group of Services is to perform within the limits given to the guest economies status, as a means of contributing to the national expectation of becoming an APEC member economy.

Additionally, Colombia joined the Group on Services in 2012, seeking for references on how to deal with the statistics on services, as well as good practices that could be applied in the ongoing design of the national policy on trade of services.

2. Participation

Date	Place	Meeting	Contribution
February 2012	Moscow – Russia	Group on Services (GOS)	Colombia explained its new policy aimed at strengthening the services sector towards exports. This policy includes improving statistics, private financial support, and better public-private coordination.
March 2012	Singapore	Group on Services (GOS)	Colombia showed the share of trade in services in the national economy, as well as the method followed to develop statistics on local trade services and international trade services.
May 2012	Kazan, Russia	Group on Services (GOS)	Colombia presented the data developed as of the date of its presentation by the national Statistics Committee, regarding trade in services in Colombia.
March 2013	Surabaya, Indonesia	Group on Services (GOS)	Colombia was asked to present the bilateral trade balance with APEC economies. Colombia did not have updated data available. The Colombian government presented a contrast between the services trade share in the nationals GDP of the APEC economies and that of Colombia. Also, it presented the composition of the service sector within the Colombian economy and the APEC economies as a whole.

3. Perspectives and Conclusions

In the Group on Services, Colombia has made great progress, especially in the workshops that have taken place in the Senior Official Meetings. Also, it should be said that the tool kit, http://www.servicestradeforum.org/, facilitated the Colombian Government's research of foreign regulations in services, which has contributed key data to the ongoing design of the national policy.

Colombia is looking forward to attending the workshop, "Measuring Services Trade – Statistical capacity Building and Networking", which is going to be held in Medan, Indonesia, on June 25th and 26th 2013, through which Colombia expects to access valuable information on how to deal with statistics in services.

Finally, Colombia completed the survey on Retailing Services proposed by the Indonesian Economy.

Sub-Committee on Customs and Procedures (SCCP)

1. Objectives of Colombia in this Group.

The objectives of Colombia in participating in this Sub-committee are:

- To share its different best practices and trade facilitation policies which have reduced costs and time in oreign trade operations, including the progress in the Single Window for Foreign Trade.
- To learn about the best international practices of APEC economies, in order to implement them in Colombia, making institutions more efficient and companies more competitive.
- To establish reliable supply chains through the implementation of the Authorized Economic Program.
- To strengthen partnerships between the public sector and companies, in addressing the issues related to trade facilitation.

2. Participation

Date	Place	Meeting	Contribution
February 2012	Moscow, Russia	First Meeting of the Sub-Committee on Customs and Procedures 2012	Colombia made a presentation about basic information on its economy, prospects for the Colombian Single Window for Foreign Trade, Risk Management System and the Simultaneous Inspection of Merchandise, and Implementation of the Authorized Economic Operator, and its experience in the use of digital certificate of origin.
May 2012	Kazan, Russia	Second Meeting of the Sub-Committee on Customs and Procedures 2012	Colombia reported the new developments of its Single Window: Simultaneous Inspection of Merchandise for Imports and Logistics Modules. A Risk Management System was also implemented, in order to classify requests, by level of risk, for approvals prior to import and export, reducing the time of the manual revision process and increasing the efficiency of the system. Progress on AEO was presented, such as an online self-evaluation, which was designed for companies to measure their level of preparation in joining the program.
January 2013	Jakarta, Indonesia	First Meeting of the Sub-Committee on Customs and Procedures 2013	Chile thanked Colombia for sending the questionnaire related to Chokepoint No 4 of the SCCP 2013 Work Program: Inefficient clearance; Lack of coordination. Colombia showed its interest in participating in AEO events scheduled for 2013.

May 14th and 15th, 2013	Santiago de Chile, Chile	Second Workshop on Regional Capacity Building Program AEO	Colombia reported progresses in the implementation of the AEO Program and shared some activities of the action plan of Regional Strategy, approved in the last directors meeting of the WCO. The United States and Canada were invited to visit Colombia this year to review the authorization processes and provide operational support in the validation visits and work on an action plan for the implementation of a Mutual Recognition Agreement in the future.
June 2013	Medan, Indonesia	Second Meeting of the Sub-Committee on Customs and Procedures 2013	Colombia presented the progress in the implementation of the Risk Management System and the improvement of Colombian competitiveness, thanks to the improvements in response time of approvals prior to import and the Simultaneous Inspection System for Exports in the Single Window for Foreign Trade.

3. Perspectives and Conclusions

Colombia has played a very active role through its guest status, participating in the development of the SCCP work program, sharing the Colombia situation in different issues and learning as much as possible about experiences of the Asia-Pacific Rim economies. The perspectives for the future are the following, among others:

- Learn the best international practices to enhance the continuous growth in efficiency of government entities and competitiveness of companies.
- Deepen trade facilitation policies, aiming to reduce time and costs and optimize processes in the logistic chain of foreign trade.
- Enhance cooperation with the APEC economies in the SCCP prioritized topics.
- Strengthen the partnership between public sector and companies in addressing the issues related to trade facilitation.

Tourism Working Group (TWG)

1. Objectives of Colombia in this Group.

The objectives of Colombia in participating in this Working Group are:

a) Present the Colombian experience and learn from the experiences of others, regarding the main objectives of this group:

- Removal of impediments to tourism business and investment.
- Increase mobility of visitors and demand for tourism goods and services.
- Sustainable management of tourism outcomes and impacts.
- Enhance recognition and understanding of tourism as a vehicle for economic and social development.

b) **Represent Colombian Government in this group, as part of the strategy for becoming a full member.**

2. Participation

Date	Place	Meeting	Contribution
April 2012	Taipei – Taiwan	40th Tourism Working Group	Represent Colombia as a guest country into the Tourism Working Group. Present an overview of Colombian tourist sector, which included air connectivity, tourist sector input to GDP, and employment, among others indicators.

3. Perspectives and Conclusions

It is important to highlight the participation of Colombia in this group, given Colombia's interest in becoming a full member economy.

The evolution of tourism in Colombia is equal or, in some cases, better than other APEC members.

It is expected that decisions adopted by APEC, will be considered in Colombia's tourist policies, especially for tourist facilitation (visas).

Small and Medium Enterprise Working Group (SMEWG)

1. Objectives of Colombia in this Group.

The Ministry of Trade, Industry and Tourism has among its goals to encourage the development of small and medium enterprises and build their capacity to engage in international trade. The issues on which the APEC's Small and Medium Enterprises Working Group (SMEWG)focus are essential to Colombia's bid to become a member of that group.

2. Participation

Date	Place	Meeting	Contribution
August 2012	St. Petersburg, Russia	35th Small and Medium Enterprise Working Group	Colombia highlighted its economic development and summarized the progress made by SME'S and entrepreneurs, in its strengthened entrepreneurship ecosystem.

3. Perspectives and Conclusions

Colombia has focused on emphasizing the advances made in its economic development.
The progress has been achieved by strengthening the entrepreneurship ecosystem and fostering more and better companies. This has come through 3 strategies: 1) A differential Approach Design, 2) Collective Action and 3) Platforms for conversation.

COLOMBIA'S ROLE IN APEC

Records on economic Policy

- Colombia has a sustained record of sound economic policies and very strong economic foundations, as well as institutional and policy frameworks.

- Fiscal discipline and responsible management of public finances and debt, supported by a strong fiscal institutional framework, including fiscal rules and fiscal sustainability.

- A strong macro prudential framework that has shielded the economy. Colombia had a positive growth during the most recent world economic crisis, growing 3.5% in 2008 and 1.7% in 2009. Its financial system was profitable in both years, with $6.6 billion pesos in 2008 and $8.5 billion pesos in 2009. In 2012, the economy grew at a healthy rate of 4%, and it is expected to grow around 4.1% during 2013.

- The Colombian authorities have responded appropriately to the global financial crisis and have demonstrated their commitment to maintain this solid record.

Strategy with Asia - Pacific

- The National Development Plan 2010-2014 continues the lines of previous plans in the process of internationalizing the Colombian economy. In addition, the Plan states, as one of its goals, the integration of Colombia with Asia Pacific countries.
- The actions to achieve that integration are aimed at strengthening political and economic relations, promoting cooperation and capacity building in the strategic industries of the Productive Transformation Program, and promoting Foreign Direct Investment (FDI) and tourism from Asian countries to Colombia.

- As a result of these actions, Colombia has signed and is in the process of negotiating several Free Trade Agreements (FTA) with APEC members. This includes the United States, Canada, México, Chile, Peru and South Korea, and it is in negotiations with Japan. Also, Colombia has International Investment Agreements (IIA) with various APEC members: the United States, Canada, Mexico, Chile, Peru, China and Singapore.

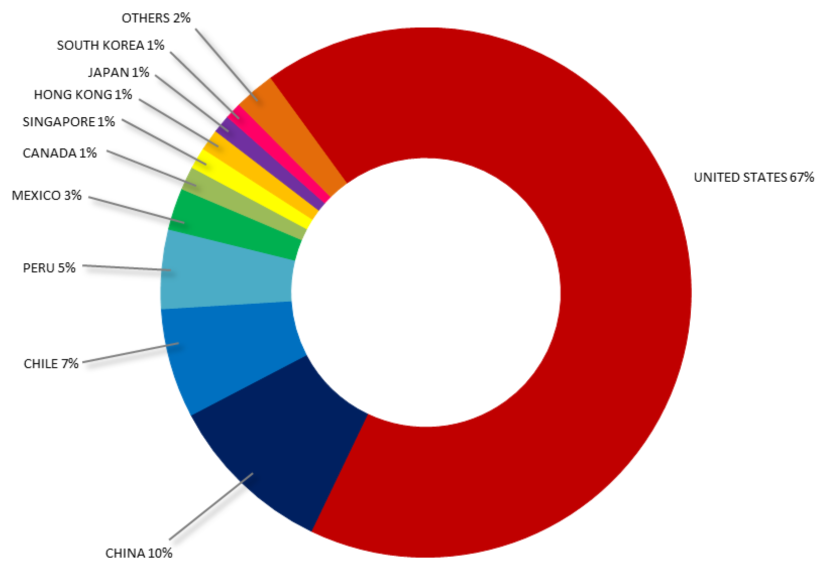
- Colombia is also part of the Pacific Alliance, along with Chile, Peru and Mexico, all of them members of APEC.

Colombian Exports to APEC Countries

- In 2012, Colombian exports to APEC countries reached USD$ 32.574 million, 8% more than in 2011 (USD$ 30.118 millions). Exports to APEC in 2012 accounted for 54% of total Colombian exports.

- Main APEC countries to which Colombia exported during 2012:
    - United States: nearly USD$ 21.980 billion (67% of total exports to APEC countries)
    - China: over USD 3.343 billion (10% of total exports to APEC countries)
    - Chile: over USD 2.189 billion (7% of total exports to APEC countries)

Exports from Colombia to APEC countries 2012
USD million FOB
(Percentage of the total exports to APEC)



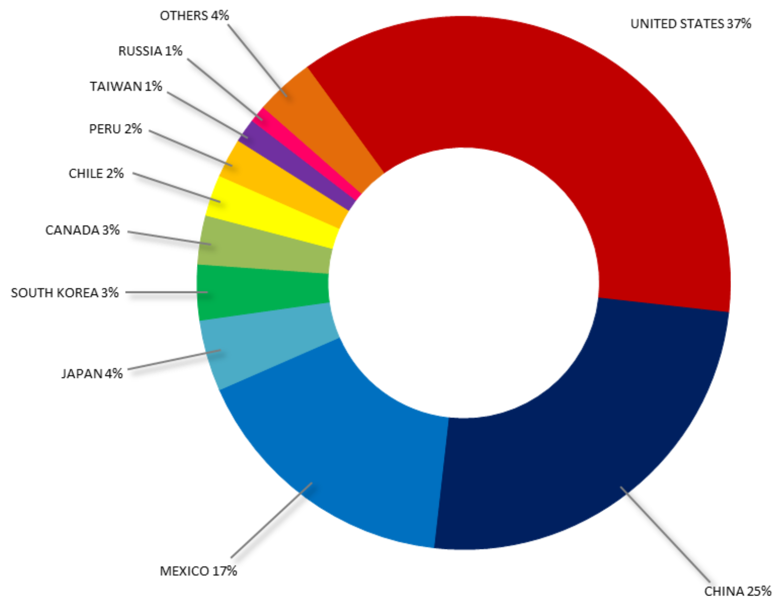
Source: DANE/OEE- DRCMinCIT

Colombian Imports from APEC Countries

- In 2012, Colombian imports from APEC countries reached USD$38.234 billions, 8% more than in 2011 (USD$35.407 millions). Imports from APEC in 2012 accounted for 69% of total Colombian imports.

- Main APEC countries to which Colombia imported during 2012:
  - United States: over USD$ 14.062 billion (37% of total imports from APEC countries)
  - China: nearly USD 9.565 billion (25% of total imports from APEC countries)
  - Mexico: over USD 6.362 billion (17% of total imports from APEC countries)

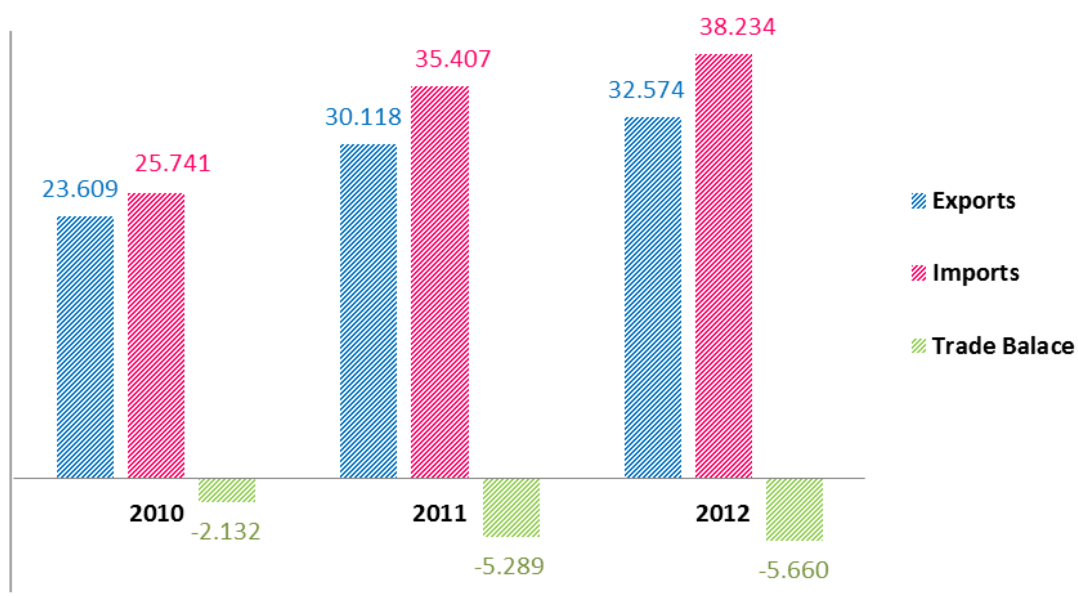
Imports to Colombia from APEC countries 2012
USD million CIF
(Percentage of the total Imports from APEC)



Source: DANE/OEE- DRCMinCIT

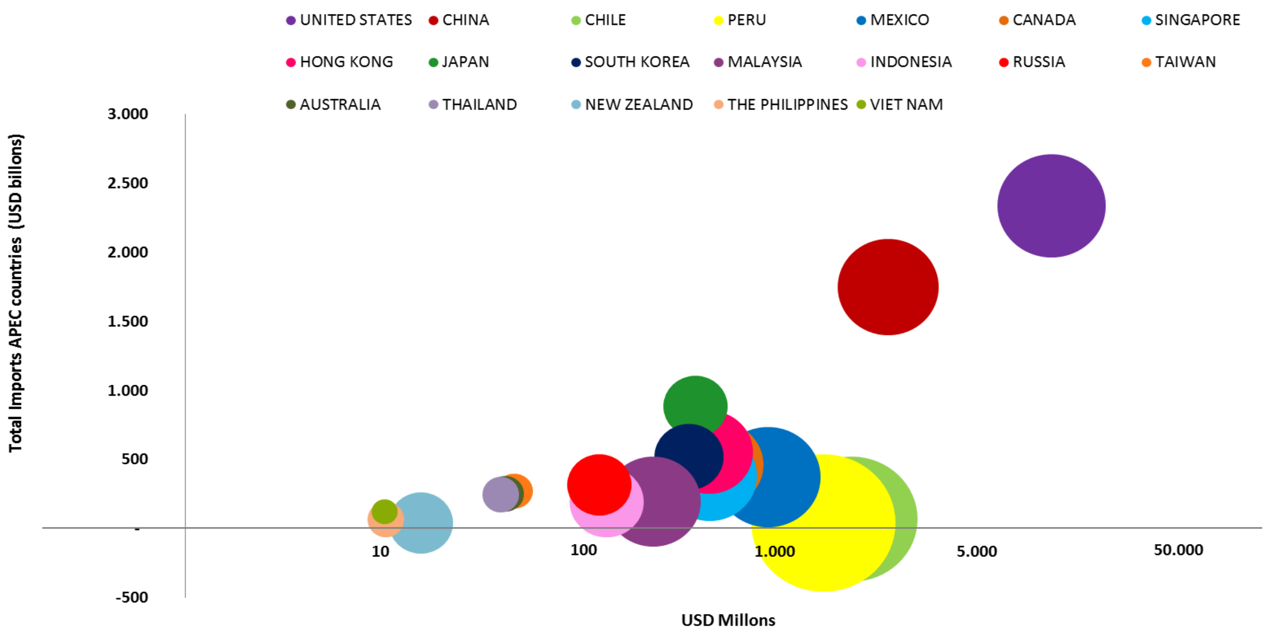
Colombia - APEC Trade Balance

Colombia - APEC Trade Balance 2012
(USD million)



Source: DANE/OEE- DRCMinCIT Calculations

**Colombian Exports to APEC vs. Total Imports APEC countries 2012
(USD million FOB)**



Fuente: TRADEMAP/OEE- DRCMinCIT

- This bubble chart shows the position of Colombian exports to APEC countries, where– the size of the circle is proportional to the Colombia's participation in total imports of each APEC Country. The vertical axis shows the total imports from APEC countries, while the horizontal axis shows the exports from Colombia to APEC countries.

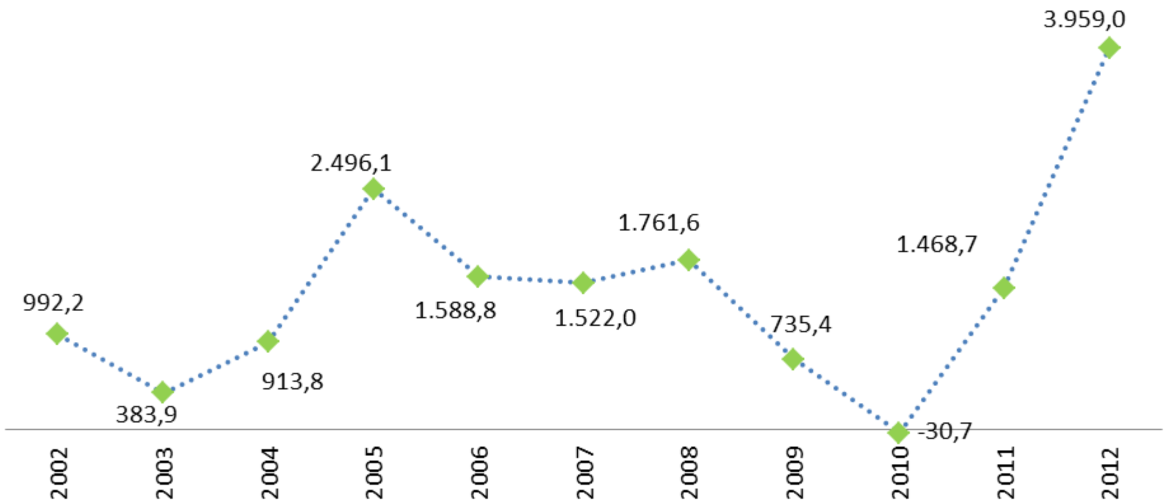
Foreign Direct Investment from APEC Countries to Colombia

- According to the Central Bank Balance of Payments, during the period 2002-2012 FDI flows from APEC countries registered a 13% CAGR (Compound Annual Growth Rate) reaching USD 15.791 billion.

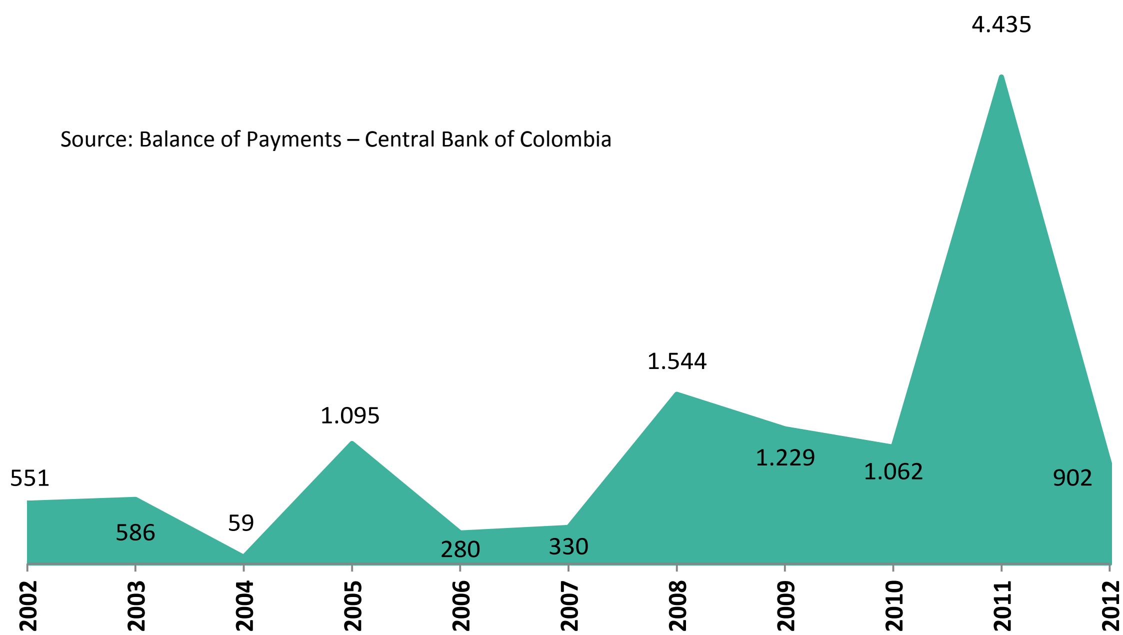
- FDI reached an outstanding record during 2012 when inflows from APEC countries registered USD 3.959 billion, an increase of more than a 170% regarding the previous year.

Foreign Direct Investment from APEC in Colombia 2002 – 2012, (USD millions)
Total FDI: USD 15.791

Source: Balance of Payments – Central Bank of Colombia



Foreign Direct Investment from Colombia to APEC countries 2002 – 2012, (USD millions)
Total FDI: USD 12.071

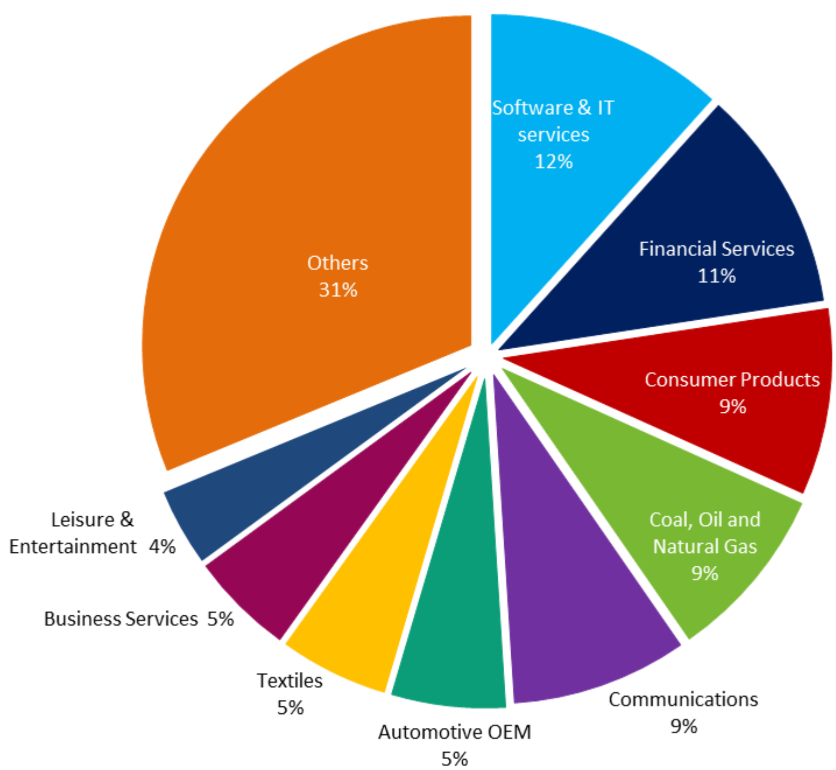


Source: Balance of Payments – Central Bank of Colombia

* According to the Central Bank Balance of Payments, during the period 2002-2012 FDI outflows from Colombia to APEC countries registered a 4.5% CAGR (Compound Annual Growth Rate), reaching USD 12.071 billion.

* FDI in 2011 stands out, when outflows from Colombia to APEC countries registered an amount of more than USD 4.435 billion, an increase of more than a 300% regarding the previous year and a CAGR (Compound Annual Growth Rate) over 23%.

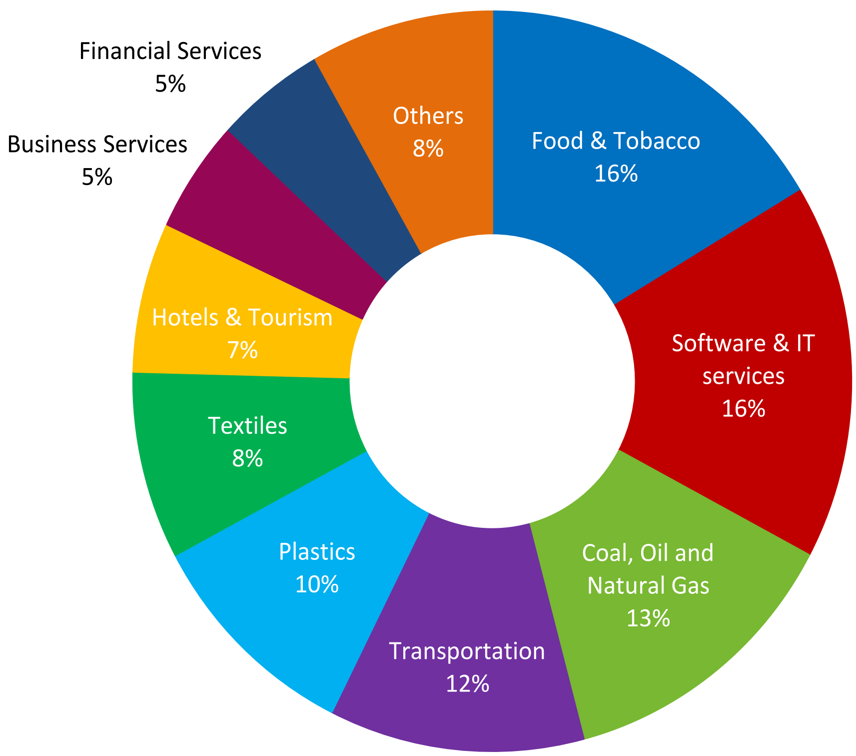
Greenfield Projects from APEC Countries in Colombia by Sector
2003-April 2013
Number of Projects: 394



Source: FDI Markets, June 2012

* According to FDI Markets, between 2003 and April 2013, Greenfield investment from APEC countries to Colombia has concentrated on the following sectors: Software & IT Services (11.7%), Financial Services (10.9%)and Consumer Products (9.1%), among others.

Greenfield Projects from Colombia to APEC Countries by Sector
2003- April 2013
Number of Projects: 61



Source: FDI Markets, June 2012

- According to FDI Markets, between 2003 and April 2013, Greenfield investment from Colombia to APEC countries has concentrated on the following sectors: Food & Tobacco (16.4%), Software & IT Services (16.4%) and Coal, Oil and Natural Gas (13.1%), among others.

Sharing best practices of how to phase out delinquency and organized crime.

- Colombia was known to be a country of organized crime, yet today, it is regarded as one of the precursors and framers of security protocols in fighting terrorism and corruption. Many countries abroad are adopting Colombia's techniques to curve the world-wide spread of insecurity and antisocial behavior.

- In addition, today, Colombia also has a comprehensive framework of judicial cooperation and effective action to investigate, persecute and punish transnational bribery.

- Colombia, through its Financial Intelligence Unit (Unidad de Información y Análisis Financiero - UIAF) has been a regional frontrunner in the prosecution of money laundering and part of the international instances fighting against money laundering and terrorism financing. The global nature of the crimes on money laundering and terrorism financing has plagued the globe. Considering this, Colombia has offer the UIAF to share its experience with other countries, such as Peru, Chile, Paraguay, Panama, Ecuador, Mexico, Senegal and Venezuela, among others, with the aim of decreasing their fraud index.

Policies to reduce poverty

Colombia has strict policies and strategies to reduce poverty and close the inequality gap:

- The Conditional Cash Transfer Program, called Families in Action, (Familias en Acción), consists of cash transfers to poor families, in order to promote income generation, sustainability, food, safety, and social infrastructure. The goals of 2010-2014 are: to benefit 2.6 million families and 5.7 million children, create 400,000 transitory direct jobs or equivalent for the population in poverty, extreme poverty or victims of violence.

- By 2014, Colombia aims to reduce poverty levels to 32% and extreme poverty levels to 9.5%.

- In 2011, to integrate all these programs and policies, the Colombian Government created the Administrative Department for Social Prosperity (Departamento Administrativo de la Prosperidad Social - DPS). The DPS is the National Government Entity who heads the Sector of Social Inclusion and Reconciliation, to unite the territories, reduce poverty, embrace the vulnerable populations and restore victims of violence.

Private sector involvement with APEC

- The Private Sector is very committed to the Colombian Government, in its process to become a member of APEC. The National Business Association of Colombia (ANDI – Asociación Nacional de Empresarios de Colombia) has been invited to attend the APEC CEO Summit in 2008, 2009, and 2010, organized every year by the ABAC (APEC Business Advisory Council).

- In addition, the National Business Association of Colombia asked to be invited to two working groups of ABAC, and it was accepted as a “guest” in the group of "Finance and Economics", to participate as a speaker at the July 2013 meeting in Kyoto, Japan. This is the first time that ANDI has been invited to actively participate in one of the working groups of ABAC, unlike its participation at meetings of the CEO Summit, in which ANDI only attended.

The Trade and Economic Importance of the Pacific Alliance

GDP ALLIANCE

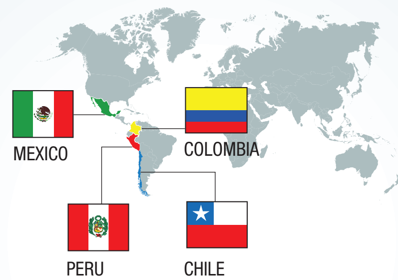
5%
GDP Growth Rate in 2012

4.7%
Estimated growth rate for 2013

8th
Economy by total GDP

USD 13,000
GDP per Capita of Alliance

The Pacific Alliance



COLOMBIA IN PA

TRADE

USD 4.6 BILLION
Colombian exports to Alliance in 2012

USD 7.9 BILLION
Colombian Imports from Alliance in 2012

FOREIGN DIRECT INVESMENT (FDI)

USD 5.4 BILLION
Investment from Alliance members to Colombia from 1994 to 2012

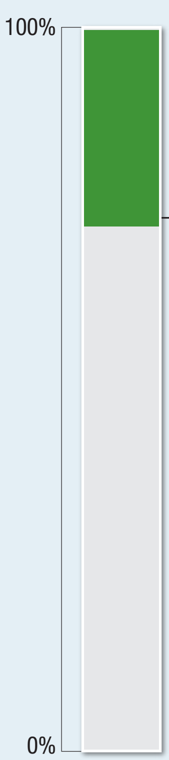
USD 6.2 BILLION
Investment from Colombia to Alliance members from 1994 to 2012

TOURISM

289,000 COLOMBIANS
visiting Chile, Mexico and Peru in 2012

238,000 TOURISTS
visiting Colombia from Chile, Mexico and Peru in 2012

FDI ALLIANCE



26%
of the FDI in Latin America and the Caribbean in 2012 was recorded in the countries of the Alliance

210 MILLION
Combined population of Alliance members

3.2%
Average Inflation of Alliance in 2012

7.6%
Unemployment rate of Alliance in 2012

33% share of LAC trade in 2012 was by Alliance

TRADE

USD 369.2 BILLION
ALLIANCE EXPORTS IN 2012

USD 352.3 BILLION
ALLIANCE IMPORTS IN 2012

TRADE IN SERVICES

USD 38.7 BILLION
ALLIANCE EXPORTS IN 2012

USD 61.8 BILLION
ALLIANCE IMPORTS IN 2012

Source: Annual Statistics of Latin America & Caribbean, Cepal / Design: MinCIT

Document: FEWG 33-033 Draft: **FIRST** Date: 1 July 2013 Source: ABAC Papua New Guinea Meeting: Kyoto, Japan

Meeting Document Summary Sheet Template

Document Title: A Progress Report to ABAC – Mobilising Savings for long term investment
Purpose: For consideration
Issue: Measures to promote investment by sovereign wealth funds as a component of a wider program of savings mobilisation and responding to APEC's Investment Action Plan for greater transparency in decision making around investment and improved dialogue between governments and SWFs and State Owned Enterprises.
Background: Members have earlier been advised of a three-year multi-year program funded by AusAID and organised by the Australian APEC Study Centre (AASC) at RMIT University. This will work will have, inter alia, a focus on SWFs and SOEs. Research is presently being undertaken on indicators to measure the impact of incentive measures to promote investment and the results of this research will be presented as a component of a three day seminar and policy dialogue in Beijing in September 2013. The dialogue involving APEC and ASEAN officials, business, academia and representatives of SWFs and SOEs and international organisations will consider ways to improve predictability and transparency in decision making by SOEs and SWFs and relevant agencies from capital recipient economies, with a particular focus on investment by SWFs in mutual funds and pensions. The OECD supports this work by ABAC and both the OECD and ABAC will participate in the Beijing dialogue. So also will the ADB and the ADBI and the APEC Secretariat. The World Bank and UNCTAD have been invited to participate. The OECD is preparing a paper on its work on investment by SWFs. AASC is updating a paper considered by ABAC in 2008 on the activities of SWFs.
Proposal /Recommendations: • Reaffirm support for the work to enhance investment flows in the region and in promoting investment by SWFs in mutual and pension funds as a contribution to investing in infrastructure in the region • Seek the endorsement of APEC Ministers and Leaders for this contribution by ABAC to achieving APEC's objectives
Decision Points: • Endorse the recommendations outlined above.

Investment Objectives of Sovereign Wealth Funds - A Shifting Paradigm

IMF Paper by Peter Kunzel, Yinqiu Lu, Iva Petrova, and Jukka Pihlman

Published in 2011

Summary

Classification of SWFs and its implications

- SWFs are typically categorized as stabilization funds, savings funds, pension reserve funds, or reserve investment corporations.
    - The majority of established SWFs are either savings funds for future generations or fiscal stabilization funds. There are only a handful of pension reserve funds (Australia's Future Fund, Chile's Pension Reserve Fund), and even fewer reserve investment corporations (China Investment Corporation (CIC), Korea Investment Corporation (KIC), and Government Investment Corporation of Singapore (GIC)).
- There are important differences in the investment objectives and behaviour of different types of SWFs.
    - A reserve investment corporation, for example, will need to consider the possible repercussions of balance of payments risks, and will want to hold a portion of its portfolio in liquid assets.
    - On the other hand, savings SWFs are expected to have longer investment horizons than stabilization SWFs, whereas pension reserve funds can derive their investment horizons from the timing of the future anticipated liabilities falling due.

Impact of funding source on SWFs asset allocations

- SWFs' investment objectives may also be influenced by their source of funds and may take into consideration other assets and liabilities on the wider government balance sheet.
    - Stabilization and savings SWFs that derive their funds from commodity booms are likely to invest in a diversified portfolio of assets which have a negative or low correlation with commodities.
- There may also be differences between similar types of SWFs due to investment horizon and asset class performance, the size of the SWF, the ability to tolerate losses, the amount of untapped funding sources, and the maturity and sophistication of the SWF.
- The global financial crisis affected SWFs in different ways, with some SWFs increasing liquidity, and others opting for more conservative or less conservative portfolios depending on individual country circumstances. In some limited cases, SWFs have taken on new roles beyond their original mandates following the GFC.
- More generally, the crisis demonstrated the importance of macro-stability risk assessment and careful consideration of the financing options of the sovereign both during periods of high and low financial stress.
- Looking ahead, the scope for SWFs' stabilising role in international capital markets will remain substantial. Despite their losses during the crisis and greater domestic focus, SWFs' relative size and influence in the global market will remain large.
- Furthermore, SWFs' longer-term investment strategies relative to most other investors will continue to play an important stabilising role in the global economy.

Table 1. Sovereign Wealth Fund Classification

Source	Year established	Country	Policy Purpose: Macro stabilization	Policy Purpose: Saving	Policy Purpose: Pension reserve	Policy Purpose: Reserve investment
Oil and Natural Gas	1953	Kuwait	Kuwait Investment Authority, General Reserve Fund	Kuwait Investment Authority, Future Generations Fund		
	1976	Canada		Alberta Heritage Savings Trust Fund		
	1976	United Arab Emirates		Abu Dhabi Investment Authority		
	1976	United States		Alaska Permanent Fund		
	1980	Oman		State General Reserve Fund		
	1983	Brunei Darussalam		Brunei Investment Agency		
	1996	Norway	Government Pension Fund-Global	Government Pension Fund-Global	Government Pension Fund-Global	
	1999	Azerbaijan	State Oil Fund	State Oil Fund		
	2000	Iran, Islamic Republic of	Oil Stabilization Fund			
	2000	Mexico	Oil Revenues Stabilization Fund			
	2000	Qatar		Qatar Investment Authority		
	2000	Trinidad and Tobago	Heritage and Stabilization Fund	Heritage and Stabilization Fund		
	2001	Kazakhstan	National Fund			
	2002	Equatorial Guinea		Fund for Future Generations of Equatorial Guinea		
	2004	São Tomé and Príncipe		National Oil Account		
	2005	Timor-Leste	Petroleum Fund	Petroleum Fund		
	2006	Bahrain	The Future Generations Reserve Fund	The Future Generations Reserve Fund		
	2006	Libya		Libyan Investment Authority		
	2008	Russian Federation	Reserve Fund		National Wealth Fund	
Other Commodity	1956	Kiribati		Kiribati, Revenue Equalization Fund		
	1996	Botswana		Botswana, Pula Fund		
	2006	Chile			Pension Reserve Fund	
	2007	Chile	Economic and Social Stabilization Fund (ESSF)			
Fiscal Surpluses	1974	Singapore		Singapore, Temasek		
	1981	Singapore				Government of Singapore Investment Corporation
	1993	Malaysia		Khazanah Nasional BHD		
	2000	Ireland			Ireland, National Pensions Reserve Fund	
	2001	New Zealand			New Zealand Superannuation Fund	
	2004	Australia			Australia, Future Fund	
	2005	Korea, Republic of				Korea Investment Corporation
FX Reserves	1981	Singapore				Government of Singapore Investment Corporation
	2005	Korea, Republic of				Korea Investment Corporation
	2007	China				China Investment Corporation

Source: Authors' compilation.

State-Owned Enterprises: Trade effects and policy implicaitons
OECD paper by Przemyslaw Kowalski, Max Büge, Monika Sztajerowska and Matias Egeland
Published in 2013

Summary

- The OECD paper assessed the importance of SOEs by country, by economic sectors and by their international trade and investment activities to determine their impacts on cross-border trade and investment.
- The assessment was primarily focused on answering the four following questions:
  - What are the concerns associated with cross-border activity of SOEs?
  - What types of advantages granted to SOEs by governments may be inconsistent with the key principles of the non-discriminatory trading system?
  - How important is state ownership in the global economy?
  - What policies and practices support open markets for SOEs' legitimate international trade and investment and effective competition among all market participants?

Concerns related to cross-border activities of SOEs

- First, some countries may be using SOEs as a vehicle for pursuing non-commercial or strategic objectives and this may involve anti-competitive effects for their trading partners.
- Second, when SOEs expand to international markets, a number of issues which in a domestic context can either be contained or are not considered as problems, move to the forefront and become an international concern.
- Third, certain schemes of compensating SOEs for their public service obligations at home, which are proportional to the business volume rather than public service obligations themselves, may create a distortive and government supported incentive for commercial expansion, including to foreign markets.
- Fourth, support for SOEs in pursuit of economies of scale may be justified on general economic grounds from a domestic perspective but if this involves increasing market shares abroad it may be perceived differently in different constituencies.
- These objectives for SOE operations can be pursued by governments by granting advantages and privileges such as: direct subsidies, concessionary financing, state-backed guarantees, preferential regulatory treatment, exemptions from antitrust enforcement or bankruptcy rules, and others.
- Evidence presented in the OECD paper indicates that various actions of SOEs, as well as advantages allegedly granted to them by governments, have at times been contested as being inconsistent with national or international regulations with varying degree of success. This illustrates, first, that governments have at times pursued SOE strategies that were seen by others as being illegitimate or having anti-competitive effects. Second, it appears that some of these allegations were without merit or, if not, that the existing legal frameworks may be only partially fit to deal with cross-border effects of SOEs' activities.
- The results also show that many countries with the highest SOE shares are important traders, and sectors with strong SOE presence, including raw materials, merchandise and services, are also intensely traded.

    - This suggests that there is a potential for economic distortions in world markets if the SOEs operating in these sectors benefit from unfair advantages granted to them by governments.
- The large state presence and international orientation of SOEs in some non-OECD countries highlight the need for enhanced dialogue on cross-border effects of state ownership going beyond the OECD membership.
- Some of the regulatory frameworks that discipline certain forms of anti-competitive behaviour by SOEs in international markets have been designed with domestic objectives in mind or were conceived at the times when state sector has been oriented primarily towards domestic markets. Thus, they often offer only partial SOE provisions.
    - Others contain more modern SOE disciplines, which however typically concern a small number of countries and reflect specificities of their state sectors.
    - Finally, various frameworks at the national, bilateral and multilateral level also differ considerably in the degree of required implementation and effective enforcement capacity.
- This suggests that future work could focus on:
    - Documenting specific advantages inherent to SOEs that result in most cross-border distortions and comparing them with advantages granted to private enterprises;
    - Understanding the nature of SOE-related trade distortions in specific sectors where state-ownership is established to have important cross-border implications;
    - Determining whether there is a need to fill gaps in existing policy frameworks dealing with cross-border effects of SOEs and finding the most constructive ways of doing so; and
    - Engaging in this debate key players outside the OECD membership.

Additional information

Existing approaches dealing with anti-competitive cross-border effects of SOEs

Regulatory frameworks that counter some forms of anti-competitive behaviour by SOEs in international markets, and which are discussed in this paper, include: OECD Guidelines on Corporate Governance of SOEs (OECD SOE Guidelines); national competitive neutrality frameworks (CNFs); national competition laws; the WTO Agreements; preferential trade agreements (PTAs); and bilateral investment treaties (BITs).

Some of these regulatory frameworks have been designed with domestic objectives in mind or were conceived at times when the state sector was oriented primarily towards domestic markets. Thus, they often offer only partial SOE provisions. Others contain more modern SOE disciplines, which however typically concern a small number of countries. Finally, various frameworks also differ considerably in the level of required implementation and effective enforcement capacity.

- National antitrust law can in principle be used to deal with the abuse of dominant position by SOEs, including in the international context, or to prevent anticompetitive effects associated with merger and acquisition activities of SOEs.

However, traditional antitrust standards apply to profit maximising firms and competition laws of most countries aim at preventing price gouging. They are not aimed at preventing subsidies and artificially low prices – except where these are manifestly motivated by predatory strategies.

- OECD SOE Guidelines recommend the maintenance of a level playing field among state-owned and privately owned incorporated enterprises operating on a commercial basis, by listing and elaborating on a number of guiding principles in a number of areas. However, the Guidelines do not explicitly consider nationality of SOE competitors, are voluntary in nature and are also not subject to regular assessment of implementation. They can be a useful tool for advocacy-oriented approach to minimising unwanted cross-border effects of SOEs among countries committed to the reform of the state sector, or as a benchmark to assess the quality of potential SOE investors, but they fall short of providing binding rules seen typically in international trade or investment agreements.
- Competitive neutrality arrangements introduced by some OECD jurisdictions aim to mitigate or eliminate competitive advantages of SOEs, including with respect to taxation, financing costs and regulatory quality. Some of the state-of–the-art competitive neutrality arrangements, most notably those of the European Union and Australia, offer effective tools to level the playing field, including in respect of certain aspects of cross-border competition. Yet, far from all OECD countries have such arrangements in place and, where they exist, their scope, ambition and enforcement differ widely.
- In principle, WTO rules impose obligations on Member governments as opposed to private entities. Nevertheless, some WTO rules do address behaviour by certain non-governmental entities, some of which may be SOEs. In addition, WTO rules are generally ownership-neutral; the disciplines which they impose with respect to government regulations and actions do not distinguish between situations where the provider of the goods or services covered by the regulation or action is a public or a private entity.
    - For example, SOEs are covered by WTO subsidy disciplines when they are subsidy recipients, but when they act as conveyors of subsidies (e.g. providing cheaper inputs to other firms) the application of subsidy disciplines depends on the facts of each case. Also, services sectors, often with significant SOE presence, are not disciplined as a general matter by existing WTO subsidy rules.
    - GATT Art. XVII on State Trading Enterprises (STEs) and its understanding specifically aim to limit the degree to which such enterprises, some of which may be SOEs, are used as vehicles to influence international trade. However, neither STEs nor state trading are clearly defined and this may in some cases represent a handicap in the application of the Article.
    - Some of the GATS provisions also help discipline SOEs. For example, GATS Art. VIII aims at regulating the behaviour of monopolies, whether public or private. Moreover, other GATS disciplines, such as the national treatment obligation and market access obligations, prohibit favouring domestic entities in certain situations, including SOEs. However, these obligations apply only in sectors where WTO Members have undertaken specific commitments in their GATS Schedules
    - China's WTO Accession Protocol to the WTO has specific disciplines that aim to deal with anti-competitive cross-border effects of SOEs. Yet, doubts have been expressed whether these provisions have sufficiently impeded trade-distorting policies that advantage Chinese SOEs. In the most recent

WTO Accession Protocol of The Russian Federation, the discussion of SOE-related disciplines was also substantial, but the accession commitments focus primarily on existing WTO provisions, with the exception of the banking sector.

- Many existing preferential trading agreements include specific provisions on SOEs, attempting to fill gaps in existing multilateral provisions. For example, some agreements explicitly specify that their provisions apply similarly to SOEs, clarify some of the definitional lacunae in the WTO context, or include additional provisions pertaining to services and competition policies.
- Most bilateral investment treaties contain general non-discrimination clauses that can promote competitive neutrality, even though they are not specifically aimed at SOEs. In addition, most BITs refer to both state-state and state-investor relations and in many instances address directly issues of competition in countries with a considerable state presence in the economy. However, even in some of the most advanced BITs, the definition of state enterprises as well as transparency requirements or arbitral proceedings may fall short of imposing clear disciplines.

Document: FEWG 33-032 Draft: **FIRST** Date: 1 July 2013 Source: ABAC USA Meeting: Kyoto, Japan

Document Title:

ABAC Letter to IASB/FASB on IFRS Lease Accounting

Purpose:
For consideration

Issue:
The introduction of robust and common accounting standards such as IFRS has the potential to enhance development of capital markets in the APEC region, as well as to promote sustainable economic growth.

Background:
On May 16, 2013 the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) published for public comment a revised Exposure Draft (ED) outlining proposed changes to the accounting for leases. The ED aims to improve the quality and comparability of financial reporting by providing greater transparency about leverage, the assets an organisation uses in its operations and the risks to which it is exposed from entering into leasing transactions.

In anticipation of this revised ED, ABAC endorsed a proposal at ABAC II to draft a letter to the IASB/FASB Chairs in response to the ED to support convergence to IFRS standards of reporting, encourage a dialogue between business groups and IASB on ways that would align IFRS principles with the interests of SMEs and other business groups, as well as stress a considered implementation by economies of IFRS that takes into account ways of satisfactorily dealing with the concerns of the SME sector, and of other business concerns.

ABAC will need to issue this letter to the IASB/FASB on the revised ED by September 13, 2013. A draft concept of this letter will be introduced at ABAC III and will be finalized intersessionally between ABAC III and ABAC III.

Proposal /Recommendations:

- ABAC should ensure that the revised ED addresses concerns raised by ABAC in 2011.
- ABAC should continue to encourage a dialogue between business groups and IASB/FASB on ways that would align IFRS principles with the interests of SMMEs and other business groups that will be affected.
- ABAC should stress that adoption of IFRS should take into account ways of satisfactorily dealing with the concerns raised by business groups.

Decision Points:

- Endorse the recommendation above.

Background: IFRS

The introduction of robust and common accounting standards such as IFRS has the potential to enhance development of capital markets in the APEC region, as well as to promote sustainable economic growth. In ABAC's 2010, 2011, and 2012 *Report to APEC Economic Leaders*, ABAC expressed its strong support for adoption of IFRS throughout the APEC region, as part of APEC's goal of encouraging regulatory coherence and of promoting regional economic integration. However, ABAC has consistently voiced concerns that some of the newly-proposed accounting standards may result in potential negative business and economic impact. Though ABAC does not intend to critique the technical aspects of financial regulatory policy, it has a duty to underscore at a higher level that financial regulatory standards be implemented in a way that does not impair APEC's overarching themes of Inclusive Growth.

ABAC has noted that the improper implementation of IFRS in lease accounting will reduce the ability of businesses, particularly SMMEs, to access funding, including in many APEC economies. 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. However, 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. Comprehensive impact analyses must be conducted to assess how the implementation of IFRS will impact the financial services industry.

2011 ABAC Letters to the IASB/FASB

As part of APEC's goal of encouraging regulatory coherence and promoting regional economic integration, ABAC wrote twice during 2011 to the Chairman of the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) conveying ABAC's strong support for adoption of IFRS throughout the APEC region. One letter was in reference to an exposure draft on lease finance and another on insurance contracts. At the time, ABAC noted that adoption of IFRS should be undertaken in a manner that minimizes the impact on real economic activities. In particular, ABAC identified that it would be concerned with any impact of implementation on the financing activities of SMEs, as this is a focus area for Inclusive Growth initiatives, one of the pillars of APEC's growth strategy. Importantly, due to comments from ABAC as well as over 800 other businesses and associations, the IASB and FASB decided to delay implementation of the draft exposure on lease financing in order to accommodate additional input from the private sector.

2012 ABAC-APEC EC Roundtable on IFRS

ABAC and APEC senior officials organized the first dialogue on IFRS at SOM/EC on May 30, 2012 in Kazan, Russia. At the dialogue in Kazan, ABAC made three presentations on specific aspects of IFRS implementation: lease accounting, insurance contracts and revenue recognition. While reiterating ABAC support for harmonized accounting standards, the presentations underscored the need for further consultations and deliberations on new standards. The first dialogue was productive and conveyed the common views to both APEC and ABAC through exchanging the aspects and comments on IFRS. The dialogue clarified the current situation and addressed challenges toward the adoption of IFRS.

2013 ABAC Initiatives

On May 16, 2013 the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) published for public comment a revised Exposure Draft (ED) outlining proposed changes to the accounting for leases. The ED aims to improve the quality and comparability of financial reporting by providing greater transparency about leverage, the assets an organisation uses in its operations and the risks to which it is exposed from entering into leasing transactions.

In anticipation of this revised ED, ABAC endorsed a proposal at ABAC II to draft a letter to the IASB/FASB Chairs in response to the ED to support convergence to IFRS standards of reporting, encourage a dialogue between business groups and IASB on ways that would align IFRS principles with the interests of SMEs and other business groups, as well as stress a considered implementation by economies of IFRS that takes into account ways of satisfactorily dealing with the concerns of the SME sector, and of other business concerns.

ABAC will need to issue this letter to the IASB/FASB on the revised ED by September 13, 2013. A draft concept of this letter will be introduced at ABAC III and will be finalized intersessionally between ABAC III and ABAC III.

Ongoing Initiatives

ABAC should continue to encourage a dialogue between business groups and IASB/FASB on ways that would align IFRS principles with the interests of SMMEs and other business groups, such as insurance companies, that will be affected. Furthermore adoption by economies of IFRS should take into account ways of satisfactorily dealing with the concerns raised by business groups.

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

Document: FEWG 33-027A
Draft: **FIRST**
Date: 24 June 2013
Source: FEWG Chair
Meeting: Kyoto, Japan

ABAC Report to APEC Finance Ministers

The APEC Business Advisory Council (ABAC) is pleased to present its report and recommendations for the year 2013 to APEC Finance Ministers.

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 conditions 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.

Our recommendations and report on our activities are in line with the priorities set forth by ABAC Indonesia for 2013, including the following areas:

i) Promote Asia Pacific Financial Forum (APFF) in developing regional markets integration and address regulatory, structural, and legal reforms to promote financial market development
ii) Develop strategies to achieve balanced growth and stronger financial integration
iii) Promote PPP and infrastructure finance
iv) Promote practical solutions to financial inclusion.

This report also draws from recommendations and activities of the Advisory Group on APEC Financial Systems Capacity Building. The Advisory Group is an informal organization led by ABAC that serves as a vehicle for collaboration among public and private sectors and key international institutions in promoting capacity building efforts to strengthen and develop the region's financial systems. We believe that this collaboration between the public and private sectors is a key element that can ensure the success of the following initiatives:

i) <u>Launching of the Asia Pacific Financial Forum (APFF)</u>

The current global economic situation underscores the compelling rationale for the development of sound and integrated financial markets in the region. Given the present economic challenges facing North America and Europe, global economic recovery and the resumption of previous levels of growth will hinge on the continued rapid development of emerging markets in coming years, particularly in Asia, where savings are abundant. However, the underdevelopment of the region's financial markets, unless addressed, is bound to pose a serious constraint to the future growth of Asia and, consequently, to regional and global economic growth.

Regional financial integration is important for the development of the region's emerging financial markets, to allow them to fully support the financing of the region's economic and social needs. As long as these markets are fragmented, it will remain difficult to attract market players to participate in a more meaningful way. Building regionally integrated financial markets would involve three important undertakings. First, the development of most of the region's financial markets needs to be accelerated. Second, operating simultaneously in multiple markets should be made easier and less costly for market players through convergence and/or greater mutual recognition of standards, regulations and practices. Third, regulations and market infrastructure to facilitate cross-border transactions need to be developed.

In 2012, the 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.

This collaborative framework of APFF is envisioned to be a platform for public-private sector collaboration in:

- The development of robust financial markets across the region; the convergence of financial standards, regulations and practices; and connectivity for facilitating cross-border financial flows, to create dynamic and integrated financial markets that will support the region's sustained rapid growth; and

- Shaping global financial regulatory reforms in support of the region's financial development goals, through coordination of views on agreed areas of common regional concern and ensuring that these concerns are adequately reflected in global financial standards and regulations.

Recommendation:

- APEC Finance Ministers to endorse the launch of the APFF based on the work program proposed in the report of the Sydney Symposium (Annex A of the attached Report of the Advisory Group on APEC Financial System Capacity Building).

ii) <u>Strategies to achieve balanced and innovative growth and stronger financial integration</u>

a) Mobilizing Regional Savings for Long-Term Investments.

Sovereign wealth funds (SWFs) are growing in size world-wide, although relatively small in terms of total global financial assets, they exist in a number of APEC economies, including: Australia: Russia: Brunei; USA; Canada; Malaysia; Singapore; China; Hong Kong; China; Korea; Chinese Taipei; and Chile.

Transparency about the operations of SWFs is often obscure and there is uncertainty about accountability. Some funds are invested on strategic grounds as distinct from commercial investments and this is the cause of uncertainty in decision-making on potential investment by some recipient economies. In this context, it is imperative to establish equivalent competitions of competition between all market players, including SWFs and State-Owned Enterprises (SOEs). APEC's Investment Action Plan calls for greater transparency in decision making around investment and improved dialogue between governments and businesses, including SWFs and SOEs.

With the intention 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 ito encourage institutional savings held in sovereign wealth funds, 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:

- APEC Finance Ministers to 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, in a transparent and market-based manner.

b) 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 through various pathways, including the Trans Pacific Partnership, the Regional Comprehensive Economic Partnership and the recently established Pacific Alliance.

Focusing on Asia-Latin America sub-regional collaboration from the view of the Pacific Alliance, Trans-Pacific economic ties between Asia and Latin America have 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:

- ABAC recommends the promotion of closer economic ties between Latin America and Asia as well as the improvement of policy coordination between markets in the two areas.

- To enhance the linkages with respect to trade in goods and services, ABAC recommends the development of the financial component supporting the Asia-Latin America cooperation, such as collaboration between the Asian Development Bank and the Inter-American Development Bank on a trade finance program.

c) *Unintended Consequences of New Financial Regulations*

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

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

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

- First, in relation to the US Dodd-Frank Act and the EU Financial Transaction Tax, considering their potential negative impact on other markets, we urge relevant authorities to collaborate with each other in addressing their cross-border and extraterritorial effects.

- Second, 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:

- APEC Finance Ministers to undertake a regular global dialogue with regards 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.

- ABAC is concerned that the application of Basel III on trade finance will have a negative impact on its availability, the cost of finance in general, and bank lending to SMMEs. ABAC recommends that regulators review the risk, LGD (Loss given default) of trade finance and the specific impact of the regulation on SMMEs. We recommend that regulators take appropriate measures to ensure that financial regulations facilitate SMMEs' access to trade finance.

d) *Internationalization of Emerging Economies' Currencies*

With emerging markets' growing economic importance, their currencies will play more important roles in global and regional markets, particularly for trade settlement and investment. Promoting the internationalization of their currencies could help accelerate financial and economic development in the region, reduce foreign exchange risks, and contribute to economic growth and recovery. ABAC recommends that APEC promote the expanded role of emerging markets' currencies in trade and investment flows, in view of their potential to become anchors.

We note 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.

Starting from the point of view that harmonization and transparency are necessary attributes for the RMB to become a truly international currency, we can identify two main areas where concrete measures can promote continued growth, to improve RMB liquidity and to improve operations in RMB.

Recommendations:

- APEC to promote the expanded role of emerging markets' currencies in trade and investment flows in view of their potential to become anchors. Considering the development of RMB, ABAC recommends the following measures to improve RMB liquidity and operations in this currency for the RMB to become a truly international currency.

  Liquidity: Ensuring 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; encouraging more and greater cross-currency swap lines; harmonizing reporting, record keeping and settlement procedures; Improving the fungibility of RMB liquidity pools.

  Operations: Enhancing 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; ensuring 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.

e) IFRS

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

- APEC to 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.

- APEC to support a dialogue between business groups and IASB/FASB as part of the proposed Asia-Pacific Financial Forum on ways that would align IFRS principles with the interests of SMMEs and other business groups, such as insurance companies, that will be affected.

f) *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.

Recommendation:

- APEC Finance Ministers to 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.

g) *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 don't 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:

APEC to 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 conectivity.

iii) <u>Promote PPP and infrastructure finance</u>

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

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

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:

- APEC economies to effect further improvements in the environment for PPPs, especially through active engagement with APIP.

- APEC Finance Ministers to establish a regional framework to coordinate capacity building and sharing of best practices, with the collaboration of the APIP.

iv) <u>Promote practical solutions to financial inclusion</u>

a. 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 for 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. (For details, see financial inclusion section of the attached Report of the Advisory Group on APEC Financial System Capacity Building).

Recommendation:

- APEC economies to 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.

b. __Enhancing safe and reliable access to remittances__

According to the World Bank, remittance flows to developing countries reached an estimated $401billion in 2012, growing by 5.3 percent compared with 2011. Remittance flows are expected to grow at an average of 8.8 percent annual rate during 2013-2015 to about $515 billion in 2015. With growing constraints on public resources in the wake of the Global Financial Crisis, mobilizing private resources to serve financial needs of low-income households and small enterprises has become ever more important. Stronger, more balanced and more inclusive growth also requires efforts to further expand financial access through new channels, while addressing the key obstacles small enterprises face in accessing traditional sources of finance.

Remittances have great potential for promoting financial inclusion, and are expected to grow in importance in coming years. The World Bank estimates that cutting remittance transaction costs by 5% could save up to US $16 billion per year. The region itself hosts around seven million migrants, and this number is expected to increase considerably with the region's growing economic integration, against a backdrop of large income differentials among economies and aging populations in the more developed economies. Remittances have nearly quadrupled since the turn of the millennium.

Recommendations:

- APEC should foster innovation by identifying best practices in developing payment systems, adopting globally accepted standards as well as introducing enhancement of services like cross border remittances, e-payments and facilitating online commerce to meet development goals.

- APEC should enhance financial education to help migrants and their families understand the broad array of services and instruments such as savings, credit, and insurance linked to remittances.

- APEC should collaborate with MFIs to link remittances to other financial products such as savings accounts, micro-loans and mortgage and business loans. Linking remittances more closely to banks and financial institutions such as MFIs or savings cooperatives can promote the mobilization of savings and productive investments.

c. *Undertaking Legal Architecture Reforms to Expand Finance*

Well-defined legal systems with effective enforcement mechanisms expand funding and lower borrowing costs, especially for SMEs, 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.

Recommendation:

- ABAC proposes (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 (Annex B of the attached Report of the Advisory Group on APEC Financial System Capacity Building).

d. *Promoting full-file credit bureau systems*

In a global economy, businesses need every advantage to stay competitive. One clear advantage is having access to the most complete information to make informed business decisions. Many economies in the region are active in promoting credit bureau systems, recognizing the need for these systems in promoting sound underwriting and credit policies. However, in many APEC economies, credit information systems have not reached levels of development where they can play their full potential role in improve credit decisions. In other economies, credit bureaus lack full-file information on borrowers – credit information on all manner of trade lines such as bank, non-bank, credit card and installment sales debt – simply because the information systems are segmented or "siloed" along industry lines.

Credit bureaus are critical to the expansion of credit for both individuals and small businesses, since access to credit information is needed when applying modern financial technologies to credit decisions for these market segments. Credit bureaus also promote a competitive marketplace for financial service products, often resulting in more competitively priced credit for both commercial and consumer borrowers with good credit behavior. Fully transparent credit information systems will incentivize lenders to significantly expand more affordable credit to SMEs in the region. When this activity takes place across international boundaries, it is important that economies work together to ensure regulatory regimes don't hinder cross-border credit information flows.

Recommendation:

- Credit bureaus should be encouraged to allow access to, and include information from, all qualified lenders, not only to maintain fair and competitive access, but also to improve the quality of data available for all.

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ABAC Letter to APEC Finance Ministers

His Excellency
Dr. M Chatib Basri
Chair, APEC Finance Ministers' Meeting
Minister of Finance
Republic of Indonesia

Dear Minister Basri:

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

Global financial and market conditions have improved meaningfully since our last report, providing additional support to the economy and prompting a sharp rally in risk assets. These favorable conditions reflect a combination of deeper policy commitments, renewed monetary stimulus, and continued liquidity support; as a result, tail risks have been reduced, confidence has been enhanced, and economic outlook has looked brighter. However, global economic conditions remains subdued, and the improvement can only be sustained through further policy actions to address structural reforms and promote continued recovery. This year, ABAC has prioritized the following objectives: launching the Asia Pacific Financial Forum (APFF) in developing regional markets integration, developing strategies to achieve balanced and innovative growth and stronger financial integration, promoting PPP and infrastructure finance, and promoting practical solutions to financial inclusion.

Launching the Asia-Pacific Financial Forum (APFF). In 2012, the APEC Finance Ministers welcomed ABAC's proposal to explore the creation of an Asia-Pacific Financial Forum, a regional platform for public-private collaboration to help accelerate the development of integrated financial markets. A symposium hosted in Sydney by the Australian Government for this purpose underscored the importance of such collaboration in promoting financial market development that supports the needs of the real economy and regional aspirations for sustained, balanced, inclusive and innovative growth. APFF can add value to ongoing initiatives under various fora by bringing the private sector to work with public officials to identify crucial gaps not yet 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 recommends that APEC Finance Ministers endorse the launch of the APFF based on the work program proposed in the report of the Sydney Symposium** (Annex A of the attached Report of the Advisory Group on APEC Financial System Capacity Building).

Expanding Regional Public-Private Partnership for Infrastructure Finance. Significant amounts of savings and private sector know-how can be harnessed to help the region meet its needs for higher quality infrastructure at lower cost to taxpayers and users. However, governments need to work closely together with the private sector and multilateral institutions to provide a conducive environment. Dialogues with several economies undertaken by the Asia-Pacific Infrastructure Partnership (APIP) have highlighted key elements: coordination and collaboration among agencies; deeper understanding of risks and which parties are best positioned to assume 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. **ABAC recommends that APEC Finance Ministers establish a regional framework to coordinate capacity building and sharing of best practices, with the collaboration of the APIP.**

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

Harnessing Innovation to Advance Financial Inclusion. Innovation promotes financial inclusion by significantly reducing the costs and increasing the efficiency of financial services being offered to low-income households and small enterprises. The 2013 Asia-Pacific Financial Inclusion Forum hosted by the Indonesian Government and convened by ABAC and its partner institutions identified various measures that can help governments harness innovation to promote financial inclusion (For details, see financial inclusion section of the attached Report of the Advisory Group on APEC Financial System Capacity Building). **ABAC proposes that APEC economies commit to policy reforms to facilitate the delivery of mobile and branchless banking and remittances and to improve the market infrastructure, particularly payment and credit reporting systems and secured lending frameworks; and to undertake capacity building to promote innovative approaches and effective financial education and consumer protection regimes.**

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

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

Sincerely,
Wishnu Wardana
ABAC Chair 2013