



11 August 2014

H.E. Lou Jiwei

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

Dear Minister Lou:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Yours sincerely,



Ning Gaoning
ABAC Chair 2014