Dear Minister Dinh Tien Dung:

On behalf of the APEC Business Advisory Council (ABAC), I am pleased to convey to you this year’s ABAC Letter to APEC Finance Ministers.

As regional business leaders, we are deeply aware that in this environment of subdued growth, geopolitical uncertainty, changing demographics, and increased inequality, the public and private sectors need to actively work together to encourage innovation and ensure inclusive growth across the Asia-Pacific. Rather than adopting protectionist policies that can hurt growth and opportunity in the longer term, we must clearly communicate the benefits of trade and globalization while making sure to separate the causes and consequences of trade, technological advancement, and other structural economic shifts. Trade imbalances across the region should be addressed at their roots – including barriers to competitiveness and domestic consumption. Various work streams within the APEC and ABAC communities are tackling these tough issues.

Finance plays a key role in this effort, and we believe the greatest progress toward addressing these broader issues can be achieved in the areas of capital market development, MSME access to finance, infrastructure, and innovation. We also note that risk-taking is necessary for growth, especially in these areas, and should be enabled by policies that strike a healthy balance between growth and protecting financial stability, while also providing appropriate levels of transparency as to the risks involved.

**Capital Market Development**

Development of capital markets is indispensable for achieving the Cebu Action Plan’s goals of promoting financial integration, resilience and infrastructure. However, many economies face complex challenges, including the lack of liquidity and depth, lack of market players’ access to hedging instruments, lack of high-quality and timely information and underdeveloped custody, clearing, settlement and payment systems that keep transaction costs and risks at elevated levels and hinder cross-border portfolio capital flows.

We urge APEC Finance Ministers to focus their efforts on promoting capital market development, including policy and regulatory reforms and capacity building measures that help create deep and liquid markets, supported by a stable macroeconomic environment. This can be fostered by appropriate economic reforms; the creation of sound legal frameworks and efficient financial market infrastructure; and policy measures that ensure the broad availability of information. We also call on more economies to join the Asia Region Funds Passport.

**MSME Finance**

We appreciate the efforts of APEC Finance Ministers under the Cebu Action Plan to address the financing challenges MSMEs face. Robust credit information, valuation, secured transactions and insolvency systems are critical for promoting their access to finance. We urge APEC Finance Ministers to continue pursuing the development of these systems by promoting the acceleration of the necessary legal and regulatory reforms and capacity building measures.
These efforts need to go hand in hand with undertakings to enable MSMEs to expand their role in regional trade and investment, such as ensuring the regional consistency of legal and regulatory frameworks, facilitating trade and supply chain finance and supporting pilot projects on the cross-border sharing of credit information. We also call on Ministers to continue advancing financial inclusion through the creation of enabling ecosystems for micro and agricultural finance, financial education, microinsurance, innovations in digital identity, online supply chain finance and harnessing distributed ledger technology.

**Infrastructure**

The infrastructure needs in APEC economies are as vast as they are critical to advancing economic growth. Substantial private funding is available to complement public sector and Multilateral Development Bank (MDB) sources of funding. Yet a lack of bankable infrastructure projects persists.

We urge APEC Finance Ministers to boost infrastructure development and delivery in the APEC region by developing and promoting bankable and investment-ready infrastructure project pipelines, enhancing the role of Multilateral Development Banks as catalysts for private sector investment where projects require support from MDBs, and fostering green finance markets. Specific recommendations on each of these topics are detailed in the report annexed at the end of this letter.

Greater attention also needs to be given to promoting more long-term investment from institutional investors such as insurance firms and pension funds, as well as Islamic financial institutions.

We further encourage innovation in financing mechanisms; and establishing diversified, market-based infrastructure financing models. Significant gains in planning and implementation would follow from improved coordination among agencies responsible for public-private partnership (PPP) projects and enhanced governance arrangements aimed at building trust between governments and private sector investors. Creating the regulatory certainty through the policies above would, in itself, also aid development.

**Innovation**

The development of innovative new technologies in the financial arena (fintech) has already demonstrated tremendous potential to help create more inclusive, stable and efficient financial systems. New fintech solutions are enabling micro-businesses to take advantage of growing export opportunities and creating alternatives for underserved communities to gain access to banking services. Policymakers across the region are currently working to evolve their regulatory structures to promote innovation and continued expansion of the fintech sector while at the same time ensuring that basic consumer protections are still assured.

We believe it is important for regulators to take a balanced approach to the evolution of the fintech sector. They should adopt technology-neutral regulatory frameworks that encourage continued investment and innovation and do not discourage the adoption of new technologies. They should engage with industry leaders to determine how existing regulatory policies that protect consumers and promote financial stability can be extended to new technologies in ways that will promote consumer confidence and economic growth.

To help them achieve this, we ask APEC Finance Ministers to support regular regional dialogues between public and private sectors. These dialogues should focus on key issues such as ensuring a level playing field for financial technology, modernizing legal and regulatory frameworks related to privacy and data protection, removing barriers to cross-border business activities and movement of data, and the potential for using data to promote greater financial inclusion and cybersecurity.
ABAC’s Contributions to Implementing the Cebu Action Plan

In addition, throughout 2017, ABAC is undertaking activities in pursuit of various deliverables under the Cebu Action Plan. Finance Ministers have entrusted several of these deliverables to three policy initiatives led by ABAC – the Asia-Pacific Financial Forum (APFF), the Asia-Pacific Infrastructure Partnership (APIP) and the Asia-Pacific Forum on Financial Inclusion. Details of these activities, their outcomes and recommended next steps are contained in the 2017 APFF Progress Report and the 2017 Advisory Group Report on APEC Financial System Capacity Building, which are annexed to this letter.

Finally, ABAC welcomes the Finance Ministers’ support for continued dialogue with the APEC Life Science and Innovation Forum and the Health Working Group on ways to address the fiscal and economic impacts of ill-health. We continue to support this initiative and welcome the creation of the cross-fora task force.

We appreciate the opportunity to contribute to the work of APEC Finance Ministers, and we look forward to discussing these important matters further at the Finance Ministers’ Meeting (FMM) in Quang Nam, Viet Nam in October.

We wish you a successful and productive conclusion to this year’s FMM.

Yours sincerely,

Hoang Van Dung
ABAC Chair 2017

https://www2.abaconline.org/content/download/22613731
Annex B: Asia Pacific Financial Forum 2017 Progress Report
https://www2.abaconline.org/content/download/22613734
https://www2.abaconline.org/content/download/22613735