2 August 2013

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

Dear Minister Basri:

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

Global financial and market conditions have improved 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; as a result, tail risks have been reduced, confidence has been enhanced, and the economic outlook looks brighter. However, global economic conditions remain subdued, and the improvement can only be sustained through further policy actions to address structural reforms and promote continued recovery. We are concerned about the volatile capital flows and unstable financial markets in the Asia-Pacific region, while economies require funding for growth as well as infrastructure investments. It is imperative that all economies continue to implement policies for ensuring stability and growth. This year, ABAC has prioritized the following finance-related objectives: (a) launching the Asia-Pacific Financial Forum (APFF) to assist in developing regional financial market integration and in harmonizing and optimizing regulations; (b) developing strategies to achieve balanced and innovative growth; (c) promoting public-private partnership (PPP) and infrastructure finance, and; (d) promoting practical solutions to encourage financial inclusion to benefit low-income households and small, medium and micro-enterprises (SMMEs).

Creating a Platform of Public-Private Collaboration to Develop the Region’s Financial Markets. In 2012, APEC Finance Ministers welcomed ABAC’s proposal to explore the creation of an Asia-Pacific Financial Forum (APFF), a regional platform for public-private collaboration to help accelerate the development of integrated financial markets. A symposium hosted in Sydney in April 2013 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 being addressed and the 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 priorities proposed in the report of the Sydney Symposium. ABAC commends the development of the Asia Region Funds Passport and recommends that officials increase their engagement with market participants as the initiative is progressed.**

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 the various risks involved; 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 in infrastructure finance, with the collaboration of APIP.**

**Mobilizing Regional Savings for Long-Term Investments.** ABAC initiated a three-year program to enhance transparency and predictability in investment flows. It will also encourage institutional savings held in sovereign wealth funds (SWFs), superannuation, insurance and others to be invested in domestic and cross-border long-term infrastructure projects. Research work on this matter 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 SWFs and state-owned enterprises (SOEs). 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 investment as a means of mobilizing institutional savings 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 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. **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. ABAC calls for the development of government-encouraged funds-of-funds for seeding and growing a private sector-led venture capital ecosystem in the region and collaboration by interested economies and multilateral institutions with ABAC and private sector firms to initiate this process.**

**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 the extraterritoriality of new financial regulations, where the impact of certain regulations may hinder the prospects of the region’s further development as a crucial engine of global economic growth. 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 extraterritorial 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 this coming September, where we hope to discuss the above recommendations in more details with the objective of promoting balanced, inclusive, sustainable, innovative and secure growth across the Asia-Pacific region.

Yours sincerely,

Wishnu Wardhana
ABAC Chair 2013