

# Main Report

## I. Introduction

Global financial and market conditions in the region have improved notably on the back of deeper policy commitments, renewed monetary stimulus, and continued liquidity support through the first half of 2013. Despite reduced tail risks and enhanced confidence, global economic prospects remain subdued. The International Monetary Fund 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. The recent volatility of capital flows and financial markets in the Asia-Pacific region is a cause for concern. Across the region, further policy actions are required to sustain continued economic recovery.

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

- deepening regional economic integration
- promoting infrastructure growth and sustainable development
- fostering small, medium and micro-enterprise (SMME) development and entrepreneurship
- promoting the development and integration of financial markets

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

## II. Regional Economic Integration

Regional economic integration provides the means to deliver APEC’s hopes for economic recovery and growth, job creation and financial stability. ABAC has long championed the need

for deliberate steps towards regional economic integration and is encouraged by the progress that is being made. ABAC encourages APEC Leaders to ensure their economies stay on track with their Individual Action Plans (IAPs) in pursuit of the Bogor Goals. ABAC endorses the APEC Dashboard approach to monitoring progress towards the Bogor Goals but in order for it to be truly effective it cannot be a one-off exercise. ABAC would like to see the Dashboard exercise repeated regularly in the lead up to 2020. The IAPs would be improved by the adoption of a negative list approach to remaining barriers to liberalization and by addition of reporting on trade facilitation measures. We also welcome ongoing efforts by APEC to address key non-tariff measures (NTMs), as a critical aspect of its work to achieve the Bogor Goals.

### Recommendations:

- Undertake on an annual or bi-annual basis until 2020 the APEC Policy Support Unit’s Dashboard exercise to ensure effective monitoring of progress towards the Bogor Goals.
- Adopt a negative list approach in the IAPs and incorporate reporting on trade facilitation.

### A. Accelerating trade and investment liberalization

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

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

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

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

### **Recommendations:**

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

## 2. Attracting growth-producing foreign direct investment

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

We call upon APEC Ministers to take the lead in ensuring that their economies remain open for FDI and to increase their focus on ways of facilitating and encouraging further growth in FDI, while explaining the benefits of FDI as a driver of sustainable growth and employment for governments, businesses, and communities in economies receiving such investment.

### **Recommendations:**

- Continue to engage officials and private sector experts in focused capacity building activities to address barriers to FDI.
- Take further measures to highlight the benefits of FDI to government, business and communities in recipient economies, enabled by business-friendly, fair, predictable, transparent and unified regulatory policies.
- Implement IFAP fully across all APEC economies.

## 3. Promoting good regulatory practices

ABAC firmly believes that consistent implementation of good regulatory practices (GRPs) by APEC economies strengthens and deepens regional economic integration, prevents barriers to trade from occurring, and helps increase trade and economic growth. GRPs are neither about less regulation nor about more regulation. GRPs improve the process by which economies develop regulations and best practices. The trade costs that result from divergent regulations are significant. For consumers, regulatory divergence is tantamount to a concealed "inefficiency tax" that citizens pay on everything they purchase. This tax is the sum of the costs of divergent regulations, cross-border administration delays and fees, and other regulatory impediments.

A 2012 study by the Pacific Economic Cooperation Council (PECC) cited lack of transparency in regulations as the most important issue for Asia-Pacific free trade agreements, and lack of transparency in regulatory practices as most serious challenges to doing business in the Asia-Pacific region. Regulatory impediments to business were also identified as a priority issue for APEC. Modern supply chains are global; regulators must take into account that components are sourced across the world. Substandard regulatory practices in just one economy can impact the entire supply chain and impose significant costs to business. For businesses, and in particular SMMEs, higher compliance costs hinder international competitiveness and complicate the most efficient deployment of economic resources.

### **Recommendations:**

- Strengthen the implementation of GRPs identified by APEC Leaders in the Honolulu Declaration and encourage the exploration of additional GRPs for implementation beyond 2013, including transparent and equitable

implementation/enforcement of regulation as well as voluntary alternatives to regulation, in order to reduce or eliminate barriers to free trade and investment. Specifically, APEC economies should:

- Encourage regulators in APEC economies to use international standards as a reference for their domestic regulations and consider using performance-based rather than design-based regulations.
- Design regulatory institutions that promote trade-friendly regulations and increase domestic and regional coordination through strengthening internal (domestic) and regional cooperation as well as addressing unnecessary costs of regulation.
- Implement regulatory impact assessments to prevent discriminatory or protectionist practices, improve transparency, preclude multiple requirements, as well as decrease costliness of demonstrating compliance.
- Strengthen public-private cooperation through the use of public consultation mechanisms to enhance accountability, promote mutual learning, and encourage best practices. Encourage regulators in APEC economies to take comments from stakeholders on proposed regulations into account when developing regulations.
- Create fair and consistent enforcement mechanisms to promote transparency, equity, and stability.
- Improve efficiency by identifying alternatives to regulation that offer administrative simplicity, flexibility, efficiency, certainty and equity.
- Strengthen public-private cooperation on the development of best practices and capacity building to help APEC economies implement effective regulatory design which achieve intended regulatory objectives at the least cost to businesses, citizens, and government.
- Support sectoral public-private partnerships (PPPs) for addressing industry specific regulatory issues.
- Expand support for the APEC Life Sciences Innovation Forum (LSIF) Regulatory Harmonization Steering Committee (RHSC)'s efforts to achieve Regulatory Convergence for Medical Products by 2020.

- Support the establishment of an APEC Center of Excellence for Regulatory Sciences in Multi-Regional Clinical Trials.

#### 4. Expanding the Information Technology Agreement

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

#### **Recommendation:**

- Play a leadership role once again to support the completion of a commercially significant expansion of the ITA's product coverage to reflect dynamic technological developments and an increase in the number of participating members in the Agreement.

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

The pursuit of liberalized trade and investment in services remains one of ABAC's key priorities given the huge importance of the services sector to APEC economies. Trade in services has significant potential for growth. The WTO estimates that 50% of world trade will be in services by 2020. As was highlighted in the 2012 report "Trade in Services in the APEC Region" by the University of Southern California's Marshall School of Business, current levels of trade in services within the APEC region are surprisingly low, and the associated benefits of regional services trade are potentially being lost. In 2010, only 6 percent of total services produced within APEC were exported, compared with 63 percent of total goods.

Regulatory barriers continue to have a chilling effect on services trade. There are many examples where domestic standards and regulations have become non-tariff barriers for foreign services firms. The Marshall School report found that the cumulative impact of different regulations and standards across economies creates a level of heterogeneity

which raises transaction costs to levels that discourage trade. A 10% reduction in trade costs could result in US\$100 billion of additional services-related Gross Domestic Product (GDP) within APEC.

#### **Recommendations:**

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

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

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

#### **Recommendations:**

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

#### 2. Improving business mobility

The APEC business community has long regarded the APEC Business Travel Card (ABTC) as one of the most significant and material business facilitation initiatives in the region. ABAC appreciates the APEC Business Mobility Group (BMG)'s and individual economies' continuing efforts to improve the operation of the ABTC. However, ABAC still encounters various difficulties. ABAC has identified those issues within the program that representatives of business feel are most important and on which it would like APEC economies to focus

on to ensure full participation in, and the smooth operation of, the ABTC program. ABAC urges APEC economies to address the priorities identified by business.

#### **Recommendations:**

- Encourage transitional economies to accelerate efforts towards complete membership in the program, including the actual issuance of cards.
- Urge APEC BMG to extend the validity period of ABTC from three (3) to five (5) years.
- Simplify the renewal/re-application process for current ABTC holders.
- Consider linking passport information with ABTC to avoid expiration of the card when holder's passport expires; otherwise, consider issuing a temporary card to cover the period between passport expiration and the issuance of the new card.
- Consider additional benefits for ABTC holders, e.g. expanding the area of usage of ABTC beyond APEC economies, especially to include the European Union.

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

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

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

The benefits of an efficient, reliable and secure global supply chain are tremendous for both the business sector and APEC economies as a whole. ABAC advocates greater use of global data standards to address supply chain connectivity and complexity challenges, such as a common global standard for pharmaceutical product serialization and verification. ABAC has identified a need for new forms of public-private partnership

to create more connected, efficient, safer and sustainable supply chains. ABAC has partnered with the GS1 not-for-profit organization to develop a regional framework for global data standards, starting with a number of capacity building activities in which global data standards are deployed to target specific supply chain chokepoints. ABAC believes this will help APEC to meet its 10% target for improving supply-chain performance in terms of time, cost and uncertainty by 2015.

#### **Recommendations:**

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

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

#### **Recommendations:**

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

#### 3. Achieving a balanced approach to trade security and facilitation

Facilitating a better trade environment is a key requirement for improving supply chain connectivity. Towards this goal, ABAC continues to advocate for a coordinated and holistic approach

to facilitating the development of a mutual recognition scheme for Authorized Economic Operator (AEO) programs in APEC economies alongside the APEC-wide AEO program. However, the challenge is how to address the specific security needs in recent customs environment with the other trade security programs in place, while strengthening procedures to facilitate the movement of goods across borders.

ABAC acknowledges the importance of the trade security feature of the AEO Program. However, ABAC believes that specific benefits should be granted for AEOs meeting minimum security requirements in order to further promote trade in the region.

#### **Recommendations:**

- Develop an AEO certification system for AEO-qualified corporations in economies where AEO programs do not exist and promote mutual recognition of AEOs.
- Encourage efforts to develop the APEC-wide AEO program's mutual recognition scheme based on existing AEO programs designed for trade security and using common principles and application processes developed from the World Customs Organization (WCO) Framework of Standards to Secure and Facilitate Trade.
- Avoid redundancy with other supply chain security programs while balancing the need for trade facilitation and trade security.
- Explore ways to include benefits identified by ABAC in its 2011 recommendations to APEC Leaders in the AEO Action Plan.
- Waive pre-departure/pre-arrival data requirements by "24-hour rule" available in several economies and the "10+2 rule" as part of benefits granted to AEO-certified operators.

### **III. Sustainable Development**

Sustainable development is a fundamental objective of APEC to achieve human prosperity and a healthy environment. In line with this objective, ABAC addressed the following themes in 2013: strengthening food security by overseeing the implementation of the APEC Policy Partnership on Food Security (PPFS) Action Plan for 2013; promoting blue economy growth and sustainability; promoting green growth by improving energy efficiency and facilitating trade

in environmental goods and services; facilitating technology dissemination by developing an effective approach, mechanism and platform; and accelerating infrastructure development by improving the investment environment.

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

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

#### **Recommendations:**

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

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

ABAC urges APEC economies to take further steps to address energy security, including by: creating a conducive legal and regulatory environment for trade and investment in the energy sector; facilitating the development of renewable energy infrastructure to meet green growth targets; expediting the identification and removal non-tariff barriers for environmental goods and services; and supporting the efficient regional trade

of energy through transmission infrastructure and domestic and regional power grids. ABAC commends APEC for the groundbreaking agreement on the APEC List of Environmental Goods in 2012 and urges APEC economies to implement the agreed tariff reductions on the 54 items included in the list. ABAC encourages greater public-private partnership and dialogue on NTMs in order to ensure that trade in environmental goods and services flows unimpeded.

ABAC believes that APEC can complement existing energy security efforts, such as those in the East Asia Summit and ASEAN, by leveraging the existing work streams that are relevant to efforts to promote energy security. Further, the diversity of APEC economies in a range of issues, including states of development; economic growth rates; scale and mix of the primary energy resource; scale, mix and rate of growth of energy supply and demand; structure and ownership of the energy industry, and the nature of energy markets, especially with respect to energy pricing; and energy intensity and scale of carbon dioxide emissions make it well-placed to tackle energy security from a variety of perspectives. ABAC will examine the potential benefits of energy market integration in the region.

#### **Recommendations:**

- Create an energy connectivity framework that includes the following elements:
  - Identify how preferential trade agreements, particularly those under negotiation, and trade liberalization initiatives can be leveraged to promote energy security and energy diversification.
  - Leverage APEC's effectiveness in addressing trade facilitation issues.
  - Identify effective approaches to project financing, particularly for cross-border projects.
  - Improve energy-related infrastructure and promote the adoption of a legal and regulatory environment that promote infrastructure investment.
  - Monitor implementation of APEC political commitments related to energy, specifically on energy intensity and elimination of inefficient fossil fuel subsidies.

- Provide greater attention to policies to facilitate the development of renewable energy infrastructure to meet green growth targets.
- Adopt an accelerated timetable to implement the tariff reductions on the 54 EG items.
- Encourage public-private dialogue on Environmental Goods and Services to address NTMs impacting trade on these products.

### C. Ensuring water security

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

#### Recommendations:

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

### D. Encouraging infrastructure investment and development

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

multi-disciplinary and inter-agency approach. Governments not only need to address barriers to private sector FDI but also effectively harness it through measures such as creating an environment conducive to infrastructure finance, emphasizing long-term planning and cooperation through PPPs and facilitating transparent government procurement processes.

#### Recommendations:

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

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

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

#### Recommendations:

- Ensure open, transparent bidding processes supported by consultations with the private sector.
- Provide effective mechanisms for resolving disputes relating to investment, government actions and other commercial matters, including private arbitration services and mechanisms for the enforcement of arbitral awards and the recognition and enforcement of overseas judgments and awards.
- Seek a provision requiring economies to create a review body independent of any procuring entity. An independent review body would dissuade

reservations regarding the dispute settlement process and increase transparency.

- Award contracts on the basis of objective criteria, such as lifecycle costing, which ensure compliance with the principles of transparency, non-discrimination and equal treatment and which guarantee that tenders are assessed in conditions of effective competition.
- Limit the qualification and screening of commercial operators to factors essential to performance of government procurement bids.
- Simplify international bidding on procurement contracts by making it easier for firms to identify potential cross-border contracts. APEC economies should identify a threshold, or level of purchase, which is subject to the rules governing procurement.

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

ABAC has identified numerous barriers across APEC that prevent businesses from bringing cutting-edge technologies to new markets through cross-border trade and investment. To address these issues, ABAC welcomes APEC's work to assist economies in implementing the Leaders' 2011 commitment to promote effective, non-discriminatory and market-driven innovation policy. ABAC is also exploring the potential of an APEC Open Innovation Platform to facilitate the development and commercialization of cutting-edge technology intellectual property (IP) for SMMEs throughout the region. We encourage Leaders to enhance opportunities for SMMEs to benefit from the development and application of cutting-edge technologies by simplifying legal and regulatory barriers that prevent businesses from bringing technologies to new markets through cross-border trade and investment.

#### **Recommendation:**

- Continue to take concrete steps to implement the 14 non-discriminatory market-driven innovation policies endorsed by APEC Leaders in 2011.

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

SMMEs have a leading role in economic growth and development as they represent a crucial source of employment and innovation. However, there are still major barriers for

their sustained development and internationalization. This year, ABAC has prepared recommendations on what we have identified as impediments that SMMEs face in the APEC region. We hope these recommendations would help to promote the creation of new businesses, SMME internationalization, facilitate SMME access to finance and foster the participation of women and young entrepreneurs in business.

#### **A. Promoting the creation of new businesses and new business models**

##### Supporting the APEC Start-up Accelerator Initiative

APEC economies should promote innovation supporting start-up programs as a mechanism to create incentives for entrepreneurship development. In this regard, ABAC recommends pushing forward initiatives such as the APEC Start-up Accelerator (ASA) Initiative which is an event platform that strengthens SMME skills through mentorships from managerial, financial, and technical experts in the private sector. The Initiative builds on existing early stage APEC start-up programs and provides support for more matured start-ups in the global markets. The ASA Initiative is a public-private collaboration dedicated to the business development of APEC start-ups. The ASA Initiative was launched in Taipei in August 2013 and will rotate annually among participating APEC member economies.

#### **Recommendations:**

- Support the APEC Start-up Accelerator Initiative and promote the participation of public sector representatives and high-level experts in future start-up accelerator programs.
- Create an enabling environment to promote SMME innovation.
- Support domestic start-up programs.

#### **B. Promoting the sustainability of businesses, in particular in access to finance**

##### Addressing the financing gap for SMMEs

New financing solutions are needed to close the credit gap for SMMEs in the region. According to the International Finance Corporation (IFC), at least 45% of formal SMMEs in emerging markets are unserved and 21% are underserved. Globally, the credit gap is roughly US\$1.3 - \$1.6 trillion. ABAC urges

a comprehensive approach which includes both banking and non-banking instruments to close this gap. To this end, ABAC will develop an APEC Framework for SMME Financing which includes recommendations on angel and seed funding, venture capital, bank lending, collaboration between large corporations and SMMEs, government support policies, and capital market developments.

#### *(a) Debt lending*

Many APEC economies lack simple, transparent systems for filing security interests in collateral, and in searching the availability of prior interests. APEC should promote and implement reforms to ensure a clear legal infrastructure for lending. Credit information systems are also often limited to negative information and segmented, not reflecting a borrower's full credit file. Fully transparent credit information systems will create incentive for lenders to significantly expand more affordable credit to SMMEs in the region. When this activity takes place across international boundaries, it is important that economies work together to ensure regulatory regimes do not hinder cross-border credit information flows.

#### **Recommendations:**

- Support dialogue on International Financial Reporting Standards (IFRS) as part of the proposed Asia-Pacific Financial Forum (APFF) to align IFRS principles with the interests of SMMEs.
- Follow up on G20 and Basel III and ensure that these issues do not have a negative impact on the availability of trade finance, cost of finance, and the behavior of the banking sector in lending for SMMEs.
- Develop promotion policies to get a wider range of non-bank financial institutions. These companies can minimize the danger of overburdening the banking system and play an important role in lending to higher risk credits such as SMMEs.

#### *(b) Equity financing*

Equity financing can support business activities across various stages of innovation. The overall financing ecosystem includes angel and venture capital in the early stages, progressing to bank and trade financing as companies emerge. An effective overall ecosystem can play an important role in the development of local, regional and global innovation; however, angel and venture capital frameworks are at present relatively

underdeveloped in most APEC economies. Developed venture ecosystems have established funds specializing in the various sectors of the economy and technological innovation critical for driving innovation and technological progress.

Evidence suggests that sustainable angel and venture capital could considerably benefit from close cooperation between government and the private sector, along with government support in seeding the development of a private sector-led venture capital ecosystem that can then specialize in the key economic sectors and technological innovations needed in the APEC region.

#### **Recommendation:**

- Develop government-encouraged funds-of-funds within APEC for seeding and growing a private sector-led angel and venture capital ecosystem in the region and that interested economies and multilateral institutions collaborate with ABAC and interested private sector firms to initiate this process.

### **C. Facilitating the use of information technology to empower SMME access to international markets**

#### Developing "All in one" electronic Supply Chain Financing platforms

ABAC considers it important to promote existing ICT platforms to bring SMMEs closer to international markets, and enable their access to more competitive prices. Nowadays, e-commerce plays a crucial role for SMME growth and internationalization, with lower transaction costs than traditional mechanisms. However, compared with traditional trading, there are fewer trade financing solutions available for SMMEs in the finance market. Moreover, existing solutions are not tailored to support the online trading methods taking place on e-marketplaces. There is large scope for financial institutions to collaborate with e-marketplaces to drive trade financing innovation; this will greatly benefit SMME development and further drive the adoption of e-commerce.

From our discussions on e-commerce, we have found that controlling the flow of trade information from end-to-end (production to logistics) would allow us to further improve SMME trade financing practices. Traditional trade financing requires high credit history and extensive order delivery information and documentation. These requirements are not suitable for most of SMMEs and could be avoided by using an integrated platform for Supply Chain Financing. We call this an "All in one" solution.

### **Recommendations:**

- Facilitate the development of “All in one” electronic Supply Chain Financing platforms.
- Promote the development of ICT platforms, such as the APEC Next Generation Interactive Tariff Database and the Services Trade Access Requirements (STAR) Database, to help SMMEs take advantage of export opportunities.

### **D. Supporting SME Summits**

ABAC has been supporting the development and holding of SME Summits since 2007. APEC SME Summits have turned into an efficient tool for education, exchange of best practices and contribute to policy decision-making. This year, five SME Summits were held in Manila, Philippines (20 January); Singapore (3 April); Kyoto, Japan (8 July); Lima, Peru (27 August), and Bali, Indonesia (5 October). ABAC will share the recommendations of these summits with APEC officials in due course.

### **Recommendations:**

- Promote organization of more SME Summits.
- Follow up on the topics and recommendations of the different APEC SME Summits.

### **E. Promoting the participation of women and young people in business**

For many years, we have witnessed the major role played by women in our economies. In both public and private sectors, female representatives are leading major reforms and contributing to the growth and sustained development of APEC economies. Because of this, ABAC has decided to prepare a Report on Women and the Economy as an efficient way to convey the interests of the business community to leaders and policy makers. This Report, which will be presented at the APEC CEO Summit in Bali, covers fundamental issues such as: APEC’s potential to contribute to the policy discussion; the need to collect economic data and measure performance; the impact of encouraging women to pursue science, technology, engineering and mathematics (STEM) education; factors that promote success for SMMEs owned by women; and steps companies can take to facilitate a diverse workforce.

Young people are a crucial source of innovation and entrepreneurship and, given the way business is being conducted in this modern and globalized world, they will

certainly continue to contribute innovative ideas which should help our economies achieve sustained economic growth and prosperity. ABAC supported the organization of the second APEC Young Entrepreneurs’ Summit (YES) in China in May 2013. Under the theme “Care, Share, Inspire”, it sought to brief young entrepreneurs on useful tools for their businesses’ development and to share successful entrepreneurs’ testimonies with them.

### **Recommendations:**

- Support the recommendations of the Report on Women and the Economy.
- Lead by example by committing to appoint at least one woman member to ABAC per economy.

### **F. Implementing voluntary codes of ethical business practice for SMMEs**

ABAC applauds APEC’s continued efforts to strengthen ethical standards for business conduct through implementation of APEC principles for voluntary codes of business ethics in sectors of export interest to SMMEs. Three sets of APEC principles were developed on a public-private partnership basis in 2011 for the medical device sector (The Kuala Lumpur Principles), the biopharmaceutical sector (The Mexico City Principles) and the construction and engineering sector (The Hanoi Principles). ABAC welcomed the endorsement of these principles by APEC Leaders, Ministers, and SME Ministers and is encouraged by industry’s progress to develop and implement codes of ethics aligned with APEC principles. ABAC applauds all 21 APEC economies for contributing to this multi-year APEC SME Working Group initiative that, in 2013, will expand the number of ethics champions and compliance trainers for all three sectors as well as build awareness among key healthcare stakeholders in support of the KL and Mexico City principles.

### **Recommendations:**

- Urge government regulatory and anti-corruption authorities, as well as relevant professional organizations (i.e., hospital, physician groups, industry associations) to advance ethical collaborations consistent with the APEC principles.
- Support the enforcement of these principles through effective anti-corruption legislation or regulation.
- Institutionalize the “Business Ethics for APEC SMEs Initiative” and consider the creation of a permanent forum

to deliver ongoing capacity building, share best practices, support additional sectors interested in developing codes of ethics, and identify new and emerging ethical issues.

## V. Finance & Economics

This year, ABAC has prioritized the following finance-related objectives: launching APFF to assist in developing regional financial market integration and in harmonizing and optimizing regulations; developing strategies to achieve balanced and innovative growth and stronger financial market integration; promoting public-private partnership and infrastructure finance; and promoting practical solutions to encourage financial inclusion to benefit low-income households and SMEs.

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

In 2012, APEC Finance Ministers welcomed ABAC's proposal to explore the creation of an APFF, a regional platform for public-private collaboration to help accelerate the development of integrated financial markets. A symposium was co-organized by ABAC and hosted by the Australian Government in Sydney for this purpose in April 2013. The Symposium was attended by 98 representatives from public and private sectors across APEC and concluded with wide support for the concept and objectives of APFF, underscoring the importance of such collaboration in promoting financial market development to support the needs of the real economy and regional aspirations for sustained, balanced, inclusive and innovative growth. APFF can add value to ongoing initiatives under various fora by bringing the private sector to work with public officials to identify crucial gaps not yet currently being addressed and unintended consequences of new regulations, as well as to help financial authorities take a more active role in shaping global financial regulatory standards.

#### Recommendation:

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

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

#### 1. Mobilizing regional savings for long-term investments

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; this is the cause of uncertainty in decision-making on potential investment by some recipient economies. Open market investment principles require a competitive environment for all investors, 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.

To enhance investment flows across the region, ABAC is supporting an initiative involving a three-year program to encourage greater predictability and transparency in investment decision-making. An aspect of the program is to encourage institutional savings held in SWFs, superannuation, insurance and other vehicles 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. The outcomes and recommendations from the Beijing dialogue will be reported back to the Finance Ministers.

#### Recommendation:

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

#### 2. Promoting Asia-Latin America financial cooperation and integration

Intra-regional collaboration is crucial for promoting trade among APEC economies. However, ABAC needs to consider the differences in levels of development between each of the sub-regions, even as we encourage progress towards the FTAAP through various pathways, including TPP, RCEP 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 deepened. Trade between both sides has steadily increased, mainly in terms of commodity-for-manufactured goods. Compared with the economic ties between other sub-regions, the collaboration and linkage of these two markets still needs 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:**

- Encourage closer economic ties between Latin America and Asia and enhanced policy coordination.
- Develop trade finance programs between Asia and Latin America through collaboration with institutions such as the Asian Development Bank and the Inter-American Development Bank.

**3. Mitigating the 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 issued letters to relevant authorities 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 letters highlighting the following issues to APEC Finance Ministers, G20 and the Basel Committee on Banking Supervision in May 2013:

- In relation to the potential negative impact on other markets of the US Dodd-Frank Act and the EU Financial Transaction Tax, ABAC urged relevant authorities to collaborate with each other in addressing their cross-border and extraterritorial effects.
- Given the current unstable and uncertain economic circumstances, ABAC recommended careful consideration of new financial regulations to address their negative effects on trade finance.

**Recommendations:**

- Undertake regular global dialogues on financial regulatory and supervisory policy and support a global minimum regulatory standard, which would allow domestic authorities in the region flexibility in dealing with particular domestic circumstances.
- Consider the potential negative impact of Basel III on the availability and cost of trade finance and bank lending to SMMEs. Review the risk of Loss Given Default (LGD) and the specific impact of the regulation on SMMEs.
- Take appropriate measures to ensure that financial regulations facilitate SMMEs' access to trade finance.

**4. Facilitating the internationalization of emerging economies' currencies**

With emerging economies' 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.

From the perspective that harmonization and transparency are necessary attributes for emerging economies' currencies to become truly international, two main areas where concrete measures can be adopted for promoting continued growth are improving liquidity and operations.

**Recommendations:**

- Promote the expanded role of emerging economies' currencies in trade and investment flows.

- Consider the following measures to improve liquidity and operations:

**Liquidity:**

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

**Operations:**

- Enhance straight-through-processing.
- Adopt enhanced platforms for longer operating hours to cover various time zones and lower the amount and cost of liquidity required to support the transactions.
- Ensure that the needed market infrastructure is in place, in conjunction with global standardization, efficiency and a faster clearing and settlement system.

**5. International Financial Reporting Standards**

The global proliferation of 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 the 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 the proposed APFF, which

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

However, ABAC has consistently voiced concerns that some of the newly-proposed accounting standards may result in potential negative business and economic impact. ABAC has noted that the improper implementation of IFRS in lease accounting will reduce the ability of businesses, particularly SMMEs, to access funding. ABAC is also concerned that IFRS for insurance contracts will subject insurance companies in the region to possible negative impacts, including non-economic volatility in earnings and shareholder equity along with a lack of transparency in the reported results of insurance companies in the region. Finally, harmonized international standards for reporting revenue are in need of improvement, and as a result, regulatory bodies are attempting to clarify principles for recognizing revenue from contracts with customers. ABAC is concerned that replacing all of the existing industry-specific guidance with a single general principle will fail to address many unique, industry-specific matters and this is a significant step away from these rules. ABAC has an obligation to underscore at a policy level that financial regulatory standards be implemented in a way that does not impair APEC's overarching themes of Inclusive Growth.

**Recommendations:**

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

**C. Promoting public-private partnership and infrastructure finance**

Public-private partnerships have significant potential to help finance the region's enormous infrastructure needs, as well as to improve the quality and lower the 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, lack of good quality projects, inadequate regulatory frameworks and the 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 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.

#### **Recommendation:**

- Establish a regional framework under a multi-year initiative to coordinate capacity building and sharing of best practices in infrastructure finance, with the collaboration of APIP.

#### **D. Promoting practical solutions to financial inclusion**

##### 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 SMMEs.

During 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. This has enabled a growing number of such

households and enterprises to gain access to finance, and has expanded the prospects of improving people's standard of living and increasing the opportunities for economic growth.

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

#### **Recommendations:**

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

## **VI. Industry Dialogues**

### **A. APEC Life Sciences Innovation Forum**

ABAC welcomes Indonesia's decision to organize a High-Level Meeting on Health and the Economy as a joint initiative of the APEC Life Sciences Innovation Forum and the APEC Health Working Group, and applauds the inclusion of finance ministers in the discussion along with industry leaders and health ministers. As employers, the business community has an interest in a healthy and productive work force. High impact investments by governments and business in prevention and wellness, early diagnosis, early intervention and disease management will help ensure that the APEC region remains competitive.

ABAC supports APEC's decision to prioritize efforts to prevent counterfeit and substandard products from entering distribution by promoting supply chain integrity and measures to ensure access to safe medicines. Putting in place a supply chain product verification system to guard against falsified, fake and substandard medicines is critical to assuring the safety and efficacy of medical products in the supply chain. In that regard, ABAC urges Leaders to encourage APEC

economies to adopt a global standard for product verification; welcomes the planned cooperation between APEC medical product regulators, industry and INTERPOL (International Criminal Police Organization) on ways to promote information sharing along the supply chain from a secure database; and strongly supports cooperative efforts by industry, law enforcement officials, and regulators to shut down illegal internet pharmacies, which are responsible for the distribution of substandard, fake, falsified and counterfeit medicines to consumers. ABAC also supports an urgent focus by economies on policies that would result in the reduction and eventual elimination of health care associated infections, which create significant health care cost escalations along with increases in disability and death.

APEC applauds ongoing efforts and new initiatives in LSIF, including the “Principles for Developing the Health and Life Sciences Sector in APEC Economies” to address barriers to investment and further promote innovation in the health and life sciences sector. Measures to address barriers to FDI, including through government self-assessments, promoting public-private research collaboration and the creation of a regulatory environment that incentivizes and leverages innovation in the Life Sciences sector, will be vital to ensuring that APEC economies are able to both attract sufficient FDI and leverage new technologies to create positive economic and health outcomes.

## **B. APEC Chemical Dialogue**

With the rapid expansion of overlapping bilateral, regional and international trade agreements increasingly affecting

the daily operation of globalized chemical supply chains, the Chemical Dialogue’s prominent role as a forum to convene regulators and industry from across the region has never been more important. ABAC supports the Chemical Dialogue’s continued leadership in promoting and enhancing regulatory cooperation within the Asia-Pacific region by serving as a forum for economies and industry to collaboratively identify, manage and mitigate any unnecessary divergences. Diverging regulatory oversight of chemicals is increasingly imposing costs on both the chemicals sector and on downstream industries, such as electronics, aviation and health, including on the implementation of the Globally Harmonized System for Classification and Labeling of Chemicals (GHS). ABAC applauds the implementation of the GHS, promotion of regulatory convergence through the Best Practice Principles for Chemical Regulation and the formation of the Regulator’s Forum, a dedicated working group focused on promoting Regulatory Convergence and Cooperation.

## **VII. Conclusion**

This report has sought to outline ABAC’s priorities and recommendations for 2013, which are aimed at deepening regional economic integration and promoting resilience and sustained economic growth and recovery in the region. It augments and reinforces the contributions already made by ABAC through stepped up interaction and engagement with the various sectoral ministerials, Senior Officials and APEC fora/sub-fora. ABAC hopes that APEC Leaders, Ministers and officials would find the recommendations useful as they map out APEC’s strategies for 2014 and beyond.