



APEC Business Advisory Council
Report to APEC Economic Leaders

From Aspirations to Reality

RUSSIA 2012

APEC MEMBER ECONOMIES

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Report to APEC Economic Leaders



APEC Business Advisory Council

**His Excellency Vladimir Putin**

Chair, Asia-Pacific Economic Cooperation &
President of the Russian Federation
Moscow, Russian Federation

Your Excellency:

The global economy is entering an era of greater uncertainty as it continues to struggle with the legacy of the global financial crisis and the escalating turmoil in the Euro zone. We urge APEC economies to take resolute actions to guard against financial and sovereign risks and the rise of protectionism, while pursuing trade liberalization and maintaining a robust growth trajectory.

The lack of progress in the WTO Doha Round is disappointing. We recognize, however, the immense value of the WTO legal framework that underpins world trade flows, which must be supported and preserved despite the difficulties in concluding the Doha Round.

Regional economic integration and achieving the Bogor Goals remain ABAC's top priority and require comprehensive actions to create a freer and more open market for goods, services and investment in the context of increasingly complex supply chains and value chains. ABAC calls for substantive progress to be made towards a Free Trade Area of the Asia-Pacific (FTAAP). Meanwhile, significant advances have been made on some possible pathways towards this goal, including the Trans Pacific Partnership and the Regional Comprehensive Economic Partnership. We urge the broadest possible participation in initiatives towards FTAAP, incorporating "next generation" trade and investment issues to optimize the full potential of global value chains.

ABAC applauds APEC's efforts to enhance competitiveness and facilitate trade in the region but there remains more to be done to improve the connectivity of **regional supply chains**, through a holistic and coordinated approach to addressing identified chokepoints. Greater use of global data standards and supply chain infrastructure technologies are needed to facilitate the sharing of supply chain information and best practices across the region. We also advocate harmonization of customs requirements and procedures, including the single window concept and the use of integrated satellite navigation systems (Glonass/GPS). ABAC notes the long-term benefits offered by wider use of alternative transportation routes between the Asia-Pacific region and the rest of the world, as a result of implementation of domestic and international transportation infrastructure improvement projects.

From 2010 to 2020, Asia-Pacific economies will require roughly US\$8 trillion in **infrastructure investment**, a level of demand which cannot be met without investment from the private sector. The potential to successfully leverage the role of the private sector to close the infrastructure deficit is dependent upon economies' capacity to create both a positive investment environment and robust legal frameworks for public-private partnerships. ABAC recommends that APEC adopt strong investment principles and protections such as outlined in ABAC's Investing for Growth report. There is also the need for predictable and transparent government procurement processes and more collaboration with the Asia-Pacific Infrastructure Partnership (APIP) dialogues with the private sector and multilateral agencies.

The current global situation underscores the compelling rationale for the development and integration of financial markets in the region, which has proven vulnerable to liquidity and credit constraints due to its over-reliance on a few traditional financial markets in advanced economies. The underdevelopment of the region's developing economies' financial markets will pose a very serious constraint to achieving global economic recovery. ABAC proposes the establishment of an Asia-Pacific Financial Forum (APFF) to discuss key issues and develop sound and efficient markets and urges APEC Leaders to fully support their governments' and businesses' active participation in APFF.

The issue of **food security** remains a priority for ABAC. We welcome the holding of the inaugural meeting of the APEC Policy Partnership on Food Security (PPFS) in Kazan in May this year. The long-term goal of the PPFS, with ABAC guidance, is to shape a food system structure by 2020 and provide lasting food security to APEC member economies. ABAC fully supports the strategy of the Kazan Declaration accepted at the Second APEC Ministerial Meeting on Food Security that prioritizes the key areas.

Small, medium and micro-enterprises (SMMs) are the backbone of the modern economy based on **innovative growth**. Yet, SMMs face numerous challenges, top of which is access to financing. We call on APEC economies to develop policies that encourage private individual investors (angel and venture capital) to get involved in funding SMMs. ABAC recommends capacity building initiatives to raise awareness of SMMs on cross-border opportunities, including the use of information and communications technology (ICT) tools such as e-commerce platforms and online portals to assist SMMs in exploring and conducting cross-border transactions. ABAC urges economies to continue to address barriers that prevent women from participating more fully in the economy, in particular by implementing policies that encourage diversity and inclusion in the workplace.

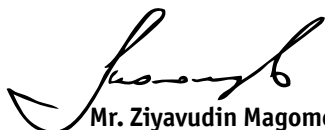
Substantial actions are needed from APEC economies to alter environmentally unfriendly ways of living, and introduce new principles and innovative solutions into city planning and infrastructure development, and follow harmonized criteria for **living cities** in APEC. ABAC recommends adoption of a livable, low-carbon community and eco-city/living city approach based on the integration of social, environmental and economic principles including effective incentives for businesses. ABAC urges APEC economies to implement the Honolulu Declaration where Leaders agreed to work to develop in 2012 an APEC list of environmental goods and services in which to reduce, by the end of 2015, applied tariff rates to 5% or less.

ABAC recognizes the importance of voluntary, market-driven **dissemination of technology** and supports measures to create coherent regulation and strengthen mutually beneficial partnerships among stakeholders in the APEC technology community. Economies in the APEC region can enhance their prosperity by improving their capacity to adopt technologies by addressing barriers to trade and investment and taking steps to enhance their capacity for innovation.

ABAC believes that a **new services liberalization and facilitation agenda** is a major issue for APEC given the strong contribution of the services sector to economic growth. We call for the formation of a group of services experts from the private and public sectors and academia to make recommendations on ways to improve the global governance of services trade and investment and the launching of a new and dedicated initiative specifically aimed at liberalizing regional services trade and investment.

We look forward to discussing the above issues in greater detail during our dialogue in Vladivostok.

Yours sincerely,



Mr. Ziyavudin Magomedov
ABAC Chair 2012
Chairman of the Board
Summa Group



Ms. Deborah Henretta
ABAC Co-Chair
Co-Chair, Action Plan &
Advocacy Working Group
Group President – Asia
Procter & Gamble Asia Pte. Ltd.



Mr. John Prasetyo
ABAC Co-Chair
Co-Chair, Regional Economic
Integration Working Group
Senior Advisor
CBA Consulting

AUSTRALIA



Mr. John W.H. Denton
Chair, Finance & Economics
Working Group
Partner & CEO
Corrs Chambers Westgarth



Ms. Anna Buduls
Co-Chair, SMME &
Entrepreneurship Working Group
Owner & Chairman
Tramada Systems



Mr. Mark Johnson
Chair, Advisory Group on APEC
Financial System Capacity
Building
Senior Adviser
Gresham Partners Limited

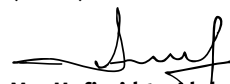
BRUNEI DARUSSALAM



Mr. Javed Ahmad
Managing Director
Bank Islamic Brunei
Darussalam



Ms. Haslina Taib
Co-Chair, Action Plan &
Advocacy Working Group
Chief Executive Officer
Brunei Accenture Group
(B.A.G) Networks



Ms. Hafimi bte Abdul Haadii
Director/Shareholder
LVK Group of Companies

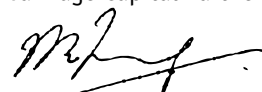
CANADA



Ms. Isabelle Courville
Co-Chair, Sustainable
Development Working Group
President
Hydro-Québec Distribution



Mr. V. Paul Lee
Co-Chair, SMME &
Entrepreneurship Working Group
Managing Partner
VanEdge Capital Partners Ltd.



Mr. Philip Leong
Vice President and Director
Chairman's Council
RBC Dominion Securities

CHILE



Mr. Rafael Guilisasti
General Manager
Viñedos Emiliana S.A.



Mr. Andronico Luksic Craig
Vice Chairman
Banco de Chile

CHINA



Mr. Ning Gaoning
Chair, Sustainable
Development Working Group
Chairman
COFCO Corporation



Ms. Wang Lili
Co-Chair, Finance & Economics
Working Group
Executive Director &
Senior Executive Vice President
Industrial & Commercial Bank
of China (ICBC)



Dr. Yang Yunsong
Co-Chair, Infrastructure
Development Working Group
Chairman
XY Group International

HONG KONG, CHINA



Mr. Richard Li
Chairman & Chief Executive
Pacific Century Group



Mr. Vincent H. S. Lo
Chairman
Shui On Group



**Mr. Anthony John Liddell
Nightingale**
Chair, Action Plan & Advocacy
Working Group
Director
Jardine Matheson Holdings
Limited

INDONESIA



Mr. Anindya N. Bakrie
Co-Chair, Infrastructure
Development Working Group
Chief Executive Officer
PT. Bakrie Telecom, Tbk.

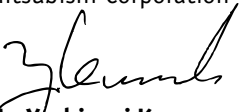


Mr. Wishnu Wardhana
Vice President Director &
Group Co-CEO
PT. Indika Energy Tbk.

JAPAN



Mr. Hidetoshi Kamezaki
Corporate Advisor
Mitsubishi Corporation



Mr. Yoshinori Komamura
Co-Chair, Infrastructure
Development Working Group
Executive Vice President
Representative Director
Komatsu Ltd.

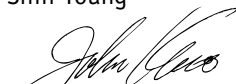


Mr. Yoshihiro Watanabe
Co-Chair, Finance & Economics
Working Group & Advisory
Group on APEC Financial
System Capacity Building
Advisor
The Bank of Tokyo-Mitsubishi
UFJ, Ltd.

KOREA



Mr. Ho-Gap Kang
Chairman
Shin Young



Mr. John Koo
Chairman
LS Corporation



Mr. Jin Roy Ryu
Chairman & CEO
Poongsan Group

MALAYSIA



Tan Sri Dr. Ahmad Tajuddin Ali
Co-Chair, Sustainable
Development Working Group
Chairman
UEM Group Berhad



Tan Sri Azman Hashim
Co-Chair, Finance & Economics
Working Group
Chairman
AmBank Group



Tan Sri Dato' Ir. Md Radzi Mansor
Co-Chair, SMME &
Entrepreneurship Working Group
Chairman
Kumpulan Fima Berhad

MEXICO



Mr. Mauricio Millán
Co-Chair, Action Plan & Advocacy
Working Group
Vice Chairman
Coraza Corporación Azteca
S.A. de C.V.



Mr. Alejandro Ramírez Magaña
Chief Executive Officer
Cinepolis



Mr. Carlos Slim Helú
Founder & Honorary Chairman
Grupo Carso

NEW ZEALAND



Mr. Wayne Boyd
Chairman
Vulcan Steel



Mr. Tony Nowell
Chair, Regional Economic
Integration Working Group
Founding Director
Valadenz Limited

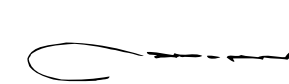


Ms. Maxine Simmons
Co-Chair, SMME &
Entrepreneurship Working Group
Managing Director
BioCatalyst Ltd.

PAPUA NEW GUINEA



Mr. Wayne Kenneth Golding
Co-Chair, Finance & Economics
Working Group
Executive Director
Kina Securities Limited



Sir Joseph James Tauvasa
Chairman
South Pacific Brewery Ltd.



Mr. Matthew W.E. Tjoeng
Managing Director
Shine Way Development Ltd.

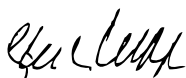
PERU



Mr. Enrique M. Gubbins
Co-Chair, Regional Economic
Integration Working Group
Chairman of the Board
Sudamericana de Fibras S.A.



Mr. Alfonso Garcia Miro
Chief Executive Officer
IPN Investments



Mr. Juan Francisco Raffo
Chair, SMME & Entrepreneurship
Working Group
Honorary Chairman
Raffo Group



Mr. Ho Meng Kit
Chief Executive Officer
Singapore Business
Federation



Dr. Twatchai Yongkittikul
Co-Chair, Advisory Group on
APEC Financial System
Capacity Building
Secretary-General
Thai Bankers' Association

PHILIPPINES



Ms. Doris Magsaysay Ho
President & CEO
A. Magsaysay Inc.



Mr. Tony Tan Caktiong
Chairman & CEO
Jollibee Foods Corporation

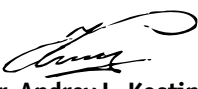


Mr. Jaime Augusto Zobel de Ayala
Chairman & CEO
Ayala Corporation

RUSSIAN FEDERATION



Mr. Oleg V. Deripaska
Chief Executive Officer
Basic Element



Mr. Andrey L. Kostin
Co-Chair, Finance & Economics
Working Group
Chairman & CEO
JSC VTB Bank (former
Vneshtorgbank)

SINGAPORE



Mr. Gautam Banerjee
Co-Chair, Regional Economic
Integration Working Group
Executive Chairman
PricewaterhouseCoopers
(PwC) Singapore



Mr. Jackson Yap
Group Managing Director & CEO
United Engineers Limited (UEL)

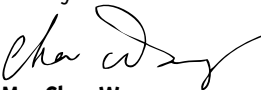
CHINESE TAIPEI



Mr. Matthew F. C. Miao
Co-Chair, Regional Economic
Integration Working Group
Chairman
MitAC-Synnex Group



Mr. Hong-Tu Tsai
Chairman
Cathay Financial Holdings &
Cathay Life Insurance Co., Ltd.

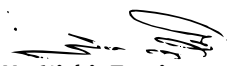


Ms. Cher Wang
Co-Chair, Sustainable
Development Working Group
Chairman
VIA Technologies Inc.
High Tech Computer Corp.

THAILAND



Dr. Savaraj Sachchamarga
Co-Chair, Sustainable
Development Working Group
Chairman & CEO
JFP Co. Ltd.



Mr. Vichit Tantianunanont
Member of the Board
The Federation of Thai
Industries

USA



Mr. Richard P. Lavin
Chair, Infrastructure
Development Working Group
Group President
Caterpillar Inc.

VIET NAM



Mr. Hoang Van Dung
Co-Chair, Action Plan &
Advocacy Working Group
First Vice Chairman &
Executive Vice President
Viet Nam Chamber of
Commerce & Industry



Dr. Nguyen Thanh Hung
Chairman
SOVICO Group



Mr. Tam Dang Thanh
Chairman
Saigon Invest Group

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

The following is a summary of the key messages contained in this report:

■ **Accelerate trade and investment liberalization.** ABAC has been concerned by the lack of progress in the WTO Doha Round. We recognize the immense value of the WTO to the global rules-based trading system. ABAC is committed to the goal of establishing a Free Trade Area of the Asia-Pacific (FTAAP) and urges that all pathways to FTAAP should reflect the key principles of inclusiveness, transparency and comprehensiveness. It calls for substantive progress to be made towards an FTAAP, including through the broadest possible participation in FTAAP initiatives. ABAC also urges APEC economies to continue to identify, investigate and incorporate “next generation” trade and investment issues into free trade agreements. APEC economies should improve the business environment for foreign direct investment, including by providing transparent, fair and predictable guidelines on taxation and transfer pricing.

■ **Promote regional financial market integration.** ABAC recommends that APEC economies support and endorse the establishment of an Asia-Pacific Financial Forum (APFF) to promote the emergence of integrated and diverse funding markets, the development of market infrastructure, regulatory frameworks and financial institutions that are vital for the recycling of savings, and sustained growth of markets for long-term securities and infrastructure finance. The proposed APFF is envisioned to be a platform for enhanced public-private collaboration to help develop regionally consistent regulatory frameworks and market infrastructure, as well as common approaches in shaping global financial regulatory reforms in support of region’s financial development goals. As a first step, ABAC recommends that discussions be held in 2013 to develop an agenda that will complement other ongoing regional initiatives promoting the development,

convergence and connectivity of financial markets in the region.

■ **Enhance 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. APEC should support a holistic and coordinated approach to implementing APEC’s Supply Chain Connectivity Framework. There is much more to be done to improve regional supply chains, in particular: expanding APEC’s role in coordinating the sharing of supply chain best practice information; better data collection; harmonization of customs requirements and procedures, including the single window concept and standardized codes for marking and tracking goods. A wider use of integrated satellite navigation systems like Glonass/GPS might be beneficial in this regard, and we intend to take stock of the related world best practice to report thereon at our meeting in Vladivostok. ABAC also sees a greater APEC role in the leadership, governance and oversight of standardization initiatives within supply chains; capacity building and developing APEC-wide “model measures/protocols” for information and communications technology systems as well as information platforms for logistics for small, medium and micro-enterprises (SMMEs); and addressing non-tariff barriers. ABAC notes the need to take full account of growing opportunities and long-term benefits offered by a wider use of alternative transportation routes between the Asia-Pacific region and the rest of the world, as a result of implementation of domestic and international transportation infrastructure improvement projects.

■ **Promote investment in infrastructure.** ABAC urges APEC economies to work to improve the investment environment through the adoption of strong investment principles and implementation of measures to facilitate investment. It recommends an integrated infrastructure planning approach in the development

and implementation of infrastructure projects and the development of “APEC High-Level Planning Principles for Infrastructure Investment” to guide government agencies. ABAC invites APEC economies to collaborate in developing concrete measures to provide conducive environments for infrastructure finance through the Asia-Pacific Infrastructure Partnership (APIP) dialogues with the private sector and multilateral agencies.

- **Strengthen food security.** ABAC applauds the creation of the APEC Policy Partnership on Food Security (PPFS) and the Kazan Declaration adopted at the Second APEC Ministerial Meeting on Food Security this year. ABAC envisions PPFS to be the focal point for developing and implementing food security policy for the APEC region. ABAC’s recommendations on food security include: establishment of technology dissemination centers in APEC economies in the agri-food sector; development of a regional strategic investment plan to promote investment in the sector; collaboration with the APEC Food Safety Forum in standard-setting for food safety; development of a unified methodology for assessing post-harvest losses; designing a framework for the development of food market infrastructure to minimize food losses during storage and transportation; and improvement of global food market transparency through cooperation with the G20.
- **Promote trade in environmental goods and services.** ABAC urges APEC economies to implement the Honolulu Declaration where Leaders agreed to work to develop in 2012 an APEC list of environmental goods and services (EGS) for which to reduce, by the end of 2015, applied tariff rates to 5% or less.
- **Address energy security.** ABAC supports a multi-pronged approach to energy security, including the expansion of energy conservation efforts, promotion of clean and renewable energy sources, wider use of natural gas, increased energy productivity and cooperation on

nuclear safety. To promote conservation and energy productivity, APEC should expand the exchange of best practices, harmonize standards of measurements and evaluation, support voluntary market-driven technology dissemination that maximize benefits for all parties involved, and facilitate trade in EGS for energy efficiency. Investment in renewable energy resources can be facilitated by appropriate policy, laws and regulations; market aggregation for economies of scale; low-carbon technology deployment; and new market-based instruments as well as innovative research which have the potential to reduce the production cost of clean and renewable energy.

APEC should also reduce barriers to cross-border energy investment and trade, invest in new transportation infrastructure and technology to maximize the availability of lower-carbon natural gas, and create economic frameworks that encourage the phasing out or upgrading of antiquated and inefficient power generation and industrial plants. For the longer term, more attention must be directed to the creation of open and fair markets based on a transparent and predictable environment of laws and regulations, so as to support efficient regional trade of energy through integrated transmission infrastructure and domestic power grids.

- **Promote living cities.** Substantial actions are needed from APEC economies on altering the present environmentally harmful ways of living, by introducing new principles and innovative solutions into city planning and infrastructure development, and by following harmonized criteria for *living cities* in APEC. ABAC recommends adoption of a livable, low-carbon community and eco-city/living city approach based on the integration of social, environmental and economic principles when building and re-developing cities. Priority should also be given to the introduction of effective incentives for the business community in APEC economies to respect the living city principles, so that living cities criteria are

included in cities' construction plans; and support is given for "green" industries, financial and tariff incentives, corporate social responsibility programs, as well as new regulations targeting waste reduction and recycling and the reduction of carbon footprints.

- **Facilitate technology dissemination, innovation and cutting-edge technology investment.** Economies in the APEC region can enhance their prosperity by improving their capacity to adopt technologies from abroad and taking steps to enhance their capacity for innovation. ABAC recognizes the importance of voluntary, market-driven dissemination of technology and supports measures to create a legal and regulatory environment that encourages and facilitates this process. To expand the spread of technology, ABAC encourages economies to address barriers to trade and foreign investment. Additionally, economies should take steps to enhance absorptive capacity as well as promote innovative growth. To facilitate technology dissemination, ABAC also advocates coherent regulation and the strengthening of mutually beneficial partnerships among stakeholders in the APEC technology community.

- **Support SMME development.** SMMEs are the backbone of the modern economy based on innovative growth. Yet, SMMEs face numerous challenges, top of which is access to financing. For many SMMEs, there are barriers to access to international supply chains which include lack of knowledge and resources to do business abroad. ABAC strongly supports the development of the APEC Next Generation Interactive Tariff Database and the APEC Services Trade Access Requirements (STAR) Database as tools to address these barriers. We encourage APEC to coordinate efforts to enhance continuity, address funding, and ensure that the databases are commercially relevant. ABAC encourages capacity building initiatives for SMMEs, including the APEC SME and Young Entrepreneurs'

Summits and the use of information and communications technology (ICT) tools such as e-commerce platforms and online portals. ABAC calls on APEC economies to address barriers which hinder SMMEs from taking advantage of cross-border strategic alliances that can facilitate innovative growth.

- **Promote the participation of women in the economy.** ABAC urges APEC economies to continue to address barriers that prevent women from participating more fully in the economy. Specifically, governments could implement policies that encourage diversity and inclusion in the workplace. Following the San Francisco Declaration, each APEC government should consider appointing at least one woman to ABAC.

- **Financing innovation.** Overcoming existing challenges to financing of innovation is important for maintaining the region's continued rapid economic growth. Governments play crucial roles in this process from the birth of an innovative idea to full commercialization and the sale of the company or product. ABAC recommends that APEC economies support angel and venture capital through effective programs, such as tax credits, matching funds or optional buy-out programs and by identifying, developing and mobilizing angel investor networks across different sectors. APEC economies should provide an enabling legal and regulatory environment for the entire chain of financial activities that support companies across various stages of innovation, including angel investors in the early stages, venture capital in the middle, and private equity, commercial and investment banks, and institutional investors such as pension funds in the latter stages, as well as exit mechanisms. ABAC urges support in creating, maintaining and enhancing the fundamental conditions that encourage entrepreneurship and innovation, particularly at the incubation stage.

■ **Initiate a new services agenda.**

Building on our 2011 report entitled “Understanding Services at the Heart of a Competitive Economy”, ABAC calls for the formation of a group of services experts drawn from the public and private sectors and academia to look at how to improve the global governance of services trade and investment; the launching of a new and dedicated initiative specifically aimed at liberalizing regional services trade and investment; and the improvement of the region’s official statistics on services. ABAC urges APEC economies to complete the skills mapping and labor market signaling projects being undertaken by APEC’s Human Resource Development Working Group, with input from the business sector, as speedily as possible in order to create a pool of more readily available information on skills and labor shortages across the region.

■ **Resolve APEC Business Travel Card issues.**

The APEC Business Travel Card is one of the most significant business facilitation initiatives in the region. However,

business travelers are encountering increasing difficulties when applying for or renewing their cards, thereby undermining the value of this scheme. We call for APEC Leaders’ support to resolve these problems as a matter of priority.

■ **Optimize policy exchange between business and APEC.**

Over the past two years, ABAC has stepped up its engagement with APEC and has devoted considerable attention to how its members can optimize information exchange between APEC policy makers and the region’s business community. ABAC has broadened exchanges beyond the annual letters and reports to Leaders, to include focused input to senior officials’ meetings, and into specific ministerials. ABAC is keen to develop these dialogues further, and looks forward to being able to augment our input on business concerns and priorities in response to initiatives being considered or developed in APEC.

MAIN REPORT

OUTLINE OF RECOMMENDATIONS

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II. Regional Economic Integration

- A. Accelerating trade and investment liberalization
 - 1. Enhancing pathways to the Free Trade Area of the Asia-Pacific
 - 2. Resisting protectionism
 - 3. Improving the business environment for foreign direct investment
 - 4. Strengthening regulatory coherence
- B. Initiating a new services agenda
 - 1. Promoting the efficient movement of temporary workers around the region
 - 2. Expanding the Information Technology Agreement
 - 3. Adopting a digital trade agenda for APEC
 - 4. Improving business mobility and facilitating regional air travel
- C. Enhancing supply chain connectivity

III. Sustainable Development

- A. Strengthening food security
- B. Addressing energy security
- C. Facilitating technology dissemination, innovation and cutting-edge technology

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- A. Promoting the creation of new businesses and new business models
 - 1. Facilitating innovative growth across borders
 - 2. Improving access to angel and venture capital investment
- B. Promoting the sustainability of businesses
 - Promoting internationalization of SMMEs through information and communications technology
- C. Implementing voluntary codes of ethical business practice for SMEs
- D. Promoting the participation of women and young people in business
- E. Supporting SME Summits

V. Infrastructure Development

- A. Infrastructure design
 - 1. Infrastructure planning
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 - 3. Improving the investment environment for infrastructure projects
 - 4. Strengthening anti-corruption and transparency in government procurement
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 - 2. Promoting the development of eco-cities
 - 3. Ensuring household water security in the urban area
 - 4. Promoting the development of information technology infrastructure

- C. Reinvestment in infrastructure
 - 1. Infrastructure maintenance
 - 2. Disaster preparedness and recovery

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- A. Strengthening the stability of financial markets and integration of financial markets to support economic trade
 - 1. Establishment of the Asia-Pacific Financial Forum
 - 2. Promoting high-quality financial information
 - (a) International credit rating system reform
 - (b) Implementation of the International Financial Reporting Standards
 - 3. Financial stability policy
 - 4. Financial regulatory reform in the APEC region
 - 5. Internationalization of emerging economies' currencies
 - 6. Establishing a regional funds management passport regime
- B. Promoting practical solutions to support the importance of inclusiveness and access to finance for SMMEs
 - 1. Asia-Pacific Infrastructure Partnership Dialogues
 - 2. Promoting support for venture capital
 - 3. Promoting public-private collaboration in advancing financial inclusion
 - 4. Enhancing health and retirement systems
- C. Advising APEC Leaders and Finance Ministers on the implications for the Asia-Pacific region – as seen by business – of G20 recommendations on financial system reform
 - Ongoing monitoring of G20 reforms

VII. APEC Engagement and the Advocacy Plan

- A. Enhancing engagement with APEC
- B. Strengthening advocacy at home
- C. Supporting industry dialogues
 - 1. Life Sciences Innovation Forum
 - 2. APEC Chemical Dialogue
 - 3. Food Safety Cooperation Forum

VIII. Conclusion

Annexes

- A ABAC Letter to APEC Ministers Responsible for Trade (dated 25 May 2012)
- B ABAC Letter to APEC Food Security Ministers (dated 25 May 2012)
- C ABAC Letter to APEC Energy Ministers (dated 25 May 2012)
- D ABAC Letter to APEC Health Ministers (dated 25 May 2012)
- E ABAC Letter to APEC Transportation Ministers (dated 19 July 2012)
- F ABAC Letter to APEC SME Ministers (dated 19 July 2012)
- G ABAC Letter to APEC Finance Ministers (dated 19 July 2012)
- H The APEC Business Advisory Council

MAIN REPORT

I. Introduction

The global economy remains fragile, exposing economies in the Asia-Pacific region to serious downside risks. Re-escalation of the Euro zone crisis looms as the primary threat to global growth and protectionism is on the rise. In addition, the risk of an oil price shock arising from geopolitical uncertainty remains. ABAC urges APEC economies to take resolute actions to guard against financial and sovereign risks while pursuing trade liberalization and maintaining a robust growth trajectory.

Against this background, ABAC adopted the theme “From Aspirations to Reality” which is focused on the following priority areas:

- regional economic integration including trade and investment liberalization, a new services agenda and financial markets stability
- food and energy security
- innovative growth including technology dissemination, green development and eco/living cities, as well as skills development and small, medium and micro-enterprises (SMME) growth
- supply chain connectivity and transportation infrastructure including public-private partnerships

In this report, ABAC outlines specific actions that APEC economies should take to deal with the challenges noted above, deepen economic integration and accelerate the achievement of the Bogor Goals of free and open trade and investment. Importantly, the recommendations advance the implementation of the balanced, inclusive, sustainable, innovative, and secure growth strategy adopted by APEC Leaders in 2010. As in the previous year, the recommendations are organized according to ABAC’s working groups.

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. ABAC sees this as

being a combination of actions to create a freer and more open market for goods, services and investment; to reduce the costs of doing business, and to make regional supply and value chains work faster and better.

A. Accelerating trade and investment liberalization

Liberalization of trade and investment remains at the heart of ABAC’s regional economic integration agenda. Both are essential if APEC is to achieve the vision encompassed by the Bogor Goals. The lack of progress in the WTO Doha Round is disappointing. We recognize, however, the immense value of the WTO legal framework that underpins world trade flows. The rules-based trading system helps the world to resist protectionist pressures during times of economic crisis. It must be supported and preserved despite the difficulties in concluding the Doha Round.

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

ABAC is committed to the goal of establishing a Free Trade Area of the Asia-Pacific (FTAAP). ABAC has been encouraged by recent progress in some possible pathways to FTAAP, including the Trans Pacific Partnership and the Regional Comprehensive Economic Partnership. ABAC is keen that all pathways to FTAAP should reflect key principles of inclusiveness, transparency and comprehensiveness. These instruments should be open to APEC economies which can meet the specific standards associated with the initiatives and should cover all sectors, goods, services and investment, as well as next generation trade and investment issues.

Given that there are only a few years before APEC economies reach the Bogor Goals of regional free trade and investment in 2020, it would be useful for the ambition and timetables of the various pathways towards regional economic integration to be more coherently laid out.

Recommendations:

- Ensure that substantive progress continues to be made towards 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, and support capacity building in this area including the implementation of the action plan framework on Capacity Building Needs Initiative.
- Continue to identify, investigate and incorporate “next generation” trade and investment issues in free trade agreements.
 - Address in a systematic fashion next generation issues put forward by ABAC in 2011, in particular: comprehensive tariff elimination; further liberalization of services; flexible rules of origin and trade facilitation measures such as supply chain connectivity, innovation and trade single window and paperless trading; investment policy; regulatory coherence; government procurement; competition policy; digital economy issues and measures aimed at fostering innovation, including the scope of intellectual property rights.

2. Resisting protectionism

Given uncertainties in the global economy and the persistent risks of rising protectionism, ABAC underscores the importance of keeping markets open in order to promote economic recovery. ABAC welcomes the commitment made by APEC Ministers Responsible for Trade (MRT) to roll back trade-distorting or protectionist measures introduced since the onset of the crisis and to continue to exercise maximum restraint in implementing measures that may be considered to be consistent with WTO provisions but have a significant protectionist effect and to promptly rectify such measures, where implemented. ABAC urges APEC Leaders to continue to promote trade and investment liberalization and facilitation by reaffirming APEC’s commitments to an effective standstill on all new trade restrictive measures and

support any move to rollback trade-distorting measures.

Recommendation:

- Launch a dialogue to discuss the effects of protectionist measures, particularly local content requirements, on trade and investment and long-term economic growth in the region, as well as alternative measures to promote economic growth and job creation.

3. Improving the business environment for foreign direct investment

ABAC continues to seek improvement of the business environment facing foreign direct investors in the APEC region. It has identified situations encountered by foreign direct investors which, if addressed properly, would greatly enhance their activities and further increase their contributions to economic growth, development and the integration of the region. ABAC believes that for smooth dissemination of technology to occur between economies, due collection of the intellectual property (IP) value of the technology requires fair, predictable, transparent and unified regulations and tax system in relation to the IP value collected.

Recommendations:

- Provide corporations with transparent, fair and predictable guidelines on taxation, including transfer pricing issues, to enable them to successfully operate transnational businesses and avoid double taxation.
- Observe Annex A-10 of the Honolulu Declaration where the APEC Leaders have agreed to leave the terms and conditions of technology dissemination, production processes, and other proprietary information to the agreement between individual enterprises.
- Consider resolutions to this issue within APEC and instruct ministers to agree on measures among economies to address this issue.

4. Strengthening regulatory coherence

Regulatory coherence was a major focus for APEC and ABAC in 2011 and remains a key challenge in many areas of interest from the services sector to supply chains. In recent years, there has been an emerging recognition of the behind-border issues that tackle unnecessary non-tariff barriers to free trade and investment. Non-tariff barriers relate to the standards and qualifications set by government at the domestic level. Regulatory coherence aims to ease the trade impediments faced by local businesses. Enhancing regulatory cooperation within APEC economies will lower the costs of doing business, shorten supply chains and help achieve a seamless commercial environment.

More than just the harmonization of regulations, regulatory coherence is about improving the process by which economies develop regulations, develop best practices, and find common standards acceptable to multiple economies. It leads to better regulation that is effective and least market-distorting. Regulatory coherence is about competitiveness and creating an optimal regulatory environment that allows the market to be more open and innovative. Building on the principles of regulatory coherence advocated by ABAC last year, ABAC developed a *Strategic Framework for Regulatory Coherence in APEC*, which highlighted the commercial impact of regulatory coherence on the private sector. ABAC also participated in a regulatory coherence workshop on the margins of First APEC Senior Officials' Meeting (SOM I) in Moscow and shared the framework with APEC officials.

Recommendations:

- Support a framework approach to regulatory coherence that incorporates the following characteristics:
 - Support efforts that more closely align APEC economies' regulations with global best practices by promoting international standards as the basis for domestic regulation and utilizing performance-based rather than prescriptive-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 mitigate the negative impact of regulations on commerce.
- Strengthen public-private cooperation through the use of consultation mechanisms to enhance accountability, promote mutual learning, and encourage best practices.
- 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.

B. Initiating a new services agenda

As noted in ABAC's 2011 report "Understanding Services at the Heart of a Competitive Economy", APEC needs to seize the opportunities to expand services trade, as this sector makes a stronger contribution to economic growth than any other. Services constitute more than 50% on average of APEC members' gross domestic product (GDP) and generate more than 60% of regional jobs. Therefore, the definition of a new services liberalization and facilitation agenda is a major issue for APEC, particularly given the impasse in the WTO and the rather small gains that would be realized from the Doha Round. In ABAC's view, APEC economies should be improving data collection on services sectors and identifying best practice in terms of services regulation.

Recommendations:

- Launch a new and dedicated initiative specifically aimed at liberalizing and facilitating regional services trade and investment.

- Commission an APEC-led tripartite group of services experts, comprising business people, government officials and regulators and the knowledge community from academia and think tanks to international organizations, to take a “back to basics” look at how to improve the global governance of services trade and investment and make recommendations accordingly.
- Commit to improve, in collaboration with relevant international organizations, the region’s official statistics on services.

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

ABAC has become increasingly concerned about fast-developing skills shortages, the impact of this development on competitiveness, and the resultant need for more effective regional skills mobility. Therefore, this year, ABAC has continued to work with APEC’s Human Resource Development Working Group on skills mapping in the region, a welcome initiative that is highly relevant to an efficiently functioning services workforce.

Recommendation:

- Complete the skills mapping project, with input from the business sector, as speedily as possible in order to create a pool of more readily available information on skills and labor shortages across the region.

2. Expanding the Information Technology Agreement

The WTO Information Technology Agreement (ITA) contributed significantly to the development of trade, economic growth and further technological progress globally over the past 15 years, but it has not been reviewed and consequently, product coverage has not changed since 1997. In the Honolulu Declaration of November 2011, APEC Leaders agreed to play a leadership role in the launching of negotiations to expand the product coverage and membership of the ITA. In the 2012 MRT Statement in Kazan, Russian Federation, Ministers highlighted the importance of this issue. ABAC also welcomes

recent developments in Geneva on the ITA. To facilitate and encourage further development in innovation in the area of information and communications technology (ICT) and the trade of ICT goods, it is necessary to expand the product coverage and membership of the ITA. Furthermore, an efficient mechanism should be developed so that ITA product coverage reflects technological progress.

Recommendations:

- Promote early and meaningful conclusion of a negotiation to expand product coverage of the ITA at the WTO.
- Support efforts to increase the number of participating members in the ITA as well as develop a mechanism to ensure the ITA always reflects technological progress in the ICT area.

3. Adopting a digital trade agenda for APEC

ABAC supports open, duty-free cross-border trade in digital and electronically-delivered products and services and would like to see APEC establish a digital trade agenda to achieve that objective. Digital and electronically-delivered products will be an important growth area of commerce as digital rollout and infrastructure increases across the region. Businesses are finding new ways to deliver products, cut costs and access consumers using digital platforms. SMMEs benefit from low-cost access to digital products and services delivered electronically. For economies to reap the benefits of digital delivery of products and services, it is essential for borders to remain open, for unnecessary regulatory barriers to be removed and for digital trade to be conducted without facing burdensome customs measures that slow down delivery and increase costs.

Recommendations:

- Develop an action plan to secure open markets for digital and electronically delivered products.
- Commit to adopting policies and measures that foster digital trade, including by providing permanent duty-free treatment for all digital products.

4. Improving business mobility and facilitating regional air travel

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 and appreciates the APEC Business Mobility Group's and individual economies' continuing efforts to improve the operation of the ABTC. Yet, business is encountering increasing difficulties when applying for or renewing the card. ABAC therefore urges APEC economies to commit to the full and smooth operation of the ABTC.

ABAC welcomes the proposed APEC Travel Facilitation Initiative and strongly endorses the attempt to develop a more broadly-based strategy to ease and simplify the challenges and stresses that so often accompany the process of regional air travel.

Recommendations:

- Encourage ABTC transitional economies to accelerate efforts towards complete membership status, including the issuance of cards.
- Improve the operation of the ABTC by expediting the process of issuing without prejudice, simplifying the renewal process, improving online services, and ensuring recognition of ABTC at the borders by providing clearly marked ABTC priority lanes.

C. Enhancing supply chain connectivity

ABAC applauds APEC's efforts over several years to enhance competitiveness in the region by making it easier, cheaper and faster to conduct trade in goods and services across borders. However, there is much more to be done to improve regional supply chains, as demonstrated in the 2011 USC Marshall School of Business report for ABAC entitled "APEC Supply Chains: Identifying Opportunities for Improvement". Removing supply chain inefficiencies behind borders, at borders and across borders will bring real benefits to APEC in terms of increased trade.

Recommendations:

- Expand APEC's role in coordinating the sharing of supply chain best practice information. APEC is home to best-in-the-world supply chains; both within firms and at economy level. The Marshall School study identified where best practices exist in APEC for each component of the supply chain.
- Adopt a holistic and coordinated approach to implementing APEC's Supply-Chain Connectivity Framework Initiative Action Plan through the identification of policies affecting supply chain connectivity in the region and targeted capacity building to accelerate progress towards the APEC Leaders' goal of achieving an APEC-wide target of a ten percent improvement in supply-chain performance by 2015, in terms of reduction of time, cost, and uncertainty of moving goods and services throughout the Asia-Pacific region, taking into consideration individual economies' circumstances.
- Take full account of growing opportunities and long-term benefits offered by a wider use of alternative transportation routes between the Asia-Pacific region and the rest of the world, as a result of the implementation of domestic and international transportation infrastructure improvement projects.
- Consider developing lists of transportation infrastructure improvement projects in each economy that are open to the involvement of foreign investment and technology partners from APEC economies, including through the establishment of international public-private partnerships.
- Support cross-border data flows for goods and services supply chains. International trade relies on a seamless commercial environment that allows for uninterrupted data flows across borders facilitating the movement of trade. Growth in the complexity and volume of global supply chains means that companies with locations all over the world need to be able to move

supporting trade-related information across borders in order to efficiently and cost effectively deliver a business result. Lack of coherence and transparency in the application of regulations in cross-border data flows are a significant concern to the private sector. ABAC encourages APEC regulatory authorities to engage in best practices in the movement of data supporting trade, and to work in parallel with regional data privacy initiatives to ensure that they reflect the principle of free flow of trade-related data across borders.

- Improve the granularity of supply chain data. Better data collection by both business and government would allow the creation of a stronger business case for policy change.
- Accelerate harmonization efforts in customs requirements and procedures across APEC, including the single window concept and standardized codes for marking and tracking goods. A wider use of integrated satellite navigation systems like Glonass/GPS might be beneficial in this regard. Improved customs clearance times will have significant impacts on competitiveness and GDP.
- Expand APEC's role in the leadership, governance and oversight of standardization initiatives within supply chains. Standardization has broad positive economic consequences. Improved standardization will impact multiple chokepoints including transparency, documentation, customs efficiency, and customs transit arrangements.
- Provide capacity building and develop APEC-wide "model measures/model protocols" for information and communications technology systems as well as information platforms for logistics for SMMEs. The adoption of compatible IT online systems for all parts of the supply chain by all economies in APEC will improve the region's economic competitiveness. Adopting compatible systems will "force" coordination among

government agencies with responsibility for supply chain activities.

- Explore how new digital technologies, in particular a widening range of practical services deliverable remotely by means of cloud computing technologies, can be developed to lower and simplify the transaction costs of international trade and investment, and enhance access by SMMEs to international trade and investment opportunities. Regulations related to data privacy, processing and security should be developed in a manner that facilitates the adoption of these new technologies.
- Keep the focus on non-tariff barriers (NTBs). APEC must encourage increased transparency by all economies for non-tariff measures (NTM) requirements. APEC must create opportunities for economies to discuss new emerging industry and NGO-initiated NTMs. APEC must produce model measures for all new emerging NTMs. Establishing APEC-wide standards for all NTMs, and procedures for testing and compliance, will greatly reduce cost of NTBs.

III. Sustainable Development

Achieving sustainable development is at the heart of APEC's mandate. In line with this objective, ABAC addressed three themes in 2012, namely: strengthening food security; addressing energy security by promoting energy efficiency and facilitating trade in environment goods and services (EGS); and fostering technology dissemination and cutting-edge investment.

A. Strengthening food security

Since the First APEC Ministerial Meeting on Food Security in Niigata in 2010, the situation in the field of food security has remained an issue of high importance. ABAC is pleased that the Second APEC Ministerial Meeting on Food Security and the inaugural meeting of the APEC Policy Partnership on Food Security (PPFS) were held in Kazan in May this year. However, as food

security is a multi-faceted complex issue which cannot be solved overnight, it is imperative to tackle the key points and make progress year-by-year under the strategic framework of the “APEC Food System” to achieve substantial breakthroughs.

In 2012, ABAC has focused on strengthening food security by increasing food technology dissemination, developing food export/import infrastructure as well as facilitating food trade within the region. ABAC urges concrete actions, firstly, aimed at expanding global food supply and nutritional capacity and, secondly, facilitating food trade and market.

Recommendations:

- Establish technology dissemination centers in APEC economies in the agri-food sector to coordinate innovative activities, provide assistance with technology dissemination, assess risks and possible consequences from using innovative technology, and develop demonstration projects for food-related technology dissemination.
- Promote investment in the agri-food sector by developing a regional strategic investment plan and elaborating measures to attract targeted investments into the agri-food sector.
- Facilitate close collaboration between the PPFS and the APEC Food Safety Cooperation Forum and set global data standards to ensure food safety and efficiency in cross-border trade.
- Develop a unified methodology for assessing post-harvest losses in the APEC member economies’ food sector to acquire comparable data in order to analyze this problem and elaborate ways to resolve it.
- Assist individual economies to assess the deficits and challenges in grain-related infrastructures and design a framework for the development of food market infrastructure to minimize food losses during storage and transportation.

- Improve global food market transparency by strengthening cooperation between the Agricultural Market Information System of the G20 and the Asia-Pacific Food Security Information Platform.

- Monitor the G20 “Action Plan on Food Price Volatility and Agriculture” and consider adopting, coordinating and implementing measures accordingly.

B. Addressing energy security

A recent 2012 study by the International Energy Agency (IEA) affirms that a technological transformation of the global energy system is possible. IEA projections demonstrate first, that the accelerated deployment of energy efficient and low-carbon technologies can lower fossil fuel import dependencies and energy intensity, and second, that every additional dollar invested in clean energy can generate three dollars in future fuel savings by 2050.

However, the IEA study also found that 9 out of 10 technologies that hold the potential for energy and CO2 emissions savings are failing to meet deployment objectives needed to achieve the necessary transition to a low-carbon future. Also, as energy demand grows, the slow uptake of energy efficiency technologies and continued dominance of fossil fuels may lock-in the building of high-carbon infrastructure. This is of direct concern to APEC economies which are addressing the immediate demands for both energy security and sustainable infrastructure development.

Recommendations:

- Diversify energy sources and reduce the region’s reliance on fossil fuel energy.
 - Address dependencies on fossil fuels, the efficient allocation of economic resources, and encourage private sector investment in clean and renewable energy, including hydro, solar, wind and biomass through fossil fuel subsidy reform. The development of a voluntary reporting framework within APEC is a positive step and ABAC urges APEC to establish a timetable

for phasing out and rationalizing inefficient fossil fuel subsidies.

- Work with ABAC to develop ways to increase the safe and environmentally-conscious exploration, evaluation and production of unconventional gas. These resources will play an increasingly important role in the future energy supply mix of many economies, especially as a transition fuel to renewables.
- Promote open and fair markets based on a transparent and predictable environment of laws and regulations which are critical for additional clean and renewable energy investments. Clear incentives can further encourage consumers, companies and investors to invest in a low-carbon future.
 - Adopt a collaborative bi-sector framework combined with clear terms of investment and regulatory regimes for public-private partnership innovations to address energy security concerns. ABAC believes that high-level cooperation and a regular exchange of information is essential to resolve cross-border energy supply and demand concerns in a timely manner.
 - Expand policies to diversify the energy mix and sustain investments in the development of clean and renewable energy sources.
 - Create financial mechanisms to encourage and support new investments in renewables.
 - Promote strong investment treaties that create secure, predictable and non-discriminatory legal environments that will encourage investment in energy projects.
- Enhance regional energy security and reduce dependencies on fossil fuel imports through regional trade of electricity. However, much work needs to be done before transmission and distribution infrastructure can be built and a regional market is created.
- Reduce barriers to cross-border energy investment and trade, invest in new transportation infrastructure and technology to maximize the availability of lower-carbon natural gas, and create economic frameworks that encourage the phasing out or upgrading of antiquated and inefficient power generation and industrial plants.
- Explore the idea of a region-wide power network.
- Strengthen efforts to facilitate and accelerate the deployment of energy efficient technologies in the region.
 - To encourage energy conservation and productivity, expand the exchange of best practices, better align standards of measurements and evaluation, support voluntary and market-driven measures that promote technology dissemination through trade and investment and facilitate the dissemination of environmental goods and services.
 - Take forward APEC's agenda on EGS:
 - Implement the Honolulu Declaration where Leaders agreed to work to develop in 2012 an APEC list of environmental goods and services in which to reduce, by the end of 2015, applied tariff rates to 5% or less.
 - ABAC applauds the MRT Kazan Statement resolving to dedicate all available resources by the APEC Ministerial Meeting in Vladivostok to fulfill Leaders' instructions to work to develop in 2012 an APEC list of environmental goods that directly and positively contribute to the region's green growth and sustainable development objectives on which they resolved to reduce by the end of 2015 applied tariff rates to 5 per cent or less.

- Promote technological innovation through research and development and demonstration projects to help realize a low-carbon future.

C. Facilitating technology dissemination, innovation and cutting-edge technology investment

Economies in the APEC region can enhance their prosperity by improving their capacity to adopt technologies from abroad and taking steps to enhance their capacity for innovation. ABAC recognizes the importance of voluntary, market-driven dissemination of technology and supports measures to create a legal and regulatory environment that encourages and facilitates this process. To expand the spread of technology, ABAC encourages economies to address barriers to trade and foreign investment. Additionally, economies should take steps to enhance absorptive capacity as well as promote innovative growth. To facilitate technology dissemination, ABAC also advocates coherent regulation and the strengthening of mutually beneficial partnerships among stakeholders in the APEC technology community.

Economies adopt technology through three main channels: foreign direct investment (FDI), international trade and networks. Measures to enhance investment climates and address trade barriers can help facilitate this process. In addition, consideration should be given to an economy's absorptive capacity to ensure that new technologies are effectively diffused within the adopting economy. Absorptive capacity can be expanded by maintaining a business-friendly environment with mechanisms to encourage entrepreneurship and commercialize technology, by investment in human resources to ensure that an economy's population has sufficient training and education to utilize technology and by developing infrastructure to ensure an economy is physically and electronically connected and has access to resources for research and development.

Economies should continue to promote effective, non-discriminatory and market-driven innovation policies by implementing the guidelines outlined by the innovation principles endorsed by APEC Leaders in 2011 with the

long-term objective of expanding their capacity to sustainably innovate.

ABAC is exploring the development of voluntary unified basic terms to support the dissemination of technology between companies of APEC members by simplifying, reducing and standardizing the terms used in technology dissemination agreements, and ensuring the uniform interpretation of the relevant contractual terms across APEC economies.

A leading source of innovative growth and economic development is the rapid adoption of leading edge technologies. Many leading technology companies, especially venture-backed SMMEs, which are the engine of much innovative technology development in the most advanced economies, lack the capacity and resources to fully commercialize and exploit their technology on a global basis. As a result, the most advanced technologies are often commercially exploited in only the most advanced economies for a long period of time.

ABAC calls for the development of an online information portal that enhances the dissemination of information about leading edge technologies and facilitates the licensing or commercial exploitation of such advanced technologies throughout the APEC region on a timely basis. ABAC believes that such a portal will enhance the capacity of technology developers to commercialize and exploit their leading edge technologies while accelerating access to the developing economies.

Recommendations:

- Promote the adoption of new technology by addressing barriers to trade and investment and taking steps to expand absorptive capacity throughout the region.
- Continue to support economies' implementation of the innovation principles endorsed by APEC Leaders at the 2011 APEC Economic Leaders' meeting, including by developing implementation guidance to assist economies in this effort.

- Support the establishment of the APEC Policy Partnership for Innovation (PPI). PPI should represent the whole APEC community of actors engaged in the technology inception, dissemination and commercialization cycle with both its competitive commercial sectors and non-profit elements (including academic and research institutions, technology transfer and licensing offices and companies, business incubators, patenting authorities, seed and venture capital funds, serial entrepreneurs, government-funded and self-sustained export agencies, overseas trade missions, technology companies and businesses).
- Encourage the establishment of international seed and venture capital investment funds, as well as technology business incubation and acceleration organizations, in APEC by propagating successful models, best practices and success stories in this area.
- Create an enabling environment for cross-border investment in cutting-edge technologies employing all variety of available investment tools.

IV. SMME & Entrepreneurship

SMMEs remain the backbone of most APEC economies accounting for more than 90 per cent of all businesses and employing as much as 60 per cent of the workforce. Given this, it becomes critically important to create an environment that nurtures the continued growth, development and success of SMMEs. Policies that spur innovation and entrepreneurship and that enhance business opportunities for SMMEs – including through access to international markets, finance and technology as well as capacity building initiatives – are important in this respect. To promote inclusive growth, such policies should take into account the participation of women and young people. Following an analysis on the characterization of SMMEs, their contribution to the economy and the differences in classifications among economies, ABAC will ensure that its 2013 work program is tailored so that it is relevant to the defined population.

A. Promoting the creation of new businesses and business models

1. Facilitating innovative growth across borders

Turbulence in the global economy in the last few years has shown us that for APEC economies to sustain their economic development, the quality of growth must be enhanced. Innovative growth – one of the pillars of the 2010 APEC Growth Strategy – is about the creation of an environment that fosters the development of innovation and emerging economic sectors. The 2012 ABAC Innovative Growth Initiative focused on studies at an international level to identify policies to foster innovative growth and how APEC SMMEs can utilize resources of cross-border innovative alliances. From the analysis and discussions, ABAC has identified key hurdles along the industrial development process that can hold SMMEs back from reaching partners overseas as well as major issues that should be addressed in order to foster such innovative growth for SMMEs.

ABAC is committed to further analyze barriers critical to SMMEs by promoting studies and surveys to help identify best practices and policies that foster SMME business development.

Recommendations:

- Construct an information exchange platform within the APEC architecture that includes information about international emerging industry clusters, cross-border human capital flow regulations and common industrial standards.
- Encourage APEC economies to hold bilateral matching activities to assist SMMEs searching for collaboration parties. Bilateral matching activities can guide SMMEs to enhance their competitive strengths and discover new alliances overseas.
- Connect SMMEs and industrial standards organizations through the APEC Sub-Committee on Standards and Conformance and construct a royalty fee payment consultative platform under the APEC

architecture to eliminate royalty fee payment issues.

- Encourage APEC economies to collaborate in implementing measures to promote international human capital flow within the APEC region. Measures could include:
 - issuance of APEC Specialist Travel Cards to professionals to reduce barriers to obtaining working visas
 - implementation of preferential income tax policies to facilitate cross-border human capital flows
 - enhancement of language learning to reduce language barriers

2. Improving access to angel and venture capital investment

A workshop on “Financing Innovation: Enabling Venture Capital in APEC” held by ABAC in Kuala Lumpur in May 2012 highlighted the need for government support in providing access to angel and venture capital investment by entrepreneurs. It was noted that only a few APEC economies have policies to develop and leverage local angel investment and venture capital. ABAC urges APEC economies to create policies, such as those outlined in Section VI(B) (2) below, that encourage private individual investors to get involved in funding SMMEs in order to facilitate a substantial increase in potential financing for SMMEs. Governments should create an enabling legal and regulatory framework that will encourage the flow of private sector resources into angel and venture capital as well as other financial activities that support companies across various stages of innovation.

B. Promoting the sustainability of businesses

Promoting internationalization of SMMEs through ICT

A number of barriers exist which inhibit SMMEs from participating in international trade. ABAC is seeking solutions to lower entry barriers to facilitate SMMEs’ participation in international business, enhance their capability to trade

goods and services internationally, and provide extensive e-commerce solutions that can increase the effectiveness and efficiency of SMMEs doing cross-border trade online.

ABAC believes that promoting the use of ICT and e-commerce platforms by SMMEs will reduce transaction costs and enhance their access to global markets. By using these technologies, APEC economies can further promote and facilitate the internationalization of SMMEs. Benefits to SMMEs include immediate access to global buyers, built-in and easy to use online shop solutions, established e-payments and trust and safety systems, among others. ABAC supports the development of online tools providing market access information to help SMMEs take advantage of opportunities to trade goods and services.

ABAC has promoted the sharing of best practices within APEC economies as a way of increasing knowledge and expanding the use of these tools. In particular, ABAC believes the APEC Services Trade Access Requirements (STAR) Database and the APEC Next Generation Interactive Tariff Database are useful tools that facilitate business – and, in particular, SMMEs’ ability to trade – by increasing customs transparency, centralizing otherwise dispersed information into a single repository, and by offering a user-friendly interface which allows businesses with limited resources the ability to navigate complex international trade rules.

Recommendations:

- Encourage the use of ICT and e-commerce platforms to promote and facilitate internationalization of SMMEs.
- Support the development of the APEC Next Generation Interactive Tariff Database and STAR Database and encourage APEC officials to coordinate efforts to ensure continuity, including funding.

C. Implementing voluntary codes of ethical business practice for SMEs

ABAC recognizes that corruption continues to pose a significant market access barrier for SMEs, disproportionately limiting their ability to prosper and grow. Seeking to

address the high cost of corruption in sectors of export interest to SMEs, ABAC welcomes the Ministers endorsement of principles for voluntary codes of business ethics for the medical device sector (The Kuala Lumpur Principles), biopharmaceutical sector (The Mexico City Principles) and the construction and engineering sector (The Hanoi Principles) developed by expert working groups in 2011. ABAC welcomes the progress of companies and industry associations to develop and implement voluntary codes of business ethics consistent with these principles. ABAC looks forward to APEC capacity building initiatives to expand the number of compliance trainers and build awareness among key stakeholders in support of the principles.

Recommendations:

- Encourage relevant professional organizations and other key stakeholders to embrace these principles as well as implement codes of ethics consistent with them.
- Urge government regulatory and anti-corruption authorities to advance ethical collaborations consistent with the principles.

D. Promoting the participation of women and young people in business

ABAC actively supports initiatives to promote the participation of women and young people in business. APEC has recognized the partnership and participation of women in realizing economic growth and prosperity, and thus the need to enhance women's economic opportunities and entrepreneurship. ABAC supports the events aimed at enhancing business opportunities for women, in particular, the Women and Economy Forum held in St. Petersburg, Russian Federation on 28-30 June 2012, and applauds the ABAC Women's Forum progress and achievements. This is a unique effort to strengthen the voice of business women within the APEC framework, enhance intra-APEC collaboration, and inspire the next generation of women entrepreneurs. ABAC will continue to support initiatives to strengthen women's participation in business across the APEC region as this will

provide a boost to inclusive and sustained economic growth.

ABAC commends the APEC Young Entrepreneurs' Summit held in Beijing on 5-6 June 2012, which served as a platform for the exchange of diversified and innovative ideas from all sectors covering key issues such as investment, social responsibility and innovation. ABAC will continue to support initiatives that enhance capabilities and create networking opportunities to increase young entrepreneurs' participation in international markets.

E. Supporting SME Summits

ABAC supports the development and holding of SME Summits. In 2007, ABAC started to arrange summits as a platform for sharing best practices and experiences, promoting communication among SMMEs, debating current issues and striking new partnerships. This year, summits have been scheduled in Hong Kong, China (21 February); Lima, Peru (23 August); and Haikou, China (early November). ABAC will share the recommendations of these summits with APEC officials in due course.

In addition, ABAC established an APEC SME Summit Coordination Center, developed an SME Summit website (www.apecsmesummit.org) and organized several events to build a platform for networking and building partnerships.

V. Infrastructure Development

To maintain the remarkable growth rates APEC economies have experienced in the past generation, governments will need to make a sustained and determined effort to promote investment in infrastructure. This year, ABAC has developed recommendations on steps APEC economies can take to bolster the development of the region's infrastructure using a lifecycle approach with three distinct areas: Design, Execution and Reinvestment.

A. Infrastructure design

For the purposes of ABAC's recommendations this year, the "design" of infrastructure encompasses three elements: planning, investment environment and financing mechanisms. All

are critical to success of infrastructure projects, the former because of the need for a specific project to be developed in the context of other elements of infrastructure and the latter two because of the need to attract the capital and expertise required to fund a particular project.

1. Infrastructure Planning

Infrastructure planning needs to be carried out in a holistic manner, accounting for physical and temporal contexts as well as environmental, economic and social impacts on economies. Planning must also consider a government's overarching economic development or economy-wide development plan. In many economies, the planning process is quite mature and implementation of development plans is well underway. However, as plans are revised or newly established, economies should leverage APEC as a forum for information sharing and coordination to maximize the contribution that new investments in infrastructure, from roads and rails to power and water supply, can make to promote APEC's overarching goal of regional economic integration.

Recommendations:

- Adopt an integrated infrastructure planning approach in the development and implementation of infrastructure projects and develop "APEC High-Level Planning Principles for Infrastructure Investment" that would guide government agencies in the planning and implementation of infrastructure projects.
- Establish a forum within APEC for economy-level infrastructure coordinating bodies to share best practices and identify opportunities for economies to leverage new infrastructure investment to promote regional economic integration.

2. Financing Infrastructure

From 2010 to 2020, Asia-Pacific economies will require roughly US\$8 trillion in infrastructure investment – a level of demand which cannot be met without investment from the private sector through PPPs.

Recommendation:

- Collaborate in developing concrete measures to provide conducive environments for infrastructure finance through the Asia-Pacific Infrastructure Partnership (APIP) dialogues with the private sector and multilateral agencies.

3. Improving the investment environment for infrastructure projects

The development of robust legal frameworks for PPPs will provide transparency and predictability for investments in specific infrastructure projects. However, to maximize their utility, these mechanisms must be developed in the context of a broader regulatory environment that promotes foreign direct investment. The Organization for Economic Cooperation and Development estimates that global infrastructure needs will top US\$70 trillion by 2030. This implies a competitive environment for attracting investment capital. To ensure that APEC economies are able to attract sufficient capital, ABAC recommends that APEC work to improve the investment environment through the adoption of strong investment principles and implementation of measures to facilitate investment. As many large-scale infrastructure projects involve active participation by governments, robust government procurement processes should be established to ensure the effective allocation of resources.

Recommendations:

- Revitalize the Investment Facilitation Action Plan by collaborating with the private sector to identify key barriers to investment and establish a process for benchmarking and measuring progress in improving the investment environment in APEC economies.
- Reaffirm the importance of moving quickly towards APEC-wide adoption of common, high-quality investment disciplines and ensure such disciplines are included in negotiations establishing pathways to free trade and investment in the region.

- Establish transparent, predictable and non-discriminatory government procurement processes that account for lifecycle costs to ensure effective allocation of government resources.
- Take steps to remove fundamental obstacles to FDI, such as complications, delays and lack of transparency in land acquisition processes, discriminatory policies and measures that seek to mandate certain domestic outcomes, including mandates to use local labor, local inputs, local joint venture partners and local technology, and weak and/or counterproductive economic policies which thwart growth, sustainable business and economic activity such as a lack of transparent taxation systems and the possibility of double taxation.

4. Strengthen anti-corruption and transparency in government procurement

The impact of corruption on GDP growth in both advanced and developing economies is well-documented. Corruption stifles entrepreneurship and international investment as businesses are less inclined to invest in markets where corruption is rampant. Government procurement of goods and services typically accounts for 10-15% of GDP for developed economies, and up to as much as 20% of GDP for developing economies. This value is even more significant when viewed in the context of government being the largest procurer of goods and services. Elimination of government procurement 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.

Governments play an integral role in the global economic recovery. Their choice between transparent or discriminatory procurement practices has a marked impact on international trade patterns. Addressing transparent government procurement practices should be an integral part of future trade agreements. Transparent procurement practices also enhance supply chains by reducing the time, cost and uncertainty of moving goods and services throughout the region, by simplifying

procurement procedures, removing bureaucratic inefficiencies, promoting innovation, as well as reinforcing anti-corruption efforts and public oversight. ABAC's work on government procurement as a next generation trade issue, and recommendations on increasing transparency and objective and sound criteria such as lifecycle costing in the procurement process, can play an effective role in facilitating anti-corruption efforts and creating a level playing field for businesses operating in the region.

Recommendations:

In putting forward these recommendations, ABAC recognizes the need for capacity building and flexibility in implementation time frame for developing economies:

- Identify a threshold that is subject to the rules governing procurement. APEC economies should seek a threshold for regional and local procurement commitments that creates more competition for regional and local procurement contracts.
- Apply equitable treatment to all government procurement contracts. Local and foreign invested operators should be treated equally with respect to qualification and award; the same concept should be applied for imported products where the source is an economy that is party to the free trade agreement.
- Limit the qualification and screening of commercial operators to objective and sound criteria essential to performance of the bid. Conditions for participation in tendering procedures should be limited to those which are essential to ensure the firm's capability to fulfill the contract in question. Conditions for participation required from operators should be no less favorable to operators of other economies than to domestic operators and shall not discriminate among suppliers of other economies.
- Ensure that the award of government contracts are based on lifetime operating costs, or, lifecycle cost, rather than initial

purchased price, and criteria on which the contracting authorities base the award of contracts shall be made available to all tenders. Contracts should be awarded on the basis of objective criteria 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. Lifecycle costing is a superior methodology for assessing the overall competitiveness of tenders, and provides a more transparent basis for comparing tenders. Where possible, the criteria on which the contracting authorities shall base the award of contracts shall be made available to all tenders to ensure transparency and reduce opportunities for corruption.

B. Infrastructure execution

1. Improving transport and logistics

Improvements of customs procedures, port and railway infrastructure developments will reduce significantly transportation costs on cargo movement among APEC economies, shorten lead time and provide significant working capital potential, as was demonstrated by the study on the significant cost saving effects of the potential extension of the Russian Trans-Siberian Railway (TransSib) and the development of the Northern Sea Route.

Recommendation:

- Take full account of growing opportunities and long-term benefits offered by a wider use of alternative transportation routes between the Asia-Pacific region and the rest of the world, as a result of implementation of domestic and international transportation infrastructure improvement projects.

2. Promoting the development of eco-cities

The total area of all APEC members is about 42% of the earth's dry surface. Therefore, the united efforts of our economies to promote living cities will produce a significant positive impact on the environment. There is a need to ensure that living cities criteria (societal,

environmental and economic) are taken into consideration when building new cities, re-constructing existing cities, or planning new infrastructure development projects.

Recommendations:

- Take substantial actions on altering the environmentally harmful ways of living, and introduce new principles and innovative solutions into city planning and infrastructure development, and follow harmonized criteria for living cities in APEC.
- Adopt a livable, low-carbon community and eco-city/living city approach based on the integration of social, environmental and economic principles when building and re-developing cities. Promote smart technologies for energy saving, support the construction of green buildings, reduce carbon emissions from the cities, and raise public awareness about the need for conserving energy. Support the proactive application of the living cities principles.
- Introduce effective incentives for the business community in APEC economies to respect the living city principles, including renewal of regulation so that living cities criteria are included in cities' construction plans, support for "green" industries; financial and tariff incentives, corporate social responsibility programs, as well as new regulation targeting the reduction of carbon footprint, greenhouse emissions, waste reduction and recycling.

3. Ensuring household water security in the urban area

Water is fundamental to steady economic growth. As the world becomes increasingly urbanized, securing access to safe water in the cities is critical to sustainable development.

Yet, there remains a large population in the cities of APEC economies that have no access to improved water source as set out in the Millennium Development Goals. As a means to resolving the situation, ABAC recommends implementation of long-term and stable

public-private partnerships. It is important to note that although the technology that such partnerships can utilize to achieve effective results is currently available, regulatory barriers are slowing its adoption.

Recommendations:

- Establish a forum dedicated to water security.
- Establish an environment conducive to private sector participation in the water business, clearly identifying the roles of the authorities and the private sector to mitigate risks for the latter.
- Promote trust-building and transparency among public authorities, private sectors and consumers in the water business, including through participation of consumers or local communities in PPPs to foster a sense of ownership.
- Create a business environment that hedges against business losses and currency risks and promote adequate disclosure of PPP projects in the water business.
- Ensure adequate attention to water in infrastructure development, including by balancing out the lower profitability of water business in overall city planning.

4. Promoting the development of information technology infrastructure

ABAC believes the development of physical infrastructure for information and communications technologies, with a focus on broadband deployment, is critical to the ongoing development of APEC economies. Studies show that broadband deployment contributes to GDP growth to a greater degree than other forms of ICT infrastructure such as fixed and mobile telephony. In fact, the World Bank estimates that a 10% increase in broadband penetration contributes a 1.3% increase to GDP. The effect is even stronger in developing economies.

As APEC economies seek to climb the value chain and transform to knowledge-based economic growth, they will require a robust, globally connected ICT infrastructure that creates opportunities for citizens to contribute

to the world economy. This will provide the essential platform to provide businesses with access to global goods and services markets and enhances the quality of life for people through e-government, e-health and e-government applications.

While ABAC believes the ICT infrastructure development should be primarily driven by the private sector, there are important roles for government to play in this area.

Recommendations:

- Establish and implement effective domestic broadband plans as a means of providing leadership and allocating resources to promote investment in ICT infrastructure.
- Take steps to close gaps that prevent broadband deployment by playing an active role in promoting deployment through incentives for areas, such as lower density rural and suburban regions, where demand for ICT-based services is not as certain.
- Promote initiatives to drive demand for broadband such as development of e-government and e-learning applications and increasing ICT competency levels of citizens.
- Create competitive business environments that incentivize private sector investment in next generation broadband and internet technologies.
- Maintain regulatory environments that provide fair and open access to infrastructure without reducing competition and that are sufficiently flexible to allow businesses to develop new business models.

C. Reinvestment in infrastructure

1. Infrastructure maintenance

Proper maintenance of infrastructure provides numerous benefits to economies. Most tangible are the extension of lifespan and maximization of capacity through the elimination of downtime. Proper maintenance increases returns on the

initial capital investment and ensures that the benefits provided by infrastructure are sustained and reliable.

Well-maintained infrastructure requires reliable and dedicated funding sources to cover the significant costs associated with maintenance. For example, the cost to maintain a road designed to last 30 years will be 77% of the initial capital expenditure. Governments will need to adapt funding sources to changes in technologies and lifestyles. In the case of road maintenance, an increase in the use of highly efficient gas vehicles and electric vehicles will limit the effectiveness of a gas tax as a source of funding. Scarce funds for infrastructure maintenance must be maximized through efficient allocation. Here, effective frameworks for prioritizing fund allocation to infrastructure elements and the use of public-private partnerships can serve as useful tools for governments.

Recommendations:

- Establish a regular dialogue among APEC member economies for the sharing of best practices in planning, funding and execution of infrastructure maintenance programs.
- Identify dedicated and reliable funding sources for infrastructure maintenance and regularly review policies to identify changes in technologies and lifestyles that may affect funding.
- Establish frameworks and mechanisms to increase the ability of governments to leverage public-private partnerships for ongoing maintenance of infrastructure as a means of maximizing financial resources.

2. Disaster preparedness and recovery

The earthquakes, floods, wildfires, typhoons and tornadoes and other events that struck APEC economies in 2011 underscore the fact that the Asia-Pacific region is highly prone to disasters. ABAC welcomes the outcomes of the High-Level Dialogue on Disaster Resilience convened in Hawaii in 2011 and looks forward to facilitating collaboration between the private sector and governments in APEC economies. In many cases,

private sector entities are the owners and/or operators of critical elements of infrastructure which makes public-private collaboration in the areas of disaster preparedness and recovery even more imperative.

Recommendations:

- Promote cooperation between government and private sector in the field of public safety. The relevant institutes should be organized to jointly discuss PPP mode, risk-bearing and reduction method, and strive to develop emergency system and facilities for promoting levels of disaster response, track trends, train rescue personnel, and develop material support.
- Foster technical collaboration between private sectors, coordinate related communication and innovation activity, supply relevant supports, and finish risk and consequence assessment.
- Strengthen cooperation and investment in public safety, and improve investment environment of public safety technology.

VI. Finance & Economics

A. Strengthening the stability of financial markets and integration of financial markets to support economic trade

1. Establishment of the Asia-Pacific Financial Forum

In the wake of the global financial crisis, many economies in the region have proven vulnerable to liquidity and credit constraints due to their over-reliance on a few traditional financial markets in advanced economies. The lack of robust and liquid domestic financial markets in these economies is also bound to pose a serious constraint to continued rapid growth in the future.

At a conference convened by ABAC in March 2012, senior representatives from financial authorities, the region's financial industry and key international bodies concluded that the region would greatly benefit from an overarching framework for enhanced regional public-

private collaboration that can complement various ongoing initiatives to help the region develop sound, efficient and integrated financial markets.

This collaborative framework, provisionally named the Asia-Pacific Financial Forum (APFF), is envisioned to be a platform for public-private sector collaboration in: (a) 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; and (b) shaping global financial regulatory reforms in support of the region's financial development goals.

Recommendation:

- Participate at a symposium to be held in early 2013 to discuss concrete way forward, especially on how the APFF can add value, complement and not unnecessarily duplicate other ongoing regional initiatives. This symposium will seek to develop a roadmap for enhanced public-private sector collaboration to promote the development, convergence and connectivity of markets in the region and to promote the development of global financial regulatory standards that are compatible with the region's needs. It is proposed that the symposium provide the foundation including a working agenda supporting the objectives of the Finance Ministers' Process. This agenda would support, enhance and assist in the development of the region's ideas and ideals, without duplicating the work of other institutions.

2. Promoting high-quality financial information

The outbreaks of global financial crisis and the European sovereign debt crisis have highlighted the problems in the current international credit rating system. To efficiently allocate capital, sound decision making is based on the availability of quality financial information. Credit rating systems are an important component of the capital markets, and a useful tool to accelerate financial market development. Financial reporting standards are also a crucial element of financial systems. Such standards

need to be formulated in a way that avoids unnecessarily adverse impacts on certain sectors of the economy.

(a) International credit rating system reform

The global financial crisis and the European sovereign debt crisis triggered a world-wide debate on the need for more supervision over the credit rating industry. After the financial crisis, the global community has greatly changed its regulatory standards on the rating industry. Steps have been taken by international organizations and individual economies to speed up supervision structure in terms of both basic statute and regulatory schemes. We are witnessing some progress in regulation arrangement since the financial crisis, yet the restructuring of international credit rating system needs to be pushed forward on the basis of lessons drawn from the crisis, as well as the rules of development of the credit economy and credit industry.

Recommendation:

- Develop policy and regulatory environments that are conducive to addressing conflict of interests, appropriate regulatory use of external ratings, promoting competition and the development of a sound domestic credit rating industry in the region.

(b) Implementation of IFRS

The introduction of robust and common accounting standards such as the International Financial Reporting Standards (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 and 2011 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. 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.

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.
- 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.

3. Financial stability policy

ABAC understands the importance of sound financial regulation in maintaining sustainable growth and stable financial systems. ABAC acknowledges that given the high level of connectivity in global financial markets, the impact of financial regulations extends beyond jurisdictional borders. In this regard, there is the risk 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 APEC economies, while the resilience of the financial system is required.

ABAC has sent a letter highlighting the following issues to APEC Finance Ministers, the Federal Reserve Board, the International Monetary Fund and the Basel Committee on Banking Supervision in April 2012: first, that due account be taken of the cross-border and extra-territorial effects of financial regulations and that the relevant authorities collaborate with each other in addressing those concerns. Second, account is taken of 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. Third, avoiding pro-cyclical effect on APEC economies and ensuring the region's continued growth are paid attention to in the new financial regulations.

Recommendation:

- Affirm commitment to financial stability and macro-prudential policies designed to strengthen member economies' financial systems and architecture with the aim of preventing financial systemic risk. ABAC further encourages APEC economies to undertake a regular global dialogue with regard to the debate on financial regulatory and supervisory policy and support a global minimum regulatory

standard which allows the authorities of each member economy in the region flexibility in dealing with particular domestic circumstances.

4. Financial regulatory reform in the APEC region

APEC economies should enhance efforts to monitor the influence of domestic financial regulatory reform on economic and financial development to mitigate extra-territorial effects that may lead to unintended negative consequences. Domestic financial regulation can have profound impacts and potential risks on the financial markets and banking development in the Asia-Pacific region. Strengthened cooperation, communication, and monitoring of the effects of these reforms as well as the sharing of experiences and implementation would be beneficial. ABAC is well positioned to provide input on the financial and commercial impact of regulatory reform and APEC should continue to strengthen exchanges with the business community to ensure that regulations do not hinder the sustainable development of economy and finance.

Recommendation:

- Encourage regulatory bodies to balance the needs of strengthening financial regulation with that of promoting financial innovation. In doing so, APEC economies should reflect the needs and priorities of the Asia-Pacific's financial sector, actively engage in reasonable international financial regulatory reform and recognize each economy's level of development in international financial regulatory reform. Finally, APEC has a role in monitoring and identifying with individual economy and transnational regulators the impact of regulatory reforms on economic and financial development, particularly on the developing economies and critical drivers of growth such as SMMEs.

5. Internationalization of emerging economies' currencies

With the rise of emerging economies, it is natural to expect their currencies to play more important roles in the region and global

markets, particularly for trade settlement and investment, and as anchor currencies to stabilize the regional financial markets/economies in times of turmoil in other regions.

Today, APEC economies face another crisis emerging outside the APEC region, which could potentially hinder them from attaining well-balanced and sustainable economic growth. Therefore, the promotion of emerging economies' currencies should be of immediate importance, as well as regional financial integration and regional market development.

Promoting the internationalization of emerging economies' currencies could bring advantages such as faster development of regional financial markets/economies and reduction of foreign exchange risks and could contribute to economic growth and recovery in the region but, at the same time, requires the monitoring of excessive volatility to ensure stable capital flows.

Recommendations:

- Promote the expanded role of emerging markets' currencies in trade and investment flows in view of their potential to become anchors in times of global financial and economic turmoil. An important element of this process is the monitoring of excessive volatility to ensure stable capital flows.
- Enhance the stability of financial markets in the region by promoting the expanded use of emerging economies' currencies for daily ordinary settlement for trade and investment with bilateral currency swap agreements as liquidity support by relevant authorities. Broadened emerging economies' currencies denominated deposit across APEC economies can be the base of those transactions and capital markets across APEC economies.
- Lead further development of Asian capital markets by promoting cross-border bond issuance denominated in emerging market currencies across APEC and review how the Asian Bond Market Initiative can be developed further by emerging market currencies bond issuance across the region.

6. Establishing a regional funds management passport regime

ABAC welcomes ongoing efforts made by finance officials and regulators to develop the Asia Region Funds Passport (ARFP). We are supporting these efforts by ensuring that private sector perspectives and requirements are taken into account in the development of the ARFP, including the proposed model and governing arrangements that are currently being formulated. We welcome closer collaboration with finance officials in further developing this work, particularly in the identification of a possible time frame for implementing a pilot ARFP.

Recommendation:

- Advance the work of the APEC Finance Ministers' Process on a regional funds management passport regime through a pathfinder initiative. This initiative should be pursued in conjunction with capacity building programs on cross-border recognition of equivalent regulatory regimes for issuing and trading financial products and services for developing APEC economies, with a view to these economies joining the pathfinder initiative once they are ready to do so.

B. Promoting practical solutions to support the importance of inclusiveness and access to finance for SMMEs

1. Asia-Pacific Infrastructure Partnership Dialogues

There is huge demand for infrastructure investment necessary for continued economic growth, which public sector investment alone cannot meet. Despite recent improvements in infrastructure-related policies, key constraints impeding private investment remain. Overcoming these constraints requires improved understanding and greater trust among relevant parties involved. Structures enabling parties to frankly and objectively discuss and consider complex matters facing each economy can contribute to better understanding of the issues and risks they face and create a

conducive environment for private financing of infrastructure.

In 2010, ABAC proposed an Asia-Pacific Infrastructure Partnership (APIP) to bring together high-level officials, experts and private sector advisory panelists from a wide range of relevant fields to help overcome constraints impeding private sector investment in the region's infrastructure. In 2011, a number of activities have been undertaken, including dialogues with the governments of three APEC economies and the preparation of studies responding to needs identified in the dialogues. Preparations are currently underway for further dialogues with several interested governments.

Recommendation:

- Continue supporting the APIP dialogues, collaborate in further expanding these dialogues in 2012 and 2013, and call for intensified public-private sector collaboration in infrastructure finance, in particular through APIP. ABAC encourages interested member economies to collaborate with APIP in undertaking dialogues and in taking steps to address challenges identified in these dialogues.

2. Promoting support for venture capital

Governments need to provide an enabling environment not just for venture capital, but for a whole chain of financial activities that support companies across various stages of innovation, of which venture capital forms part. An analysis of the venture capital ecosystem indicates several crucial roles that governments need to play. The first is catalyzing angel and venture capital through support programs. Experiences of various economies, including China, Korea, Malaysia, New Zealand and Russia, as well as in economies outside the region such as Brazil, Israel, and the UK, illustrate various ways how such support could be structured.

The second is providing an enabling legal and regulatory environment that will encourage the flow of more private sector resources into venture capital. These include the legal environment (such as laws governing bankruptcy, technology transfer, foreign investment and company

organization), tax policies and incentives and protection of minority investor rights, among others.

The third area where governments need to play an important role is in creating, maintaining and enhancing the fundamental conditions that encourage entrepreneurship and innovation, particularly at the incubation stage. These conditions need to provide an environment that is conducive to the growth of micro, small and medium enterprises, the development of a cadre of good fund managers and human capital, that sufficiently rewards risk-taking and innovation and promotes good corporate governance, transparency, sound risk management, research and development, tie-ups between university and industry, foreign investment and international trade, and ensures equivalent conditions of competition for like market participants among others.

Recommendations:

- Collaborate with ABAC and the Advisory Group on APEC Financial System Capacity Building under the APEC Open Innovation Initiative to develop public-private partnership mechanisms that can help governments catalyze angel and venture capital through effective support programs, provide enabling environments for financing business activities across various stages of innovation, and ensure the fundamental conditions for entrepreneurship and innovation, particularly at the incubation stage.
- 3. Promoting public-private collaboration in advancing financial inclusion

Since 2008, the Advisory Group has consistently advocated the importance of financial inclusion for the region and encouraged APEC to play a more active role as a platform for policy dialogue, sharing of experiences and capacity building in promoting greater financial access. To this end, the Advisory Group regularly brings together relevant officials, regulators, and representatives from the private sector, key international institutions and academe to discuss key issues in providing enabling environments for successful financial inclusion.

The 2012 Asia-Pacific Financial Inclusion Forum identified common basic elements of an enabling environment to promote financial inclusion - financial literacy, financial identity, proportionality of regulations and consumer protection, as well as linking microfinance to remittances. In addition, further extensive discussions were conducted on three issues that are of great importance to SMMEs: financial regulation, secured lending and credit information.

Recommendations:

- Develop a multi-year agenda for financial inclusion linked with ongoing efforts by the G20 and international financial institutions, focused on assisting member economies build their capabilities in providing a favorable environment for expanding access to finance for households and small businesses. We recommend that this multi-year agenda include public-private collaboration in developing robust and sustainable frameworks for financial literacy, financial identity, consumer protection and cross-border microfinance, as well as intensive capacity building for policy makers and financial regulators and supervisors to help them develop and implement effective and proportionate regulatory frameworks for financial inclusion.
- Develop model elements for an APEC code of security interest creation, perfection and enforcement. This includes creating clear perfection rules covering a broad array of collateral types, an exclusive and efficient registry system and broad licensing authority for commercial finance. We also recommend the continuation of public and private dialogue in order to validate improvements, as well as capacity building focused on encouraging collaboration among justice and law ministries where further Civil Code reforms are needed, information ministries where central e-databases are needed, and SMME ministries where it is possible to educate and build support for reforms.

- Promote the development of commercial credit information in the region as a way to improve access to finance by SMMEs. Efforts should focus on key issues, including (a) availability, quality, access and reuse of public sector data; (b) disclosure and compliance; (c) regulatory framework for data sharing; (d) access to bank information (loan performance data); and (e) financial literacy of SMMEs.

4. Enhancing health and retirement systems

ABAC believes that economic inclusion should cover financial and social inclusion as both are extremely important in promoting financial system stability and economic development. As such, sustainable fiscal stability in the region will be strengthened by enhancing the health and retirement systems so that they are capable of meeting community needs in an affordable way. This will mean a greater role in mobilizing private savings and less reliance on public funding. Whilst most economies have been preoccupied with the financial crisis as economies recommit to regional economic integration, these matters should receive priority. This is a critical matter for business – as a provider of health and retirement services – for financial markets – if they are to mobilize savings and investment products – and for governments with limited resources to address the changing demographics within their economies.

Recommendation:

- Ensure that development of health and retirement funding are an integral component of ongoing APEC agenda and dialogues.

C. Advising APEC Leaders and Finance Ministers on the implications for the Asia-Pacific region – as seen by business – of G20 recommendations on financial system reform

Ongoing monitoring of G20 Reforms

Balanced Growth without excess volatility of currency exchange and capital flow is G20's main agenda. In this context, G20 discusses the

international monetary system and the impact of developing economies. It is a consensus that the recovery of the global economy is important within APEC's regional economic growth. From a business point of view, the crucial point is to decrease the transaction cost, excessive volatility and irregular capital flows with regard to currency. In order to decrease these obstacles, policy cooperation is necessary as a package which combines macroeconomic policies (including monetary, currency and international balance) with growth policies through liberalization of trade and investment and structural reforms of each economy.

Recommendation:

- When setting domestic policy, avoid the unintended negative impact of regulatory reforms on all organizations across the region and the impediment to economic growth and regional economic integration. Furthermore, ABAC encourages economies to promote and establish collaborative methodologies for macroeconomic policy cooperation and coordination that consider the regional impact on economic growth of regulatory reforms.

VII. APEC Engagement and the Advocacy Plan

Over the past two years, ABAC has stepped up its engagement with APEC and has devoted considerable attention to how our members can optimize information exchange between APEC policy makers and the region's business community. ABAC has focused keenly on how to build back into individual economy business community stronger awareness of, and stronger input to, APEC and ABAC activity. ABAC has also supported the work of APEC's industry dialogues, which provide a regular forum for exchange of information between government, academics and industry.

A. Enhancing engagement with APEC

ABAC has sought to broaden exchanges beyond the annual letters and reports to Leaders, and to Ministers, to include focused input to senior officials' meetings, and in specific ministerials.

ABAC appreciates the openness of APEC senior officials to enhanced input and dialogue from the private sector, which has included not just interventions at many APEC working groups, but also issue-specific workshops and other information building and capacity building initiatives. Over the past year, these have included workshops and dialogues on investment facilitation, services liberalization, supply chain connectivity, finance and transportation as well as a public-private roundtable on energy security. ABAC is keen to develop these dialogues further, and looks forward to being able to augment our input on business concerns and priorities, including responses to initiatives being considered or developed in APEC.

B. Strengthening advocacy at home

In home economies, ABAC has launched an ABAC Newsletter for wide business circulation, and encourages formal briefing discussions between ABAC members and responsible government officials. It is ABAC's aim that through strong engagement with local business communities, we will be able to augment policy input in various APEC fora and build stronger local awareness of initiatives being developed by APEC.

C. Supporting industry dialogues

1. Life Sciences Innovation Forum

ABAC strongly supports the outcomes of the High-Level Meeting on Health and the Economy held in St. Petersburg on 27 June, which demonstrated the importance of investment in health as a key plank of economic development. We contend that the health of APEC citizens will determine the economic health and competitiveness of the region. As we stated in our letter to health ministers, the growth achieved by APEC economies in recent years is threatened by the increase in non-communicable diseases (NCDs) that has resulted from aging and lifestyle changes across the populations of APEC economies. In particular, we advocate a multi-sector approach to enhancement of health, with a focus on prevention, early detection and early interventions to ensure that our work force remains healthy and productive in the face of mounting health challenges.

ABAC applauds the important work of APEC in collaboration with the World Health Organization, academics, hospital administrators, patient organizations, and private sector knowledge partners to improve the quality and reduce the cost of healthcare in the region by addressing healthcare-associated infections, an unrecognized, endemic problem that each year affects hundreds of millions of patients and results in billions of dollars in excess healthcare costs.

2. APEC Chemical Dialogue

ABAC supports the enhanced regulatory cooperation initiatives of the Chemical Dialogue, including the continued leadership on the implementation of the Globally Harmonized System for Classification and Labeling of Chemicals (GHS). The chemical industry is an important contributor to manufacturing output and trade throughout the region. Increasingly, regulatory oversight of the chemicals sector is affecting downstream industries, including the electronics and aerospace industries. ABAC commends the Chemical Dialogue for focusing attention on some of the challenges imposed by these regulations including balancing the protection of trade secrets or confidential business information with the need for transparency, facilitating data exchange, and differing regulatory approaches to chemicals in articles. ABAC also welcomes the initiative of the Dialogue to establish a comprehensive website for first responders in the event of a chemical emergency as can occur during natural disasters and we advocate for its close cooperation with the APEC Emergency Preparedness Working Group. Finally, ABAC commends and encourages the Chemical Dialogue's contribution to the international chemicals agenda, including to the upcoming Third International Conference on Chemicals Management (ICCM3) in Nairobi.

3. Food Safety Cooperation Forum

ABAC commends the innovative work of the Food Safety Cooperation Forum (FSCF) and its Partnership Training Institute Network (PTIN) in bringing together food safety regulators, academics and industry to collectively build food safety capacity. One incident of unsafe food can jeopardize international trade flows

so building international food safety capacity is a critical element in maintaining the flow of international trade. ABAC also strongly applauds the FSCF-PTIN for its foundational role, in partnership with the World Bank, in the initiation of the Global Food Safety Partnership, a platform to address food safety issues in a coordinated manner on a worldwide scale, and encourages both member economies and industry to support this vital initiative.

that Leaders, Ministers and officials will find the recommendations useful as they chart the direction of APEC's work in 2013 and beyond. As the voice of business within the APEC process, ABAC is keen to see that our recommendations result in a better environment for businesses and, ultimately, in the greater prosperity of all peoples in the region.

VIII. Conclusion

ABAC has attempted to outline detailed recommendations which we believe can assist APEC economies deal with the risks and challenges facing the region, promote economic recovery and sustainable economic growth, and achieve the Bogor Goals of free and open trade and investment. ABAC hopes

ANNEXES



APEC BUSINESS ADVISORY COUNCIL



24 May 2012

Mr. Andrey Belousov

Chair, Meeting of APEC Ministers Responsible for Trade &
Minister of Economic Development
Russian Federation

Dear Minister Belousov:

On behalf of the APEC Business Advisory Council (ABAC), which Leaders have tasked to provide business inputs to the APEC process, I am pleased to submit to APEC Ministers Responsible for Trade (MRT) our recommendations in support of the common goal of promoting economic growth and recovery in the region.

The global economy remains fragile, exposing economies in the Asia-Pacific region to serious downside risks. Re-escalation of the Euro zone crisis looms as the primary threat to global growth and trade and we encourage all economies to participate in resolving the crisis. ABAC urges APEC economies to take resolute actions to guard against financial and sovereign risks, and the rise of protectionism, while pursuing trade liberalization and maintaining a robust growth trajectory.

In light of the continuing and disappointing lack of progress in the WTO Doha Round, ABAC calls on Ministers to ensure that substantive progress continues to be made towards a Free Trade Area of the Asia-Pacific (FTAAP) as a means for achieving regional economic integration and the Bogor Goals of free and open trade and investment in the region. To this end, we have been encouraged by recent progress in two of the leading pathways to FTAAP, the Trans Pacific Partnership and the Regional Comprehensive Economic Partnership. ABAC is keen that all pathways to FTAAP should reflect key principles of inclusiveness, comprehensiveness and transparency. These instruments should be open to all APEC economies that can meet the specific standards associated with the initiatives and should cover all sectors as well as next generation trade and investment issues. We welcome APEC's achievements in this area in 2011 and urge economies to continue to develop a consensus on ways to address these emerging issues, which can inhibit the full potential of global value chains and hinder the private sector's ability to leverage new business models to achieve growth.

ABAC's 2012 theme of "From Aspirations to Reality" reflects ABAC's desire to see APEC achieve concrete progress towards regional economic integration. To this end, we are developing specific recommendations to address transportation and logistics chokepoints caused by inadequate infrastructure as well as recommendations to narrow technology gaps among APEC economies through effective market-based and voluntary initiatives to promote technology dissemination. We encourage Ministers to maintain a tight focus on taking measures to enhance the connectivity of, and visibility through, regional supply chains. For our part, ABAC continues to assess the recommendations arising from our 2011 study of chokepoints in regional supply chains, including best practice information sharing, data collection, harmonization and simplification of customs procedures, systems standardization, ICT model measures and non-tariff barriers. We are developing a Cloud-based single window concept for which we will be seeking Ministers' support in due course. ABAC recommends a holistic and coordinated approach to implementing APEC's Supply Chain Connectivity Initiative. The stock-take or inventory of economy-specific policies and practices already underway will contribute to measuring APEC's progress to address chokepoints by providing economies with a simple, more quantifiable set of actions that build on the Supply Chain Connectivity Action Plan.

Food security continues to be a priority for ABAC. We support open markets that can effectively link food supply to demand and ensure that resources, particularly investment, flow efficiently. We recommend identifying and reducing barriers to facilitate investment cooperation in agri-food sectors and the creation of efficient markets responsive to real pricing signals. This, in turn, will strengthen the financial impact monitoring in agricultural commodity markets.

This year, ABAC is also seeking to initiate a new services agenda, building on our 2011 report entitled "Understanding Services at the Heart of a Competitive Economy". This called for the formation of an Experts Group to make concrete recommendations on services liberalization and for the consideration of a services-only liberalization negotiation. In this regard, ABAC welcomes the "Really Good Friends of Services Group" initiative being driven by certain WTO Members. We look forward to sharing our recommendations with APEC later this year.

ABAC's work program also includes a number of other initiatives in progress that are relevant to improving the business environment across APEC. An update on these initiatives is attached.

We look forward to participating at your meeting in Kazan to discuss these recommendations in greater detail.

Yours sincerely,



Ziyavudin Magomedov
ABAC Chair 2012

PROGRESS REPORT TO APEC MINISTERS RESPONSIBLE FOR TRADE – OTHER ISSUES

1. **Expanding the Information Technology Agreement.** Since coming into force in 1997, the Information Technology Agreement (ITA) has contributed to economic growth by ensuring tariff-free trade of information technology (IT) products. While technologies and IT products have advanced significantly over the past 15 years, the coverage of the ITA has remained unchanged. Additionally, an increasing number of IT products, including creative content and software, are being traded across borders in a digital format as so-called “digital products.” In response to these developments, ABAC encourages WTO Members to launch, in the near term, negotiations to expand the ITA’s product coverage and increase the number of participating economies to ensure the ITA continues to serve as a catalyst for economic growth and prosperity. Further, ABAC calls on APEC economies to adopt policies and measures that foster digital trade.
2. **Promoting technology dissemination through trade and investment.** ABAC believes that trade and investment are key channels for promoting technology dissemination. The dissemination of technology can be enhanced through the simplification of legal and regulatory barriers that prevent businesses from bringing technologies to new markets through cross-border trade and investment. A joint effort of APEC economies to develop a voluntary market-based technology dissemination framework and a set of best practices that would guide APEC technology ecosystem stakeholders including intellectual property (IP) valuation and taxation issues would be beneficial.
3. **Addressing energy security.** ABAC supports a multi-pronged approach to energy security, including the expansion of energy conservation efforts, promotion of clean and renewable energy sources, increased use of natural gas, increased energy productivity and cooperation on nuclear safety. To promote conservation and energy productivity, APEC should expand the exchange of best practices, harmonize standards of measurements and evaluation, support technology transfers that maximize benefits for all parties involved, and facilitate trade in environmental goods and services (EGS) for energy efficiency. ABAC urges APEC Ministers Responsible for Trade to implement the Honolulu Declaration where Leaders agreed to work to develop in 2012 an APEC list of environmental goods and services in which to reduce, by the end of 2015, applied tariff rates to 5% or less.

APEC should also reduce barriers to cross-border energy investment and trade, invest in new transportation infrastructure and technology to maximize the availability of lower-carbon natural gas, and create economic frameworks that encourage the phasing out or upgrading of antiquated and inefficient power generation and industrial plants. For the longer term, more attention must be directed at the creation of open and fair markets based on a transparent and predictable environment of laws and regulations, so as to support efficient regional trade of energy through integrated transmission infrastructure and domestic power grids, as well as innovative research which has the potential to reduce the production cost of clean and renewable energy.

4. **Advancing food security.** ABAC recommends the following policies to advance food security in the region: facilitate effective dissemination of food-related technologies; identify and reduce barriers to investment cooperation in agri-food sectors; increase collaboration and investment in food-related R&D; develop food market infrastructure to minimize food losses; create a reliable information system on food production, consumption and stocks; reduce barriers to trade in food products to create open, effective markets responsive to real pricing signals; and strengthen monitoring of the impact of financial instruments in agricultural commodity markets. ABAC applauds the creation of the APEC Policy Partnership on Food Security and asks Ministers to use this Partnership with the private sector as the focal point for developing and implementing a food security policy for the APEC region.

5. **Promoting investment in infrastructure.** Investment in infrastructure is vital to maintaining economic growth in the Asia-Pacific region. From 2010 to 2020, Asia-Pacific economies will require roughly \$8 trillion in infrastructure investment – a level of demand which cannot be met without investment from the private sector through public-private partnerships (PPPs). The Organization for Economic Cooperation and Development estimates that global infrastructure needs will top \$70 trillion by 2030 which implies a competitive environment for attracting investment capital. To ensure that APEC economies are able to attract sufficient capital, ABAC recommends that APEC work to improve the investment environment through the adoption of strong investment principles and protections such as outlined in ABAC's *Investing for Growth* report, including the need for predictable and transparent government procurement processes. By designing large-scale APEC infrastructure projects, the united efforts of our economies to promote and support *living cities* will also produce a major positive impact on the environment. ABAC's recommendations could serve as a helpful guideline when developing city planning and infrastructure development projects. ABAC invites APEC economies to collaborate in developing concrete measures to provide conducive environments for infrastructure finance through the Asia-Pacific Infrastructure Partnership (APIP) dialogues with the private sector and multilateral agencies.

6. **Promoting regional financial market integration.** The current global situation underscores the compelling rationale for the development and integration of financial markets in the region, which has proven vulnerable to liquidity and credit constraints due to its over-reliance on a few traditional financial markets in advanced economies. Global economic recovery and the resumption of previous robust levels of trade, investment and growth will hinge on the continued rapid development of the region's developing economies in coming years. However, the underdevelopment of their financial markets, unless addressed immediately, will pose a very serious constraint to achieving this goal. Key issues are the emergence of integrated and diverse funding markets, the further development of market infrastructure and regulatory frameworks, as well as the financial institutions that are vital for the recycling of savings and the sustained growth of markets for long-term securities and infrastructure finance.

ABAC proposes the establishment of an Asia-Pacific Financial Forum (APFF) to develop such sound and efficient markets. APFF is envisioned to be a platform for financial and regulatory agencies and the region's financial industry to collaborate in the development of regionally consistent regulatory frameworks and market infrastructure, as well as common approaches in shaping global financial regulatory reforms in support of the region's financial development goals. Given this issue's critical importance to trade and investment, ABAC invites APEC Ministers Responsible for Trade to fully support their governments' and businesses' active participation in APFF.

7. **Supporting cross-border data flows for goods and services supply chains.** International trade relies on a seamless commercial environment that allows for uninterrupted data flows across borders facilitating the movement of trade. Growth in the complexity and volume of global supply chains means that companies with locations all over the world need to be able to move supporting trade-related information across borders in order to efficiently and cost effectively deliver a business result. Lack of coherence and transparency in the application of regulations on cross-border data flows are a significant concern to the private sector. ABAC encourages APEC regulatory authorities to engage in best practices in the movement of data supporting trade, and to work in parallel with regional data privacy initiatives to ensure that they reflect the principle of free flow of trade-related data across borders.

8. **Ensuring water security.** Water security is the foundation for sustainable growth. In the early stages of industrialization, large-scale infrastructure works are given priority, but as the focus shifts to mid to long-term sustainable development, healthy and sound social foundation takes the center stage. In the case of water security, good water management in the urban area – with due consideration to environmental issues – is essential. Expansion of sewage system also weighs in, as reduction of environmental burden is another key to sustainable growth.

In economies with rapidly growing and urbanizing populations, public authorities alone will not be able to meet the rising need for water and sanitation facilities. ABAC therefore recommends that APEC embrace PPP to gain access to expertise and finance necessary to build water and sanitation infrastructures. Such PPPs must be carefully designed, taking into account the social dimension of this service. ABAC will develop recommendations with a view to achieving long-term and stable PPP management, outlining the roles of public authorities and private sector, considerations for operation and model business environment.

9. **Supporting the development of SMMEs.** Small, micro and medium enterprises (SMMEs) face numerous challenges, top of which is access to financing. For many SMMEs, there are barriers to access to international supply chains which include a lack of knowledge and resources to do business abroad. Capacity building initiatives, including workshops to teach small business owners about import-export opportunities and high-level events such as the APEC SME and Young Entrepreneurs' Summits, play an educational role in raising awareness about the cross-border opportunities and the benefits of globalization while imparting practical advice on skills needed for SMME success. Information and communications technology (ICT) tools, such as e-commerce platforms and online portals that provide information on overseas markets can assist SMMEs in exploring and conducting cross-border transactions. Capacity building initiatives and ICT go hand in hand and APEC can facilitate opportunities for SMMEs to educate themselves, develop new skills and access new markets.
10. **Financing innovation.** Overcoming existing challenges to the financing of innovation is important for maintaining the region's continued rapid economic growth. Governments play crucial roles in this process from the birth of an innovative idea to full commercialization and the sale of the company or product. One is catalyzing angel and venture capital through effective programs, such as tax credits, matching funds or optional buy-out programs and identifying, developing and mobilizing angel investor networks across different sectors. Another is providing an enabling legal and regulatory environment for the entire chain of financial activities that support companies across various stages of innovation, including angel investors in the early stages, venture capital in the middle, and private equity, commercial and investment banks and institutional investors such as pension funds in the latter stages, as well as exit mechanisms. A third is creating, maintaining and enhancing the fundamental conditions that encourage entrepreneurship and innovation, particularly at the incubation stage. ABAC recommends that APEC senior officials collaborate with ABAC and the Advisory Group on APEC Financial System Capacity Building under the APEC Open Innovation Initiative to develop public-private partnership mechanisms to help governments undertake these important tasks.



24 May 2012

Mr. Nikolay Fedorov

Chair, APEC Ministerial Meeting on Food Security &
Minister of Agriculture
Russian Federation

Dear Minister Fedorov:

ABAC is pleased that APEC has identified food security as a major priority for APEC 2012, and that the second Ministerial Meeting on Food Security will be convened this May.

Over the past decades, ABAC and APEC have made great efforts in promoting food security. In 1999, ABAC proposed a unified APEC Food System that was endorsed by APEC Leaders, but implementation was desultory. In 2009, ABAC published the document "Strategic Framework for Food Security in APEC" which explored key issues affecting food security. In the 2010 Niigata Declaration, Ministers declared that APEC economies would collectively pursue the shared goals of (i) sustainable development of the agricultural sector, and (ii) facilitation of investment, trade and markets, and Ministers endorsed an APEC Action Plan on Food Security which identified 62 specific activities to be implemented by 14 APEC economies. Since implementation is mainly carried out by academies of agricultural sciences or other research institutes with little involvement from business circles or agri-food enterprises, it is sometimes hard to realize effective cooperation for the proposals.

Therefore, ABAC applauds the creation of the APEC Policy Partnership on Food Security and asks Leaders to direct their governments to use this Partnership with the private sector as the focal point for developing and implementing a food security policy for the APEC region.

This year, ABAC has conducted an open and transparent selection process for the principal advisor to the PPFS Management Council and launched the nomination process of the private sector representatives to PPFS. As a result, PPFS has currently more than 50 representatives in its composition who are representing supply and demand sides along with agri-food-related industry bodies, farmers' groups and individual companies.

ABAC supports open markets that can effectively link food supply to demand and ensure that resources, particularly investment, flow efficiently. ABAC recognizes that there are some new challenges which have made the food situation ever more complex. Faced with these new challenges, we propose to take concrete actions with more involvement from the private sector, firstly aimed at expanding global food supply and nutritional capacity, and secondly, reducing food price fluctuations and post-harvest losses in the global market.

We particularly request your kind attention on the following outstanding issues and relevant actions:

1. Facilitating effective dissemination of food-related technologies and food safety systems

We believe that technology is key to increasing food output and ensuring a safe and stable food supply. In past years, technology played an unquestionable role in increasing food output and ensuring a stable food supply. However, the role of technology in enhancing grain yield in developed economies has weakened, while for developing economies technology still has great potential to boost yield.

Therefore, we recommend that APEC consider the possibility of establishing technology dissemination centers in APEC economies in the agri-food sector to coordinate innovative activities, provide assistance with technology dissemination, assess risks and possible consequences from using innovative technology, and develop demonstration projects for food-related technology dissemination. We also recommend close collaboration with the APEC Food Safety Cooperation Forum.

2. Increasing collaboration and investment in the agri-food sector

We are concerned that the longstanding under-investment in agriculture across the globe may have resulted in low agricultural productivity and stagnation in many economies, especially in developing economies. To address the task of enlarging the food supply in APEC economies, it is necessary to significantly increase public and private investments.

Therefore, we propose that APEC should, through the PPFS, improve the business environment in APEC economies with the aim of facilitating investment in the agri-food sector while identifying existing barriers to investment cooperation. We recommend that APEC consider working out a regional strategic investment plan and elaborating measures to attract targeted investments into the agri-food sector.

3. Developing food markets infrastructure

We agree that the development of food market infrastructure and improvement of their logistics plays an important role in the overall development, liberalization and mutual integration of markets, creating the basis for their more efficient functioning and further expansion.

Logistical processes, such as storage and transportation, are always accompanied by losses. Thus, the development of market infrastructure would significantly reduce losses along the whole food supply chain (production, storage, transportation and distribution).

Therefore, we propose that APEC consider developing a unified methodology for assessing post-harvest losses in the APEC member economies' food sector to acquire comparable data in order to analyze this problem and elaborate ways to resolve it, including by concentrating on the more efficient management of both ambient and refrigerated supply chains. We also suggest APEC design a framework for the development of food market infrastructure to minimize food losses during transportation, and for the greater affordability of food to vulnerable populations and provide better risk mitigation for short-term food emergency needs.

4. Improving global food market transparency

Food price volatility was a main agenda item during the presidency of France at the G20 Summit. G20 governments have created the Agricultural Market Information System (AMIS). According to the Food Security Action Plan adopted in Niigata in 2010, Japan is developing the Asia-Pacific Food Security Information Platform (APIP).

Therefore, we suggest that APEC consider areas of cooperation between AMIS and APIP, as well as the possibility of having APEC economies that are not G20 or AMIS members participate in the two information systems.

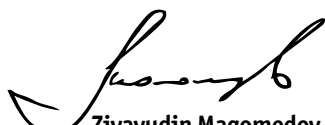
5. Monitoring the impact of financial instruments

Speculation makes markets more active, however it also can have a negative impact on the final price for consumers. Therefore, it is necessary to strengthen monitoring of the impact of financial instruments.

ABAC recommends that APEC monitor the G20 "Action Plan on Food Price Volatility and Agriculture" and consider adopting, coordinating and implementing measures.

We are ready to discuss the above-mentioned issues and proposals with you at the upcoming APEC Ministerial Meeting on Food Security in Kazan this May.

Yours sincerely,



Ziyavudin Magomedov
ABAC Chair 2012



24 May 2012

Mr. Alexander Novak

Chair, APEC Energy Ministerial Meeting &
Minister of Energy
Russian Federation

Dear Minister Novak:

ABAC commends the APEC Energy Ministers for the progress made in enhancing regional energy security. Specifically, we applaud recent efforts to address market-distorting policies including voluntary reporting by APEC economies of inefficient fossil fuel subsidies that encourage wasteful consumption.

Fossil fuel subsidy reform is an important factor in addressing dependencies on fossil fuels, the efficient allocation of economic resources, and encouraging private sector investment in clean and renewable energy, including hydro, solar, wind and biomass. The development of a voluntary reporting framework within APEC is a positive step and we urge Ministers to establish a timetable for phasing out and rationalizing inefficient fossil fuel subsidies.

Energy security continues to be an urgent regional concern and we believe that high-level cooperation and a regular exchange of information is essential to resolve cross-border energy supply and demand concerns in a timely manner. We therefore recommend that APEC commit to an annual Energy Ministers' Meeting and public-private sector forum, with the goal of developing a collaborative, strategic and long-term APEC energy security framework. This collaborative bi-sector framework combined with clear terms of investment and regulatory regimes for public-private partnership innovations will be crucial to successfully addressing APEC's energy security challenges.

ABAC supports a multi-pronged approach to energy security, including the expansion of energy conservation efforts, promotion of clean and renewable energy sources, increase use of natural gas, increase in energy productivity, and cooperation on nuclear energy safety:

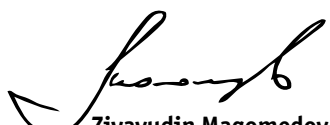
- To promote conservation and energy productivity, APEC should expand the exchange of best practices, harmonize standards of measurements and evaluation, support technology transfers that maximize benefits for all parties involved, and facilitate the dissemination of environmental goods and services (EGS) for energy efficiency.
- APEC should also reduce barriers to cross-border energy investment and trade, invest in new transportation infrastructure and technology to maximize the availability of lower-carbon natural gas, and create economic frameworks that encourage the phasing out or upgrading of antiquated and inefficient power generation and industrial plants.
- Addressing market-distorting policies is an important step to increase investor confidence and support energy diversification. ABAC believes that more attention should be directed at the creation of open and fair markets based on a transparent and predictable environment of laws and regulations, so as to support efficient regional trade of energy as well as innovative research which has the potential to reduce the production cost of clean and renewable energy.
- On the issue of EGS, we encourage APEC officials, who have been tasked to identify a list of goods and services that "directly and positively contribute to green growth and sustainable development objectives," to make this as comprehensive as possible.

- A livable, low-carbon community and *living city* approach is based on the integration of social, environmental and economic principles when building and re-developing cities. Living cities promote smart technologies for energy saving, support the construction of green buildings, reduce carbon emissions from the cities, and raise public awareness about the need for conserving energy. ABAC supports the proactive application of the living cities principles and further demonstration projects which achieve this goal.
- Unconventional gas prospects are poised to play an increasingly important role in the future energy supply mix of many economies, especially as a transition fuel to renewables. We pledge to work with Ministers to develop ways to increase the safe exploration, evaluation and production of these resources.

In 2012, ABAC confirms its recommendations made last year and requests that the Ministers instigate positive actions to address these issues.

We are ready to discuss the above issues with you at the upcoming APEC Energy Ministers' Meeting in St. Petersburg this June and to provide officials feedback on ongoing energy initiatives.

Yours sincerely,



Ziyavudin Magomedov
ABAC Chair 2012



24 May 2012

Ms. Veronika Skvortsova

Chair, High-level Meeting on Health & the Economy
Minister of Health
Russian Federation

Dear Minister Skvortsova:

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 supporting 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 applauds Russia's decision to hold a High-level Meeting on Health and the Economy in St. Petersburg on 27 June 2012. In its annual Report to APEC Leaders in 2011, ABAC commended the foresight of the APEC Health Working Group and the Life Sciences Innovation Forum in holding the first high-level and multi-sectoral Health Systems Innovation Dialogue to discuss ways of establishing multi-sectoral partnerships to address non-communicable disease challenges in the region. The second annual APEC High-Level Health Meeting in Russia is an important step towards ensuring that this important issue remains high on the APEC agenda.

Healthy populations clearly improve quality of life but they are also a critical element of economic growth and development. The growth achieved by APEC economies in recent years is threatened by the increase in non-communicable diseases (NCDs) that has resulted from aging and lifestyle changes across the populations of APEC economies. The World Health Organization (WHO) estimates that each 10% rise in NCDs is associated with a .5% decrease in GDP. In contrast, improvements in health are clearly associated with increased economic productivity. For example, WHO studies suggest that a one-year increase in average life expectancy is linked to a 4.3% increase in GDP. The public and private sectors have an interest in maintaining healthy, productive workforces and robust healthcare systems that will be vital to driving the sustained economic growth in APEC economies.

Collaboration between the public and private sectors in promoting health, including through public-private partnerships, is essential to responding to the growing threat of NCDs to sustainable economic growth in APEC. The public sector plays a crucial role in strengthening the overall health system in a way that promotes prevention and early detection of NCDs among high-risk populations. Many private sector companies have found that investing in the health and well-being of their employees can help combat NCDs and generate a measurable and significant return on investment in terms of higher productivity, lower absenteeism and lower disability. Together, public and private sector efforts to promote better health can help reduce the economic burden of disease and transform health into a valuable economic asset. ABAC urges APEC economies to promote best practice sharing and capacity building on ways to promote healthy communities and workforces.

In addition, the potential for the private sector to contribute to the development of healthy, productive populations can be enhanced by government steps to encourage innovation, reduce regulatory burdens, and emphasize transparency and compliance while reducing corruption. For example, the public sector plays an important role in creating a regulatory environment that supports innovation in the life sciences while the private sector contributes by conducting research and development of innovative new products and services. ABAC encourages you and your colleagues to maintain a dialogue with ABAC and other private sector stakeholders to ensure the potential of the private sector is leveraged to the fullest extent.

ABAC looks forward to supporting outcomes from the High-Level Dialogue that highlights further opportunities for business and government to collaborate and address the health challenges in the region.

Thank you for your leadership on the health care discussion this year. We wish you a productive set of meetings.

Yours sincerely,



Ziyavudin Magomedov
ABAC Chair 2012



APEC BUSINESS ADVISORY COUNCIL



19 July 2012

Mr. Maksim Sokolov

Chair, APEC Transportation Ministerial Meeting &
Minister of Transport
Russian Federation

Dear Minister Sokolov:

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 supporting 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.

As you prepare for your meeting in St. Petersburg, we would like to draw your attention to a number of issues regarding supply chains that are of critical importance to the private sector.

Connectivity. Increased connectivity among APEC economies through roads, rail, sea, and air will lay the groundwork for the expansion of supply chains and growth in international trade. In many economies, the lack of transport infrastructure or the poor condition of existing transport infrastructure is limiting the ability for regions to participate in the global economy. When upgrading or developing new infrastructure, economies should take advantage of new, highly efficient technologies such as railroad electrification, single window concept, standardized codes for marking and tracking goods, and a wider use of integrated satellite navigation systems. APEC economies will need to leverage the private sector through public-private partnerships (PPPs) to procure capital needed to close the transport infrastructure deficit. To attract the necessary capital, ABAC recommends that APEC work to improve the investment environment through the adoption of strong investment principles and protections such as outlined in ABAC's Investing for Growth report, including the need for predictable and transparent government procurement processes. Further, ABAC invites APEC economies to collaborate in developing concrete measures to provide conducive environments for infrastructure finance through the Asia-Pacific Infrastructure Partnership (APIP) dialogues with the private sector and multilateral agencies.

Competitiveness. In addition to building new infrastructure assets, economies can enhance the capacity of existing infrastructure by improving the regulatory environment for transport and logistics services. ABAC urges Ministers to review current and new regulatory initiatives with an eye towards the principles of regulatory coherence, including the principles identified by ABAC in 2011: a) encouraging the adoption of international standards to promote supply chain efficiencies and visibility; b) use performance-based regulations; c) adopt trade-friendly regulations; d) address unnecessary costs of regulations; e) promote domestic and cross-border regulatory cooperation; f) utilize regulatory impact assessments; g) use consultation mechanisms; h) enforce regulations in a transparent and equitable manner; and i) explore alternatives to regulations.

ABAC also encourages economies to increase the competitiveness of transport and logistics services through liberalization efforts. Transport and logistics sector liberalization can bring benefits, including lower costs and faster movement of goods and can result in a virtuous cycle whereby international trade is increased and that, in turn, may increase the demand for more transport and logistics services. ABAC further notes the need to take full account of growing opportunities and long-term benefits offered by a wider use of alternative transportation routes

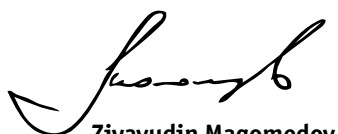
between the Asia-Pacific region and the rest of the world, as a result of implementation of domestic and international transportation infrastructure improvement projects. In particular, significant improvements can be achieved through measures that simplify and expedite customs clearance and the implementation of electronic systems and/or simplified documentation.

Resilience. The earthquakes, floods, wildfires, typhoons and tornadoes and other events that struck APEC economies in 2011 underscore the fact that the Asia-Pacific region is highly prone to disasters. The earthquake and tsunami in Japan and the flooding in Thailand, in particular, placed in stark relief the ever-present risk of disruptions in the global supply chains that span the APEC region. Businesses can take steps to minimize exposure to the risk of supply chain disruptions caused by disasters through changes in business practices. Meanwhile, there is scope for cooperative efforts between the public and private sectors in disaster preparedness and recovery. With regard to preparedness, ABAC urges economies to establish fora for ongoing dialogue on disaster readiness between public and private sector stakeholders so that critical lines of communication are established prior to event, not after. Further, ABAC believes there is also a clear need for economies to step up the level of emergency preparedness so that they can keep supply chains, and business critical infrastructure, open in times of large-scale disasters using best practices of online technologies.

Reinvestment. Proper maintenance of infrastructure provides numerous benefits to economies. Most tangible are the extension of lifespan and maximization of capacity through the elimination of downtime. Proper maintenance increases returns on the initial capital investment and ensures that the benefits provided by infrastructure are sustained and reliable. Scarce funds for infrastructure maintenance must be maximized through efficient allocation. Here, effective frameworks for prioritizing fund allocation to infrastructure elements and the use of public-private partnerships can serve as useful tools for governments.

As a first step in implementing these recommendations, ABAC recommends that APEC conduct a series of feasibility studies to optimize multi-modal transport and relevant infrastructure development plans within APEC economies.

Yours sincerely,



Ziyavudin Magomedov
ABAC Chair 2012



19 July 2012

Mr. Vladimir Simonenko

Chair, APEC SME Ministerial Meeting &
Deputy Minister of Economic Development
Russian Federation

Dear Deputy Minister Simonenko:

On behalf of the APEC Business Advisory Council, I would like to share our key recommendations related to small, medium and micro-enterprises (SMMEs) and entrepreneurship. Among the issues identified by APEC as barriers to SMME cross-border trade, ABAC has prioritized areas that are critical to support the continued growth and development of SMMEs and entrepreneurship. These issues are common to both developed and developing economies and promote collaboration between APEC and ABAC.

ABAC supports policies promoting the creation of new businesses and business models. In this regard, we believe economies need to tackle barriers hampering SMMEs from taking advantage of cross-border strategic alliances that can facilitate innovative growth. Turbulence in the global economy in the last few years has shown us that, for APEC economies to continue their economic development, the quality of growth is crucial in order to create an environment that fosters the development of innovation and emerging economic sectors. ABAC recommends that APEC economies: i) enhance industry and business information exchange for SMMEs relating to industrial clusters, intellectual property rights, industrial standards and human capital to enhance business competitiveness; ii) build awareness and promote creation of International R&D and Innovation Strategic Alliances; and iii) promote policies to facilitate cross-border human capital flows. ABAC is supporting studies to identify policies to foster innovative growth and how SMMEs can utilize the resources of cross-border innovative alliances.

Access to finance is a major constraint for SMME development. ABAC identified the need for government support in encouraging access to angel and venture capital investment by entrepreneurs by: i) catalyzing angel and venture capital through support programs which encourage investments in small businesses for example, tax credit, matching funds or optional buy-out program and ii) identifying and mobilizing angel and venture investors to support SMME growth across different sectors. These efforts need to be supported by promoting enabling legal and regulatory environments for the entire chain of financial activities that support companies across various stages of innovation, including angel and venture capital in the early and middle stages and private equity, commercial and investment banks and institutional investors in the latter stages, as well as exit mechanisms. They also require that fundamental conditions that encourage entrepreneurship and innovation, particularly at the incubation stage, are in place. We recommend that APEC economies collaborate with ABAC in developing public-private partnership mechanisms to help governments undertake these important tasks.

ABAC promotes initiatives that facilitate SMMEs' participation in international business. In this regard, we consider it important to promote the development of information and communications technology (ICT) and e-commerce platforms for use by SMMEs to reduce transaction costs and connect them to global markets. By using these technologies, we can further promote and facilitate the internationalization of SMMEs. Targeted outcomes will be immediate access to global buyers, built-in and easy to use online shops, established e-payment and trust and safety systems as well as experienced online training which can help SMMEs begin to sell their products globally.

ABAC supports the development of online single window initiatives to facilitate use of market access information which can help SMMEs take advantage of export opportunities for goods and services. Customs transparency is regularly cited by the private sector as a major impediment to doing business in the APEC region. This lack of transparency creates a significant barrier to trade and investment and hinders APEC's efforts to support the free flow of trade in goods and services across the region. ABAC strongly supports the development of the APEC Next Generation Interactive Tariff Database and the Services Trade Access Requirements (STAR) Database as tools to address these barriers. We encourage APEC officials to coordinate efforts to enhance continuity, address funding, and ensure that the databases are commercially relevant. Furthermore, APEC SME Summits are an important venue to promote use of these databases and further coordination between ABAC and APEC is necessary to build momentum for awareness and use of these databases.

ABAC is committed to further analyze critical barriers to SMME business by promoting studies and surveys that help identify best practices and policies fostering SMME business development.

Encouraging women and young people to participate in business across the APEC region will provide a boost to inclusive and sustained economic growth. ABAC endorsed the establishment and welcomes the progress of the ABAC Women's Forum. ABAC also applauds the success of the APEC Young Entrepreneurs' Summit recently held in Beijing. We look forward to supporting initiatives that enhance capabilities and create networking opportunities to increase the participation of women and young entrepreneurs in international markets.

Following analysis on the characterization of SMMEs, their contribution to the economy and the differences in classifications among economies, we will ensure that our 2013 work program is tailored so that it is relevant to the defined target population.

Seeking to address the high cost of corruption in sectors of export interest to SMEs, ABAC welcomes the Ministers endorsement of principles for voluntary codes of business ethics in the medical device sector, biopharmaceutical sector and the construction and engineering sector. ABAC welcomes the progress of companies and industry associations to develop and implement voluntary codes of business ethics consistent with these principles and encourages economies to embrace these principles as well as implement codes of ethics consistent with them.

ABAC believes that these recommendations will strengthen APEC SMMEs' participation in business as they are drivers of sustained economic growth. We look forward to participating at your meeting in St. Petersburg in August to discuss these recommendations.

Yours sincerely,



Ziyavudin Magomedov
ABAC Chair 2012



APEC BUSINESS ADVISORY COUNCIL



19 July 2012

Mr. Anton Siluanov

Chair, APEC Finance Ministers' Meeting &
Minister of Finance
Russian Federation

Dear Minister Siluanov:

On behalf of the APEC Business Advisory Council (ABAC), we are honored to share with APEC Finance Ministers our views on the key challenges facing our region today.

A year on since our last report, the global economy is entering an era of greater uncertainty as it continues to struggle with the legacy of the global financial crisis and the escalating turmoil in the Euro zone. Economies in the region have proven vulnerable to liquidity and credit constraints. Coupled with these financial constraints, the region's emerging markets remain significantly dependent on trade and, thus, stand to suffer heavily from the consequences of another serious downturn in Europe and North America and further consumption contractions in our region. It is imperative that all economies continue with the process of monitoring excessive market volatility to ensure stable capital flows.

We believe that collaboration between the public and private sectors is a key element that can ensure the success of the following initiatives. The formation of the Asia-Pacific Financial Forum (APFF) provides a forum through which we can design, build, connect and maintain sound, effective and efficient financial systems in our region.

Asia-Pacific Financial Forum. ABAC proposes convening an Asia-Pacific Financial Forum as a framework for enhanced regional public-private collaboration that can complement ongoing initiatives to help the region develop its financial markets. Considering that further discussions are needed on the concrete way forward, especially on how the APFF can add value, complement and not unnecessarily duplicate other ongoing regional initiatives, ABAC recommends that discussions be held at a symposium in early 2013. This symposium will seek to develop an agenda for enhanced public-private sector collaboration to promote the development, convergence and connectivity of markets in the region and promote the development of global financial regulatory standards that are compatible with the region's needs. It is proposed that the symposium provide the foundation including a working agenda supporting the objectives of the Finance Ministers' Process. This agenda would support, enhance and assist in the development of the region's ideas and ideals, without duplicating the work of other institutions.

Promoting financial inclusion. With growing constraints on public resources, mobilizing private resources to serve financial needs of low income households and small enterprises has become ever more important. ABAC urges Finance Ministers to develop a multi-year agenda for financial inclusion linked with ongoing efforts by the G20 and international financial institutions, focused on assisting member economies build their capabilities in providing a favorable environment for expanding access to finance for households and small businesses. We recommend that this multi-year agenda include public-private collaboration in developing robust and sustainable frameworks for financial literacy, financial identity, consumer protection and cross-border microfinance, as well as intensive capacity building for policy makers and financial regulators and supervisors to help them develop and implement effective and proportionate regulatory frameworks for financial inclusion, including legal architecture for secured lending.

Active participation in the Asia-Pacific Infrastructure Partnership (APIP). Structures that enable parties to frankly and objectively discuss complex matters facing each economy can contribute to better understanding of the issues and risks they face and conducive environments for private financing of infrastructure. In 2010, ABAC initiated the Asia-Pacific Infrastructure Partnership (APIP) dialogues to bring together high-level officials and private sector experts

from a wide range of relevant fields. ABAC calls on Finance Ministers to continue supporting the APIP Dialogues and encourages all member economies and the private sector to continue and further expand these dialogues in 2013.

Catalyzing angel and venture capital. ABAC recommends effective programs to support angel and venture capital. ABAC urges Finance Ministers to help provide an enabling legal and regulatory environment for the entire chain of financial activities that support companies across various stages of innovation, including angel investors in the early stages, venture capital in the middle, and private equity, commercial and investment banks and institutional investors such as pension funds in the latter stages, as well as exit mechanisms.

Expanded use of emerging market currencies. With emerging markets' growing economic importance, their currencies will play more important roles in global and regional markets. 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 in times of global financial and economic turmoil.

Promoting high-quality financial information. The outbreaks of global financial crisis and the European sovereign debt crisis have highlighted the problems in the current international credit rating system. This crisis exposed limitations in credit ratings and financial information. To efficiently allocate capital, sound decision making is based on the availability of quality financial information. Credit rating systems are an important component of the capital markets, and a useful tool to accelerate financial market development. Financial reporting standards are also a crucial element of financial systems. Such standards need to be formulated in a way that avoids unnecessarily adverse impacts on certain sectors of the economy.

ABAC supports a considered approach to the implementation of the International Financial Reporting Standards (IFRS) that incorporates impact analysis of certain provisions, such as for lease accounting and insurance contracts, particularly their impact on SMMEs and further dialogue among key standards-setters, regulators and the business community.

ABAC recommends the development of policy and regulatory environments that are conducive to addressing conflict of interests, appropriate regulatory use of external ratings, promotion of competition and the development of a sound domestic credit rating industry in the region.

Establishing a regional funds management passport regime. We welcome ongoing efforts made by finance officials and regulators to develop the Asia Region Funds Passport (ARFP). We welcome closer collaboration with finance officials in further developing this work, particularly in the identification of a possible time frame for implementing a pilot ARFP.

In conclusion, we recognize that the above challenges confronting our region 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 Moscow, where we hope to discuss the issue of financial stability and the facilitation of public-private collaborative approaches to promoting balanced, inclusive, sustainable, innovative and secure growth across the Asia-Pacific region.

Yours sincerely,



Ziyavudin Magomedov
ABAC Chair 2012

APEC BUSINESS ADVISORY COUNCIL

Founding and Structure

The APEC Business Advisory Council (ABAC) was created by the APEC Economic Leaders in November 1995 to provide advice on the implementation of the Osaka Action Agenda and on other specific business sector priorities, and to respond when the various APEC fora request information about business-related issues or to provide the business perspective on specific areas of cooperation. It is the sole non-governmental entity that has an official role in the APEC Economic Leaders' Meeting through a formal dialogue.

ABAC comprises up to three members of the private sector from each economy. ABAC members are appointed by their respective Leaders, and represent a range of business sectors, including small and medium enterprises. The economy determines the term of membership of each appointee as well as its own administrative arrangements and staff support.

The ABAC Secretariat based in Manila, the Philippines serves all members and all economies and maintains a website. Funding is provided through a system of annual dues, which are structured to reflect the size of each economy, following the APEC formula.

ABAC in 2012

In 2012, the Russian Federation took on the Chair of ABAC, with the US and Indonesia as co-chairs, following the APEC order. Co-chairs represent immediate past and future chairs.

ABAC adopted the theme "From Aspirations to Reality" which is focused on the following priority areas:

- regional economic integration including trade and investment liberalization, a new services agenda and financial markets stability
- food and energy security
- innovative growth including technology dissemination, green development and eco/living cities, as well as skills development and small, medium and micro-enterprises (SMME) growth
- supply chain connectivity and transportation infrastructure including public-private partnerships

In line with the priorities of the ABAC Chair, ABAC established six working groups to carry forward its work during the year, namely:

- Regional Economic Integration Working Group (REIWG)
- Sustainable Development Working Group (SDWG)
- SMME & Entrepreneurship Working Group (SMMEEWG)
- Infrastructure Development Working Group (IDWG)
- Finance & Economics Working Group (FEWG)
- Action Plan & Advocacy Working Group (APAWG)

In addition, ABAC collaborates with key international public and private sector institutions on financial issues affecting the region through the Advisory Group on APEC Financial System Capacity Building.

ABAC convened four meetings in 2012: Hong Kong, China (21-24 February); Kuala Lumpur, Malaysia (21-24 May); Ho Chi Minh City, Viet Nam (16-19 July); and Vladivostok, Russian Federation (3-6 September). Four meetings of the Advisory Group were also held: Hong Kong, China (23 February); Kuala Lumpur, Malaysia (22 May); Ho Chi Minh City, Viet Nam (18 July); and Vladivostok, Russian Federation (4 September).

ABAC actively participated in various APEC meetings and related events, inter- alia: First APEC Senior Officials' Meeting (SOM I) and related meetings (Moscow, Russian Federation: 30 January – 19 February); Finance Deputies' and Central Bank Deputies' Meetings (Yaroslavl, Russian Federation: 16-17 February); APEC Committee on Trade and Investment Meeting and related meetings (Singapore: 28 March – 3 April); APEC Conference on Innovation and Trade: Policy Consideration related to Generating and Absorbing Innovation (Singapore: 4-5 April); 34th SME Working Group Meeting (Bandar Seri Begawan, Brunei Darussalam: 23-26 April); APEC Workshop on Financial Literacy Strategies (Moscow, Russian Federation: 11-12 April); SOM II and related meetings (Kazan, Russian Federation: 20 May – 3 June); APEC Policy Partnership on Food Security (Kazan, Russian Federation: 28-29 May); APEC Food Security Ministerial Meeting (Kazan, Russian Federation: 30-31 May); Meeting of APEC Ministers Responsible for Trade (MRT) (Kazan, Russian Federation: 4-5 June); APEC Energy Ministerial Meeting (St. Petersburg, Russian Federation: 24-25 June); APEC Conference on Improving Efficiency of Strategies for Financial Literacy (St. Petersburg, Russian Federation: 26-27 June); APEC High-Level Meeting on Health & the Economy (St. Petersburg, Russian Federation: 27 June); Women and the Economy Forum (St. Petersburg, Russian Federation: 28-30 June); Senior Finance Officials' Meeting (SFOM) (St. Petersburg, Russian Federation: 28-29 June); APEC SME Ministerial Meeting (St. Petersburg, Russian Federation: 3 August); APEC Transportation Ministerial Meeting (St. Petersburg, Russian Federation: 3 August); Senior Finance Officials' Meeting (Moscow, Russian Federation: 28 August); Finance and Central Bank Deputies Meetings (Moscow, Russian Federation: 29 August); APEC Finance Ministers' Meeting (Moscow, Russian Federation: 30 August); Concluding Senior Officials' Meeting (Vladivostok, Russian Federation: 2-3 September); and APEC Ministerial Meeting (Vladivostok, Russian Federation: 5-6 September).

Other events organized and/or participated in by ABAC included: Roundtable on Technology Transfer (Hong Kong, China: 20 February); Forum on the Asia-Pacific Financial Markets Integration Project (Melbourne, Australia: 13 March); APEC SME Summit (Hong Kong, China: 21 February); Workshop on Financing Innovation: Enabling Venture Capital in APEC (Kuala Lumpur, Malaysia: 21 May); Seminar on APEC Transportation Infrastructure Development (Kuala Lumpur, Malaysia: 22 May); Asia-Pacific Forum on Financial Inclusion: Approaches, Regulations and Cross-Border Issues (Shanghai, China: 25-27 June); Asia-Pacific Infrastructure Partnership Dialogue with Viet Nam (Hanoi, Viet Nam: 20 July); APEC SME Summit (Lima, Peru: 23 August); ABAC SME Symposium (Vladivostok, Russian Federation: 3 September); and APEC SME Summit (Haikou, China: early November).

Studies and Related Work

ABAC commissioned five research projects on infrastructure finance, namely: (a) Comparative study of legal frameworks to protect the long-term interests of pension funds investing in public-private partnerships (PPPs); (b) Comparative study of contractual clauses to provide for the smooth adjustment of physical infrastructure and services through the lifecycle of a PPP project; (c) Best practice in design of PPPs for social infrastructure, particularly in health care and education; (d) Comparative study of best practice taxation measures in regional economies to support PPPs; and (e) Ways to evaluate externalities of PPPs. ABAC commissioned the University of Southern California's Marshall School of Business to undertake a project on services, building on the ABAC 2011 report "Understanding Services at the Heart of a Competitive Economy". The study investigated regional services trade and investment flows, identified key chokepoints in services trade and quantified the benefits of addressing these barriers.

Outreach

As part of its communications outreach efforts and in line with its economic inclusion agenda, ABAC continued to hold the ABAC Women's Forum (AWF) which aims to co-develop and promote policies that enhance opportunities for women in business in the region and APEC SME Summits. AWF outreach efforts were undertaken in Kuala Lumpur and Ho Chi Minh City. APEC SME Summits were held in Hong Kong, China; Lima, Peru; Vladivostok, Russian Federation; and Haikou, China.

ABAC strengthened its interaction and engagement with APEC Senior Officials/APEC fora, including through the annual ABAC-SOM Dialogue and participation in APEC meetings. It continued to hold meetings with the APEC leadership at the domestic level after each ABAC meeting. Further, ABAC issues a quarterly newsletter for use by members as a resource in briefing stakeholders in their respective economies. The newsletter is available on the ABAC website at <https://www.abaconline.org>.

Future Work

ABAC remains fully committed to providing advice to APEC Leaders on business sector priorities and in pushing forward the APEC agenda on trade and investment liberalization and facilitation. Future work will continue to focus on regional economic integration, trade facilitation, investment facilitation, supply chain connectivity, regulatory coherence, SME and micro-enterprise development, energy security, food security, green growth and strengthening and deepening capital markets.

ABAC EXECUTIVE DIRECTOR 2012

APEC BUSINESS ADVISORY COUNCIL SECRETARIAT

LEYLA MAMEDZADEH
Vice President
Strategy and New Business Development
Summa Group

10A Bolshoy Savinskiy Pereulok
Moscow 119435 Russian Federation
Tel: (7 495) 771 6060
Fax: (7 495) 775 0660
Email: LMamedzadeh@summagroup.ru

ANTONIO BASILIO
Director

EVELYN MANALOTO
Deputy Director

KATHERINE NAKPIL
Program Officer

MYRA AURE
Finance Officer

32/F Zuellig Building
Makati Avenue Corner Paseo de Roxas
Makati City 1225 Philippines
Tel: (632) 845 4564, 843 6536
Fax: (632) 845 4832
Email: abacsec@pfgc.ph
Website: <https://www.abaconline.org>



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