



APEC Business Advisory Council

The Office of ABAC Chair 2013



6 April 2013

His Excellency

Mr. Gita Irawan Wirjawan

Chair, Meeting of APEC Ministers Responsible for Trade &
Minister of Trade
Indonesia

Dear Minister Wirjawan:

On behalf of the APEC Business Advisory Council (ABAC), I am pleased to share with you and your fellow APEC Ministers Responsible for Trade (MRT) some of our priorities and initial recommendations as we prepare to report to APEC Leaders later in the year.

Our recommendations are made against the backdrop of a global economy that remains fragile. And while global growth is expected to strengthen gradually in 2013 as the constraints on economic activity start to ease, we expect the recovery to be slow. This highlights the need for policies to bolster and sustain growth in the APEC region.

This year, we have adopted the theme “Partnership, Resilience and Building Bridges to Growth”. Our priorities are to deepen regional economic integration, promote infrastructure growth and sustainable development, foster SMME development and entrepreneurship, and promote the development and integration of financial markets. With these priorities, we believe that APEC should stay the course on its path of regional economic integration in response to these economic and financial challenges.

ABAC continues to believe that the WTO must be the cornerstone for underpinning global trade and the regional economic integration of APEC. To maintain business confidence in the WTO, it is vital that the 9th WTO Ministerial Conference in December 2013 agree to a tangible “package” of Doha-related decisions. We urge APEC Ministers Responsible for Trade, led by Indonesia as host of both WTO and MRT meetings this year, to take the lead in developing this Doha package and pushing it to a successful outcome so as to pave the way for the multilateral conclusion of the Doha Round in accordance with its mandate. In the lead up to the WTO Ministerial Conference, ABAC will continue to support APEC Ministers with global and regional advocacy on the primacy of the WTO’s rules-based mechanism.

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

With deeper economic integration and the rapid development of new value chains, a more complex business landscape is emerging in APEC, driven increasingly by foreign direct investment (FDI). This holds great opportunity for stronger regional growth and higher value jobs. We urge APEC Ministers to increase their focus on ways of facilitating and encouraging further growth in FDI, while convincing

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public stakeholders that openness to FDI brings important benefits for government, business and communities in the economies receiving such investment. We call upon Ministers to take the lead in ensuring that their economies remain open for FDI while explaining the benefits of FDI as a driver of sustainable growth and employment. We further support APEC's work to explore ways by which economies can promote job creation and economic growth without implementing protectionist measures such as local content requirements. For our part, we are developing recommendations on reducing barriers to FDI growth and on improving public perceptions of FDI, to share with APEC Leaders later this year.

The services sector is emerging as a vital part of the new business landscape in both trade and investment. ABAC is therefore keen to see progress on trade and investment liberalization in the services sector to reflect these developments. We are following with interest news from Geneva regarding new plurilateral negotiations on trade in services, which may not only address services market access but also develop new rules in a way that would be complementary to the Doha Round. ABAC is very supportive of these and other efforts to remove barriers to services trade and investment, given the great importance of the services sector to APEC economies. APEC SOM and ABAC will be holding a Dialogue on Services at SOM II to discuss the importance of the services sector and to encourage an active APEC work program on services. We encourage Ministers to consider forming a Services Experts Group drawn from the public, private and academic sectors to make recommendations on ways to improve the global governance of services trade and investment.

ABAC supports the APEC 2013 Chair's leadership in promoting a holistic and coordinated approach to improving connectivity encompassing the physical movement of goods, people-to-people connections and institutional development. This requires bringing together a complex set of trade, investment and services issues, including soft and hard infrastructure, as well as promoting consistency in regulation. ABAC stands ready to work with APEC in mapping out a multi-year agenda to support this initiative and to offer ways to maximize private sector participation, investment and innovation. As a key component of this approach, ABAC recommends greater use of global product data standards and supply chain infrastructure technologies to enhance the efficient flow of goods.

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 in Annex A.

We look forward to participating at your meeting in Surabaya to present these recommendations in greater detail.

Yours sincerely,



Wishnu Wardhana
ABAC Chair 2013

Progress Report to APEC Ministers Responsible for Trade – Other Issues

- 1. Expanding the WTO Information Technology Agreement (ITA).** Since its launch in 1996, the ITA has not been reviewed and, consequently, product coverage has not been updated, though the same period has seen unprecedented technological innovation in the Information Communication and Technology (ICT) sector and a growing number of ITA participants. ABAC welcomes the leadership role of APEC in supporting WTO ITA negotiations and its declaration at Vladivostok in 2012 to “work in earnest in order to swiftly achieve a good outcome of the negotiations.” With the support from APEC, there have been frequent WTO ITA informal negotiations held in Geneva. Since September last year, major economies participating in the ITA have joined these informal negotiations and a concrete negotiation on the ITA product list has been launched and is now underway. Given the recent favourable progress in the negotiations, ABAC strongly requests APEC to play a leadership role once again to support (a) the commercially significant expansion of product coverage and the increase in number of participating members in the ITA, and (b) the successful completion of WTO ITA expansion negotiations in Geneva by the first half of this year.
- 2. Promoting regulatory coherence.** ABAC firmly believes that regulatory coherence strengthens and deepens regional economic integration, prevents barriers to trade from occurring, as well as leads to increases in trade and economic growth. APEC should continue to focus on strengthening the implementation of the three good regulatory practices (GRP) endorsed by APEC Leaders in the 2011 Honolulu Declaration including internal coordination of rule-making, assessing the impact of regulations, and public consultations. ABAC encourages APEC economies to report on the progress they are making in each of these areas. APEC should encourage the exploration of additional GRPs for implementation beyond 2013, including transparent and equitable implementation of regulation as well as voluntary alternatives to regulation, in order to reduce or eliminate barriers to free trade and investment. The APEC LSIF Regulatory Harmonization Steering Committee (RHSC) and APEC Harmonization Center (AHC) are examples of how APEC economies can create multi-year public-private partnerships and advance these vital regulatory issues and future trade flows through targeted sectoral regulatory reforms. Specifically, a center of excellence proposed to facilitate the approval of clinical research in APEC economies will bolster near term investment.
- 3. Enhancing supply chain connectivity.** ABAC applauds APEC’s efforts to enhance competitiveness in the region by making it easier, cheaper and faster to conduct trade in goods and services across borders. A University of Southern California Marshall School of Business 2011 Report on APEC Supply Chains estimates that improvements in connectivity could save up to US\$1,307 and 5.6 days per container in transportation costs and time between APEC economies. A 2013 report by the World Economic Forum estimates that raising all countries’ supply chain performance halfway to global best practices on border administration as well as transport and communications infrastructure would increase global GDP by approximately US\$2.6 trillion and exports by US\$1.6 trillion. Due to the significant potential economic gains, ABAC sees a greater APEC role in the leadership, governance and oversight of standardization initiatives within supply chains. ABAC supports the systematic approach to improving supply chain performance, starting with inventories of policies and best practices that APEC economies should have in place as part of the Supply Chain Connectivity Framework. ABAC urges the completion of these inventories at SOM2, and the commencement of diagnostic reports to measure variances between existing domestic policies and regional best practices in order to guide the drafting and implementation of targeted capacity building plans. We encourage APEC to engage with ABAC and the private sector

as a source of expertise on targeted, focused and economy-specific capacity building initiatives to help enable economies to meet the APEC Leaders' 10 percent improvement goal by 2015.

- 4. Fostering the development of SMMEs.** SMMEs are the key drivers of economic growth in the APEC region. They are the main generators of employment, represent more than 95% of total private establishments, contribute about 25% of total exports in each of the APEC economies and represent more than 45% of the region's GDP. ABAC supports efforts to further liberalize trade as these enhance market access opportunities for SMMEs and promote SMME development. ABAC calls for policies that promote entrepreneurship and the creation of new businesses as well as policies that promote innovation and new forms of businesses. APEC economies should promote the use of internet technologies to enhance SMME access to international markets and to promote SMME growth. Capacity building initiatives such as APEC SME Summits are particularly helpful in this respect and we urge APEC Ministers Responsible for Trade to encourage and support the holding of such summits. Steps should also be taken to enhance SMME access to finance as this remains a significant barrier to SMME expansion. ABAC recommends that banking regulators add an appropriate refinement to the Basel rules on risk weighting for trade finance to reflect its low risk feature.
- 5. Engaging Women in the Economy.** Engaging women in the economy is a fundamental element of the inclusive growth that APEC strives to promote and is vital to future competitiveness. The United Nations estimates that various limitations on the economic participation of women cost the Asia-Pacific region US\$89 billion a year. The business community in particular has a vested interest in a diverse, skilled and engaged workforce. ABAC encourages Ministers Responsible for Trade to call on their economies to take further steps to implement the key policy pillars of the San Francisco Declaration by taking steps to promote access to capital and markets for women in the private sector, encouraging capacity and skill building programs, including science, technology, engineering and mathematics (STEM) education for women, and taking steps to address barriers that discourage women from assuming leadership positions in the public and private sectors.
- 6. Strengthening food security.** This year, ABAC is focusing on strengthening food security by overseeing the implementation of the APEC Policy Partnership on Food Security Action Plan for 2013. The latter envisages the development of a strategic, results-oriented roadmap to achieve the long-term goal of setting up a food system structure by 2020 sufficient to provide lasting food security to economies in the region. The roadmap should involve public-private collaboration and parallel cooperation action. ABAC urges Ministers to develop policies and to take concrete actions to ensure the roadmap's effective implementation. In particular, ABAC urges APEC economies to: (a) facilitate the dissemination and absorption of food-related technology; (b) enhance collaboration and investment in R&D for modern farm management; (c) enhance market access and eliminate non-tariff barriers to trade; (d) enhance supply chain connectivity for food including through the use of global product data standards to increase the efficiency, transparency and safety of food trade; (e) reduce food losses and increase food safety through more effective use of cold chain technology; and (f) facilitate and reduce the cost of private sector investment in food-related infrastructure.
- 7. Addressing energy security.** ABAC commends APEC for the groundbreaking agreement on the APEC List of Environmental Goods (EG) in 2012 and urges economies to implement Leaders' commitment and build on this important achievement. ABAC firmly believes that facilitating trade on the 54 items on the List will contribute to reducing the energy intensity of the region. ABAC requests that APEC take steadfast actions to reduce the applied tariff rates for the 54 items to 5% or less by the end of 2015 as agreed by APEC Economic Leaders in the 2012 Vladivostok Declaration. ABAC recommends: (a) an accelerated timetable to implement the tariff reductions on the 54 EG items; (b) a conducive legal and regulatory environment for trade and investment in the energy sector; (c) greater attention to policies to facilitate the development of renewable energy

infrastructure to meet green growth targets; (d) the identification and removal of non-tariff trade barriers for environmental goods and services; and (e) continuing support to efficient regional trade of energy through integrated transmission infrastructure and domestic power grids.

8. Ensuring water security. Water is indispensable to human life. Efforts should therefore be made to ensure water security. ABAC notes that the conservation of water resources is the most inexpensive way of promoting water security and recommends the following measures to encourage water conservation: (a) introduction of conservation-enhancing tariff schemes such as shifting from a flat rate to a volume-based rate for agricultural water use and introduction of a punitive tariff rate to discourage excessive water use by municipalities; (b) introduction of water conservation incentives; (c) promotion of the use of water-saving equipment, including through policies designed to encourage their proliferation and to facilitate trade on such equipment in the future; (d) use of recycled water; (e) promotion of leak prevention technology; and (f) establishment of a forum dedicated to water issues within APEC.

9. Encouraging infrastructure investment. Infrastructure investment is a critical element to sustainable and inclusive economic growth in the Asia-Pacific region. A recent report by McKinsey estimates that as much as US\$57 trillion in infrastructure investment will be required globally over the next 18 years to sustain economic growth. In order to compete globally for finite FDI flows, APEC economies will need to take deliberate steps to evaluate and improve their investment environments. Successful infrastructure investment outcomes are enabled by bringing together a diverse set of critical policy elements that require a multi-disciplinary approach.

Governments not only need to address barriers to private sector FDI but also effectively harness it through measures such as creating an environment conducive to infrastructure finance, emphasizing long-term planning and cooperation through public-private partnerships (PPP) and facilitating transparent government procurement processes. To bring these multi-disciplinary elements together and encourage further inter-agency dialogue, ABAC is developing a unique infrastructure investment checklist that will serve as an important self-assessment tool for economies. We invite APEC Ministers Responsible for Trade to build on Indonesia's APEC 2013 theme of connectivity by collaborating with ABAC on the development of the checklist.

10. Improving the environment for PPPs through public-private dialogues. Public-Private Partnerships have significant potential to help finance the region's enormous infrastructure needs, as well as to improve quality and lower costs of services. This requires the right environment, however, and despite continuing improvements in infrastructure-related policies, key constraints remain in many economies. These include lack of capital market depth, dearth of good quality projects, inadequate regulatory frameworks and need for better understanding of allocating various types of risk between public and private sectors.

Structures enabling parties to frankly and objectively discuss the complex matters involved can help create conducive environments for successful PPPs. In 2010, ABAC initiated the Asia-Pacific Infrastructure Partnership (APIP), bringing together high-level officials, experts from multilateral bodies and private sector panelists actively involved in infrastructure projects from a wide range of relevant fields. Since its establishment, APIP has held dialogues with six economies (Mexico, Peru, Philippines, Vietnam, Indonesia and Thailand) and actively participated in five regional forums. ABAC invites APEC economies to effect further improvements in the environment for PPPs, especially through active engagement with APIP.

11. Promoting technology dissemination and innovative growth. ABAC has identified numerous barriers across APEC that prevent businesses from bringing cutting edge technologies to new markets through cross-border trade and investment. To address these issues, ABAC is exploring the potential of an APEC Open Innovation Platform to facilitate the development and

commercialization of cutting-edge technology intellectual property (IP) for SMMEs throughout the region. We encourage Ministers to enhance opportunities for SMMEs to benefit from the development and application of cutting-edge technologies by simplifying legal and regulatory barriers that prevent businesses from bringing technologies to new markets through cross-border trade and investment.

The private sector has an essential role in shaping policies that encourage innovation in the APEC region. ABAC welcomes the business community's role in the newly-formed APEC Policy Partnership on Science, Technology and Innovation and will work with the private sector, government and academic stakeholders to promote effective public-private collaboration in joint scientific research and development of effective innovation policy, which are critical to continued economic growth in the region. Building on this effort, ABAC supports concrete measures to implement the 14 non-discriminatory market-driven innovation policies endorsed by APEC Leaders in 2011.

- 12. Promoting transparency and efficiency in government procurement.** Government procurement of goods and services, including essential public services such as clean water, education, healthcare, and infrastructure typically accounts for 10-15% of GDP for developed economies, and up to as much as 20% of GDP for developing economies. This amounts to between US\$8-12 trillion annually on a global basis. Discriminatory and inefficient procurement practices can have a marked impact on international trade patterns.

APEC economies should establish efficient, transparent, predictable and non-discriminatory government procurement processes that account for lifecycle costs to ensure effective allocation of government resources. Elimination of government barriers will lead to a more efficient allocation of resources through increased competition, reduced opportunities for corruption, higher quality procurement and budgetary savings to government.

- 13. Accelerating financial market development to promote growth.** The significant impact on economic activity in the region of disruptions in trade and project finance as a result of recent crises underscores the central role of financial systems in the growth of trade and investment. Most Asia-Pacific financial markets remain inadequately developed to support the region's considerable needs for financing infrastructure, trade and the growth of enterprises, and those needs created by demographic pressures on health, education, ageing and retirement. Unless addressed, the underdevelopment of these markets will pose a serious constraint to future growth, not only in the region but globally as well.

Channeling the region's abundant savings to finance its enormous needs in coming years requires accelerating the development of sound and efficient financial markets across member economies. This should go hand in hand with efforts to promote convergence and greater mutual recognition of standards, regulations and practices as well as to develop market infrastructure and regulatory frameworks for facilitating cross-border transactions. To this end, ABAC has proposed the establishment of the Asia-Pacific Financial Forum (APFF) to serve as a regional platform for enhanced collaboration among regulators, officials, the financial industry and multilateral, standard-setting and capacity building bodies in developing the region's financial markets. Through a symposium hosted by the Australian Treasury in Sydney, ABAC will develop a work program and initial structure for the APFF.