ABAC Finalizes its 2013 Letter and Report to APEC Leaders in Kyoto

(Kyoto, Japan) 8-11 July 2013 – At the height of Kyoto’s summer heat, the APEC Business Advisory Council (ABAC) tackled head-on its own hot issues tabled at the 3rd ABAC Meeting in Kyoto. The business leaders finalized their 2013 letter and report to be presented to APEC Leaders and ministers in Bali in October. These highlight their key recommendations on deepening regional economic integration, promoting infrastructure and SMME development, and integrating the region’s financial markets.

ABAC 2013 Chair, Wishnu Wardhana, noted the progress made in pursuit of this year’s ABAC goals, and the great opportunity to influence the APEC agenda. “We have major contributions to make on strengthening our financial markets with the Asia Pacific Financial Forum (APFF) and on infrastructure financing and investment through the Asia Pacific Infrastructure Partnership (APIP) and our readiness checklist for foreign investment in infrastructure,” Wardhana said.

He reminded colleagues in ABAC that the advocacies and work started on SMME development, services liberalization, supply chain connectivity, and food security have already captured the attention and interest of APEC ministers and, thus, should be leveraged in APEC for positive results. “President Yudhoyono takes a strong interest in ABAC and places importance on our contributions. He has expressed his desire to have a strategic and meaningful discussion with ABAC in Bali,” he stated.

Challenging the Council to seize this opportunity, Wardhana said, “I believe it is time to raise the level of ambition on these issues in APEC by recommending, for example, that by the end of 2016, APEC treble the number of SMEs in banks or equivalent financial institutions.”

With this no-nonsense approach, ABAC has aggressively advocated for their recommendations to be heard and considered by the APEC officials. In the past three months prior to ABAC 3 meeting, ABAC has met with high-level APEC officials and Senior Officials on many different occasions. The Financial and Economics Working Group met with APEC Finance Ministers in a symposium in Sydney to explore the creation of the APFF. Meanwhile, in SOM 2, ABAC has presented its policy recommendations under its New Services Agenda and revised Global Product Data Standards proposal, both of which were warmly received by APEC.

The Kyoto ABAC3 meeting also provided ABAC the opportunity to network with Japanese businessmen and entrepreneurs. The successful APEC SME Summit organized by ABAC Japan showcased Japanese companies’ innovative and creative products. The event was also graced by Japan’s executives who are fore-runners in their industries to share the business models they have adopted which guided the expansion of their businesses to new markets.

ABAC will be presenting its Letter and Report to APEC Leaders at the APEC Leaders Week in Bali, Indonesia in October. They will be having a closed-door meeting with the Leaders to discuss progress of commitments made in APEC and for ways forward to achieving the Bogor Goals.
ABAC seeks APEC’s commitment to address Energy Market Integration

(Kyoto, Japan) 9 July 2013 - ABAC has endorsed recommendations to APEC Leaders that seek to promote energy market integration in the region.

The recommendations were endorsed at the ABAC Sustainable Development Working Group meeting in Kyoto, and aim to leverage the connectivity agenda being prioritised by Indonesia as APEC Chair this year.

With the continued rise of Asia Pacific economies, and the rapid growth of its developing countries, the demand for energy is expected to rise as well. According to the Asia Pacific Energy Resource Center (APERC), the demand for final energy in the APEC region will increase through 2035, with heavier need for oil, electricity, and gas.

But the concern goes beyond energy sufficiency; it highlights the need to develop a diverse mix of energy sources to reduce carbon emissions while meeting the growing demand for energy.

The benefits of energy market integration include facilitating intra-regional trade in energy, optimizing resource allocation across economies, improving energy intensity in each economy, and protecting the environment.

According to the 2011 study by the Economic Research Institute for ASEAN and East Asia, the overall welfare of countries involved in natural gas trading would improve by 5.5% if the region adopted an integrated and competitive natural gas market. Such integration, would facilitate the expansion of gas in economies’ energy mix, and would contribute to a 22% decrease of CO2 emissions by 2035, the study said.

But much stands in the way of pursuing this dream. One obvious barrier is the lack of hard infrastructure in many APEC economies – not just physical infrastructure, but regulatory, financial and institutional infrastructure too. Procedural and politically sensitive issues such as fuel subsidies are also noted as obstacles that need to be addressed by governments. ABAC recommends APEC can mediate to ensure that the twin goals of energy security and reducing carbon emissions are met in the future.

As first step, ABAC calls on APEC to focus on people-to-people connectivity to promote capacity building and technical cooperation, geared towards the development of skilled human resources, in the areas of clean and renewable energy. On physical connectivity, the Council urges APEC economies to improve their energy-related infrastructure and to promote the adoption of regulations that would propel infrastructure investment. As support to this, ABAC encourages APEC to focus on project financing for cross-border projects.

The graph shows the APEC Final Energy Demand by Energy Type (1990 - 2035 projected).
ABAC drives two successful Services liberalisation dialogues

(Surabaya, Indonesia) 17 April 2013 – Putting flesh on ABAC’s priority of encouraging Services Trade liberalisation in the APEC region, ABAC Members drove two major workshops during APEC cluster meetings in Surabaya in April aimed at demonstrating the pivotal importance of services liberalisation to our economies’ competitiveness.

At the Surabaya Services Dialogue, a half-day dialogue between APEC Senior Officials, ABAC members and the Pacific Economic Cooperation Council (PECC), the critical role of services trade and investment in attaining the Bogor Goals, and its importance in enhancing connectivity were highlighted. Following this successful official dialogue, ABAC members and international experts on services trade engaged with the Indonesia Services Dialogue (ISD) in partnership with ABAC Indonesia and Kadin Indonesia, to explore the importance of services liberalisation for local companies – in particular SMEs.

“Whether we are in manufacturing, agriculture, mining, or in infrastructure or even providing services like logistics, we are all using and providing services more intensively,” says ABAC Chair, Wishnu Wardhana. “Services are the oil that makes the whole process work.”

Both events were packed and animated, with strong presentations from high powered speakers ranging from Ministers to international trade experts and officials, and equally constructive and animated contributions from the large audiences. And the conclusions were clear: local companies – in particular SMEs – will remain uncompetitive in international markets (and so unable to export) and persistently vulnerable to foreign companies entering the local market, so long as they are forced to pay over the odds for services from protected local service providers such as in logistics and telecommunications.

Continued to page 4...
Such was the success that APEC officials confirmed their intention to ask ABAC to organise a further Services Dialogue in China in 2014, and in principle to make the Dialogue an annual event.

In ABAC’s 2012 Letter and Report to APEC Leaders, ABAC officially put forward three recommendations aimed at initiating a new services agenda in APEC. Built around its 2011 report entitled “Understanding Services at the Heart of a Competitive Economy”, ABAC called for the formation of a group of services experts from the public and private sectors and academia to study the global governance of services trade and investment.

The Council also urged APEC to pursue new initiatives aimed at liberalizing services trade and investment in the region. One of the specific recommendations is to improve the region’s official statistics on services.

Expressing general business sentiment, ABAC encouraged APEC governments to enact regulations that require proximity to perform a service and from over-regulating ICT services.

A speaker in the forum, Dr. Sherry Stephenson of the International Centre for Trade and Sustainable Development (ICTSD), explained the correlation between the services sector and supply chain operations. “Services make supply chain operation possible,” she said. “Services represent not 20% of world trade, as formerly reported but half of total trade – (it is) 50% on average for OECD countries’ exports and 45% for world average.”

Services’ role is critical to supply chain operations whose value added contribution to developed and developing economies are 18% and 28% of their GDP, respectively.

Internationalisation of Emerging Currencies: Special Focus on RMB

(Kyoto, Japan) 18 April 2013 – The 2008 global financial crisis triggered by the financial and economic mess of a few, large economies impacted even stable economies worldwide. This led the business representatives in APEC to consider pushing for the internationalization of emerging economies’ currencies, particularly China’s Renminbi (RMB). ABAC sees this as a way to reduce foreign exchange risks in times of economic turmoil outside the APEC region, and as a means of propelling development of regional financing markets.

In her presentation before ABAC’s Finance and Economics Working Group meeting in Kyoto, Beth Smits from the Society for Worldwide Interbank Financial Telecommunication (SWIFT) reported that the RMB is actively gaining ground in becoming a world payment currency. As of May 2013, RMB had become the 13th most used currency over

![World Currency Payments Chart](chart.png)

The Services Sector represents:

- 2/3 (66%) of World Production
- 2/3 (66%) of World Employment
- Nearly 50% of World Trade
- 3/5 (60%) of Foreign Direct Investment

Source: Stephenson, S. ICTSD and SEADI 2013

The business representatives in APEC commit to continuing its strong advocacy for services trade and investment liberalization in the region.
SWIFT, overtaking the Russian rouble as a currency used for global payments. In addition, China’s bond market has grown to become the fourth-largest in the world. “The interbank bond market has seen nine-fold expansion in market size in the last decade,” said Boon-Hiong Chan, Head of Market Advocacy MENA & APAC of Deutsche Bank. “As of December 2012, the total number of institutional investors reached 12,431, of which 100 are foreign central banks, supranational and sovereign wealth funds, RMB clearing banks, offshore insurance companies and QFII investors.”

ABAC Japan put forward specific recommendations to maintain the momentum of RMB internationalization, in particular to increase standardization of cross-border RMB-related documentation to facilitate cross-border transactions. Another possible step was to increase the fungibility of offshore RMB. Increasing communication and collaboration between the People’s Bank of China and interested financial institutions about the new China International Payments System (CIPS) was another measure proposed.

Further work and study on “lessons learned” from the internationalization and cross-border experiences of other currencies, such as the Euro and the Japanese Yen, will be pursued to shape future ABAC recommendations relative to emerging economies currencies.

ABAC’s Global Product Data Standards Proposal Moving Forward in APEC Talks

(Medan, Indonesia) 3 July 2013 – In a continued effort to urge APEC economies to implement Global Product Data Standards, ABAC, with the assistance of GS1 and the World Customs Organization (WCO) presented at the 3rd APEC Senior Officials meeting held in Medan this month. The team briefed the Committee on Trade and Investment (CTI) and its sub-fora on customs, standards & conformance, and market access. After capturing the attention of the CTI, ABAC is now poised to develop a detailed implementation plan aligned with APEC’s “systematic approach” to supply chain connectivity.

The proposal promotes the re-using of industry-defined product and e-commerce data to better manage risk and facilitate efficient cross-border trade. ABAC believes that this data-sharing
technology will provide greater visibility for all traded products, equating to improvements in safety, efficiency, reliability and also national security.

ABAC’s Regional Economic Integration Working Chair, Tony Nowell, reported ABAC’s progress in establishing six pilots in APEC economies to build capacity and overcome supply chain chokepoints that currently hinder supply chain connectivity. Citing USA as an example, he showed that the use of GS1 Global Trade Item Numbers (GTINs) to accurately identify a product, combined with Global Product Classification (GPC) codes to accurately describe a product, reduced delays linked with product examinations by 80% in the first year alone.

The results will be used to develop a comprehensive region-wide framework to facilitate coherent deployment of global product data standards. According to Nowell, these efforts are aligned with ABAC’s 2013 recommendations submitted to the Ministers Related to Trade (MRT) last April 6th.

The overarching message sent to the APEC officials is that Global Product Data Standards offer economies a tested and proven way forward. “Successful deployment of (this) will boost business confidence from SMEs to large corporations,” says Nowell. “(This will) facilitate increased trade and help create more efficient, safer, sustainable and more trusted value chains.”

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Building Asia’s Capital Markets – ABAC’s Asia Pacific Financial Forum (APFF) Initiative

A key discussion at ABAC3 in Kyoto was on the Asia-Pacific Financial Forum, intended to build and deepen Asia’s infant capital markets.

A critical milestone on the way to creating the APFF was a Symposium held in April in Sydney, co-organized by ABAC and hosted by the Australian Government. Blessed by APEC Finance Ministers at their meeting in Moscow in September last year, the Symposium was intended to build firm foundations for enhanced public-private collaboration on developing robust and integrated financial markets in the Asia-Pacific. Recommendations and work streams from the Sydney Symposium were endorsed by ABAC3, and will now go to Finance Ministers for leaders’ endorsement in Bali in October.

Dr JC Parenas, Advisory Group Coordinator, reported that symposium participants reached a consensus on priorities that could be included in an initial APFF work program. Selected based on their expected impact on the region’s financial markets, complementarity with ongoing initiatives, and suitability for yielding tangible results within a short- to medium-term time frame while harnessing ABAC’s existing networks and available resources, these priorities are:

- development of the region’s insurance industry as a provider of long-term investments;
- development of retirement income policies;
- facilitating full-file, comprehensive and accessible credit reporting systems;
- improving legal frameworks for secured financing;
- facilitating trade finance;
- addressing market infrastructure access, repatriation and financial market issues to facilitate cross-border investment flows;
- enhancing capital market integrity;
- improving capital market quality; and
- responding to the extra-territorial impact of new regulations in major markets on Asia-Pacific capital market development.

The Symposium also agreed on a basic initial structure for the APFF, with ABAC responsible for developing its activities under the institutional structure provided by the APEC Finance Ministers Process, and in collaboration with other ministries and institutions that are responsible for developing financial market policies and regulations. Following ABAC endorsement in Kyoto, the next step is to win Finance Ministers’ endorsement in Bali in October.

Proposals won strong support from Mr Haruya Koide at the Asian Development Bank, who noted in Kyoto that the APFF could be helpful in promoting sound supervision and better investor protection, which would help reduce unnecessary volatility in markets, as well as in promoting more efficient financial intermediation in the region. Alejandro Alvarez from the International Finance Corporation (IFC) confirmed that the priorities identified by the Sydney Symposium are the key issues for the region, in particular proposed work on secured financing and credit bureaus. Christina Ellerker of credit rating agency Moodys commented that the APFF priorities provide a good framework to promote a credit culture in the region, which is important for capital markets to thrive.