



APEC Business Advisory Council
Report to APEC Economic Leaders



*21 Economies
for 21st Century
Prosperity*

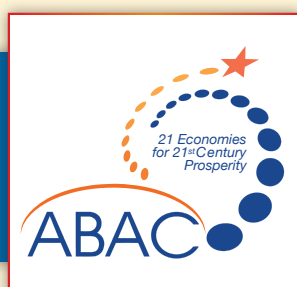


Employing People & Ideas for
Sustained Growth in Asia-Pacific

HONOLULU, HAWAII
USA 2011

APEC MEMBER ECONOMIES

AUSTRALIA
BRUNEI DARUSSALAM
CANADA
CHILE
CHINA
HONG KONG, CHINA
INDONESIA
JAPAN
KOREA
MALAYSIA
MEXICO
NEW ZEALAND
PAPUA NEW GUINEA
PERU
PHILIPPINES
RUSSIAN FEDERATION
SINGAPORE
CHINESE TAIPEI
THAILAND
UNITED STATES
VIET NAM



Based on ABAC's official logo, the ABAC 2011 logo expresses the upward movement of the 21 APEC economies, represented by 21 ovals, as they work together towards 21st Century Prosperity. The ideal of 21st Century Prosperity is symbolized by a five-point star. Each point represents one of the five types of growth identified in the 2010 APEC Growth Strategy: balanced, inclusive, sustainable, innovative, and secure. Each point also represents one of the five priorities ABAC has taken on to work towards delivery of that growth: Regional Economic Integration; Small, Medium and Micro-Enterprises; Sustainable Growth; Finance and Economic Support; and Advocacy and Action Planning in 2011.

Report to APEC Economic Leaders



APEC Business Advisory Council



His Excellency

Barack Obama

Chair, Asia-Pacific Economic Cooperation

President of the United States

United States

Your Excellency:

In 2011, ABAC focused on regional economic integration, sustainable growth and small and medium enterprises (SMEs) (including micro-enterprises) as critical areas where the business community can contribute to ABAC's vision of 21 economies working towards 21st Century prosperity. We look forward to discussing these key priorities with you during our dialogue in Honolulu. A full report of ABAC recommendations is attached.

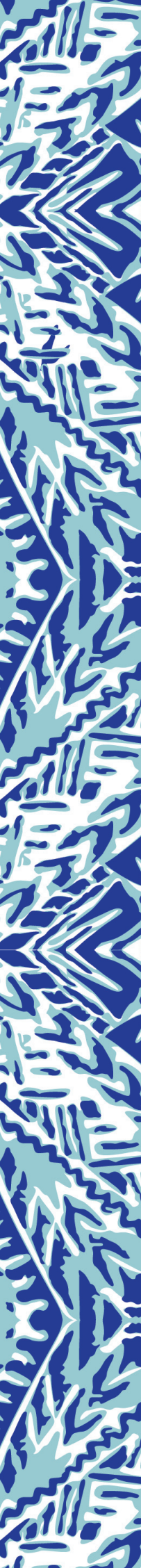
These recommendations were informed by a volatile and uncertain economic environment characterized by strains on financial markets caused by the lack of progress in global rebalancing, high levels of debt and low growth. This situation has created disincentives for private sector investment and risks renewing protectionist sentiments. ABAC calls on governments to liaise closely with business as we work together to stimulate economic growth and create jobs in the short term, and work towards balanced growth in the long term.

ABAC strongly supports the goal of regional economic integration and believes the best way to achieve this is through a comprehensive and high quality Free Trade Area of the Asia-Pacific (FTAAP). We support further efforts by APEC economies to develop preferred pathways to FTAAP that seek to remove barriers to the efficient flow of goods, services and investments.

This year, ABAC has focused on regulatory coherence and identified a number of next generation issues that need to be addressed for trade agreements to keep pace with the increasing complexity of regional and global business models. APEC Trade Ministers selected three of these next generation issues (SME participation in global supply chains; promoting effective, non-discriminatory, and market-driven innovation policy; and facilitating global supply chains) for immediate action. ABAC wants APEC economies to be at the leading edge in the development of trade agreements. Therefore, ABAC recommends continued work on several other next generation issues including competition policy, investment, services, government procurement and shortages of skilled personnel. Action on these issues will put APEC in the best position to achieve a comprehensive and high quality FTAAP.

ABAC has developed an integrated supply chain and value chain framework for goods, services, and investment to help build understanding of the complex and integrated nature of global and regional supply chains and help pinpoint the costly chokepoints that can arise. We have only to look at the serious national, regional and global supply chain disruptions that occurred in the wake of Japan's devastating earthquake and tsunami to realize the critical importance of the integrated supply chain and value chain framework. 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.

Regional integration of financial markets and the efficiencies it brings is seen by ABAC as integral for enhancing financial support to economic growth across the APEC region. To this end, ABAC decided at its meeting in Lima to commence work to develop a proposal to be put to Leaders for improving the regional financial system. ABAC recognizes the importance of working collaboratively to improve the regional financial system, including strengthening monitoring of cross-border capital flows, and supporting the efficient allocation of resources through ongoing review of international credit rating systems, so as to promote the stable development of financial markets.



SMEs (including micro-enterprises) continue to be important engines of growth and prosperity in APEC economies. ABAC is leading capacity building efforts through SME and Young Entrepreneurs' Summits, the Advisory Group on APEC Financial System Capacity Building and the creation of the ABAC Women's Forum. We support APEC's efforts in the elimination of barriers to cross-border trade and capital flows, most particularly the lack of access to financing for SMEs. We recommend that APEC economies enhance the lending environment for SMEs, establish easily accessible and comprehensive credit reporting systems and bolster support for public-private financing initiatives.

ABAC places high priority on sustainable growth and supports APEC's work on green growth. ABAC has identified impediments to trade and investment in environmental goods and services (EGS). ABAC believes that addressing tariffs and non-tariff barriers in EGS, creating effective market-based mechanisms to improve access to green technologies, and sharing best practices among APEC members will facilitate greater technology and product diffusion.

An affordable and adequate supply of safe food must be available to ensure sustainable growth; if not, all businesses and their consumers will suffer. To this end, ABAC applauds the creation of the APEC Policy Partnership for Food Security. This achieves ABAC's long held objective of bringing government and the private sector together to collaborate on food security policy. Looking ahead, ABAC recommends a set of guidelines for balanced and efficient use of food sources and the adoption of a "Food System" approach which ends trade restrictions. ABAC agrees that immediate priorities should be increasing agricultural productivity and preventing post-harvest loss where practical solutions already exist.

This year, ABAC significantly stepped up engagement with APEC contributing to greater collaboration between the public and private sectors. ABAC Members have participated in APEC Ministerials, Senior Officials' Meetings and related fora while Senior Officials have contributed to business council meetings. Working together, we are finding sustainable solutions to challenges facing the region.

Yours sincerely,



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USA



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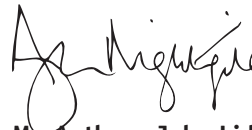
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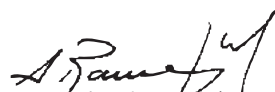


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Founder & Honorary Chairman
Grupo Carso

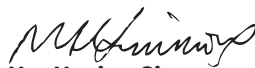
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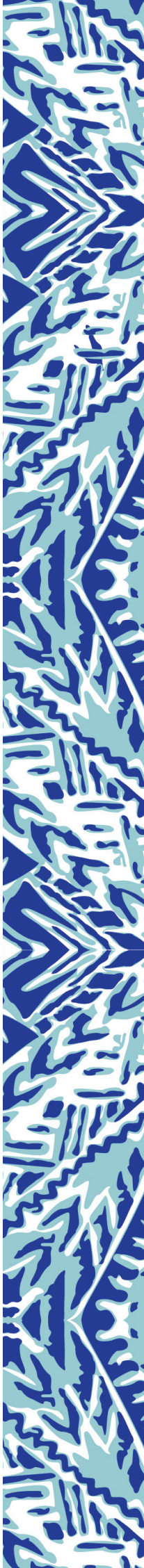
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SOVICO Group

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Saigon Invest Group

EXECUTIVE SUMMARY



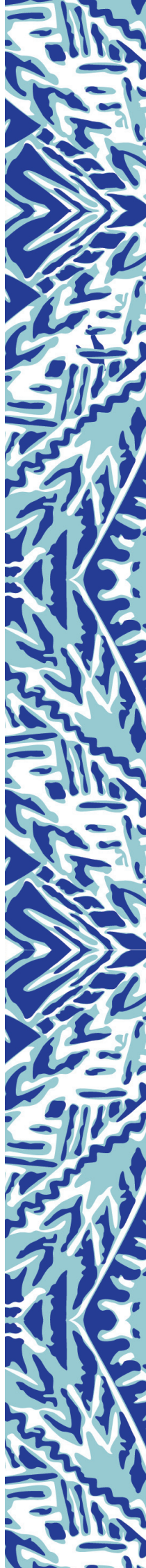
EXECUTIVE SUMMARY

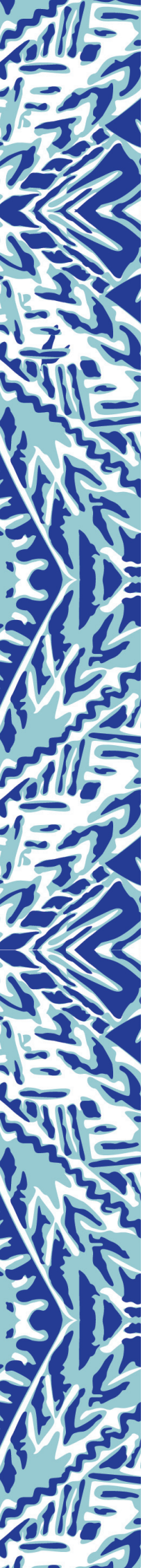
In 2011, ABAC focused on regional economic integration, sustainable growth and small and medium enterprises (SMEs) (including micro-enterprises) as critical areas where the business community can contribute to ABAC's vision of 21 economies working towards 21st Century prosperity. The following is a summary of actions which ABAC believes would help stimulate economic growth and create jobs in the short term and work towards balanced growth in the long term:

- **Strengthen the global supply chain and value chains.** Despite the best efforts of APEC to date, there remain significant barriers to the efficient flow of goods and services through the supply chains. This prevents the realization of the full economic value that can be derived from the free availability and efficient application of the value chain. ABAC urges APEC Leaders to direct their officials to intensify development of preferred pathways to a Free Trade Area of the Asia-Pacific (FTAAP) that seeks to remove these barriers. ABAC continues to support the implementation of the APEC Supply Chain Connectivity Framework Action Plan which encompasses many ABAC priorities, including mutual recognition of Authorized Economic Operators. Further, ABAC recommends that APEC enhance the Single Window Initiative by utilizing new information and communications technologies (ICTs), such as cloud-computing and the creation of an APEC Single Window Cloud. ABAC has developed an integrated supply chain and value chain framework for goods, services and investment to deal with the integrated nature of global and regional supply chains. The importance of this was underscored by the supply chain disruptions that occurred in the wake of Japan's devastating earthquake and tsunami. There is a clear need to keep supply chains open in times of large-scale disasters. Moreover, APEC economies need to step up the level of emergency preparedness to keep supply chains open.
- **Promote regulatory coherence.** APEC has achieved significant success in removing tariffs and quantitative restrictions; however, scope remains to tackle unnecessary non-tariff barriers to free trade and investment through improved regulatory coherence. ABAC welcomes APEC's efforts this year to advance regulatory cooperation among APEC economies. ABAC believes this will promote progress towards

regulatory coherence. ABAC defines regulatory coherence as improving the process by which economies develop regulations, develop best practices, and find common standards acceptable to multiple economies. This leads to better regulation that is effective, least market-distorting and is the best way to systematically prevent and eliminate technical barriers to trade. Specifically, ABAC calls on APEC to advance both domestic and international cooperation between regulatory institutions, use international standards as a basis for domestic regulation and develop public consultation mechanisms to promote transparency. In sum, regulations should be simple, flexible, efficient, certain and applied consistently.

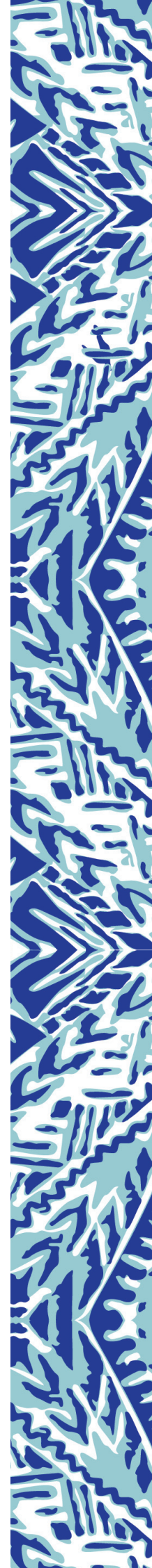
- **Renew focus on multilateral trade.** ABAC recognizes the primacy of a rules-based multilateral trading system and the immense value of the World Trade Organization (WTO) in advancing global prosperity and resisting protectionist measures in times of economic crisis. A successful and comprehensive conclusion of the Doha Round will stimulate global economic growth and remains a high priority for the Asia-Pacific business community. ABAC calls on WTO Members meeting at the 8th WTO Ministerial Conference in December to provide a credible way ahead for the Doha Round.
- **Address next generation trade and investment issues.** This year, ABAC identified a number of next generation issues that need to be addressed to ensure trade agreements keep pace with the increasing complexity of regional and global business models. APEC Trade Ministers selected three of these next generation issues (SME participation in global production chains; promoting effective, non-discriminatory, and market-driven innovation policy; and facilitating global supply chains) for immediate action. To ensure that APEC remains on the leading edge of trade agreements, ABAC recommends continued work on several other next generation issues, including competition policy; investment; shortages of skilled personnel; services; and government procurement. Action on these issues will put APEC in the best position to achieve a comprehensive and high quality FTAAP.



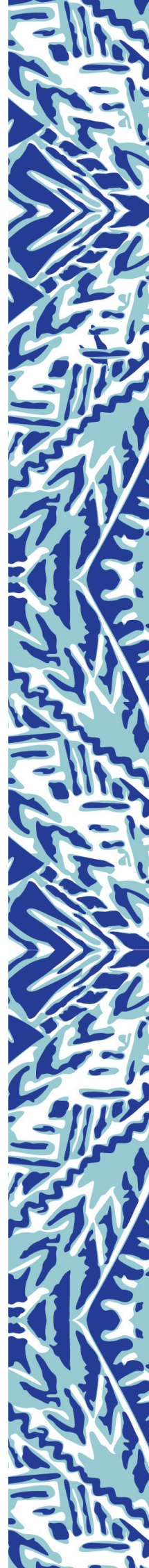
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- **Ensure food security.** ABAC recognizes that there are new challenges which make the food situation more complex, notably: the tight balance between total global food demand and supply; the worsening imbalance in the regional distribution of food; and the higher and more fragile food prices. ABAC fully supports the APEC Leaders' call to enhance international cooperation and increase financial and technology support from developed to developing economies. ABAC urges APEC economies to set up guidelines for the balance and efficient use of food sources; enhance food production capacity and set policies to increase agricultural productivity; set and adopt international standards on food, improve food quality, identify major roadblocks and carry out good policy to ensure more efficient supply chains for food to market; and strengthen monitoring of financial instruments and reduce uncertainty in agricultural markets. ABAC applauds the creation of the APEC Policy Partnership for Food Security and ask Leaders to direct their governments to use the Partnership as the focal point for developing and coordinating food security policy in cooperation with the private sector.
 - **Address energy security.** APEC must hedge against volatility and supply disruptions in the short and medium term, and ease supply and demand tensions in the long term by decreasing energy intensity and developing new and diversified sources of energy. While APEC economies are already working on the components of a more secure energy future, these efforts must be further consolidated, enhanced and accelerated through: the creation of a regulatory, investment and legal environment that encourages investment and action by the private sector; and the establishment of an annual dialogue between APEC Energy Ministers and the private sector. ABAC recommends the reduction of barriers to energy investment and trade; the phase-out of inefficient power generation systems; and the elimination of inefficient fossil fuel subsidies that distort demand and run contrary to policies to reduce energy consumption.
 - **Encourage SME cross-border trade.** ABAC welcomes APEC's efforts to identify and address the nine top barriers to SME (including micro-enterprises) cross-border trade. ABAC has prioritized these impediments and provided detailed recommendations on actions to APEC SME Ministers in their meeting this year. ABAC feels the successful implementation of these efforts will enhance the ability of SMEs to compete and cooperate with larger enterprises. Full implementation of the APEC Transparency Standards as well as the development and adoption of voluntary sectoral codes of conduct for SMEs are concrete steps that will further improve the regulatory environment for SMEs. This will level the playing field with larger enterprises, which, in many cases, have the resources to navigate uncertain and opaque regulatory environments.
 - **Promote regional integration of financial markets.** Regional integration of financial markets and the efficiencies it brings is seen by ABAC as integral for enhancing financial support to economic growth across the APEC region. To this end, ABAC decided at its meeting in Lima to commence work to develop a proposal to be put to Leaders for improving the regional financial system. ABAC recognizes the importance of working collaboratively to improve the regional financial system, including strengthening monitoring of cross-border capital flows, and supporting the efficient allocation of resources through ongoing review of international credit rating systems, so as to promote the stable development of financial markets.
 - **Enhance SME access to finance.** ABAC has identified the lack of access to financing as the top barrier to SME (including micro-enterprises) cross-border trade. ABAC calls on APEC to support concrete capacity building activities to help economies improve the legal infrastructure for lending, develop full-file and comprehensive credit reporting systems that are underpinned by sound frameworks for privacy and data protection. ABAC further urges APEC to mobilize support for needed legal and regulatory reforms that can expand sources of financing for SMEs, including support for venture and start-up capital initiatives, public-private partnership approaches such as government-backed loan guarantees, and greater access to information concerning financing programs through traditional financial institutions. ABAC also welcomes the launch of the APEC Financial Inclusion Initiative under the Finance Ministers' Process, which ABAC has

recommended to assist economies in providing a favorable environment for expanding financial services to micro-enterprises and low-income households.

- **Support green growth.** ABAC also supports both of APEC's environmental strategies, namely: lowering carbon output and encouraging the domestic and cross-border growth of environmental goods and services (EGS). Reducing tariffs and non-tariff barriers and facilitating the dissemination of EGS technologies are effective ways to help this growing sector. APEC can, by providing better access to these technologies and products, raise energy efficiency, conserve resources and create quality jobs. APEC should also explore other voluntary market-based initiatives to encourage wider use of green technology in collaboration with the private sector. SMEs have a valuable role to play in APEC's environmental strategies. In addition to helping SMEs to develop their potential in EGS, APEC should support the "Green Initiative" recognized this May by APEC officials who met in Big Sky, Montana. This initiative provides APEC economies with criteria for describing and measuring the achievements of SMEs in the environmental field.
- **Promote economic inclusion for women.** With many women entrepreneurs in the region still lacking access to capital, markets, technology, skills and information to enable them to start or grow their business, ABAC recognized a clear need for action to promote greater economic inclusion for women. ABAC established the ABAC Women's Forum this year to promote opportunities for women in business and inspire the next generation of women leaders in the APEC region. With a focus on capacity building, collaboration and conversation, the ABAC Women's Forum has identified key policy areas, including improving access to resources, eliminating discrimination in markets and the workplace, promoting greater awareness of gender issues, encouraging participation in APEC events focused on women's issues, and promoting the appointment of more women executives to ABAC, with a view to making it a role model for other international bodies. Sophisticated ICT tools have been created to act as a platform for information sharing with women entrepreneurs and as a nexus for women's groups.



MAIN REPORT



OUTLINE OF RECOMMENDATIONS

I. Introduction

II. Regional Economic Integration

A. Identifying growth potential through a global supply chain and value chain framework

1. Facilitating the goods supply chain
 - (a) Achieving a balanced approach to trade security and facilitation
 - (b) Harmonizing transportation safety regulations
2. Promoting regulatory coherence

B. Accelerating trade and investment liberalization

1. Renewing focus on multilateral trade
2. Continuing progress towards a Free Trade Area of the Asia-Pacific
3. Addressing next generation trade and investment issues
 - (a) Enhancing competition policy
 - (b) Improving the investment environment
 - (i) Harmonizing tax systems for cross-border transactions
 - (ii) Promoting bilateral social security agreements
 - (c) Addressing skilled personnel shortages
 - (d) Promoting more open trade and investment in services
 - (e) Eliminating discriminatory and restrictive government procurement practices
 - (f) Adopting smart innovation policies to drive economic growth
4. Increasing transparency and fighting corruption

III. Sustainable Growth

A. Ensuring food security

B. Addressing energy security

C. Promoting dissemination of environmental goods and services

D. Ensuring water security

IV. SMME & Entrepreneurship

A. Promoting SME start-up and sustainability

Addressing barriers faced by SMEs in cross-border trade

B. Promoting economic inclusion

Promoting business opportunities for women

C. Advancing capacity building

1. Fostering innovative growth
2. Supporting green growth for SMEs
3. Developing common principles for ethical business practices for SMEs
4. Supporting the APEC Young Entrepreneurs' Summit
5. Supporting SME Summits



V. Finance & Economics

A. Promoting policy cooperation and coherence within APEC economies

1. Expanding regulatory cooperation and regulatory coherence through the adoption of International Financial Reporting Standards
2. Encouraging the adoption of international standards in internal audits

B. Enhancing capacity building within financial markets across the APEC region Promoting infrastructure public-private partnerships through public-private regional collaboration

C. Improving the efficiency and effectiveness of regional financial systems

1. Constructing new international credit rating systems
2. Advancing financial integration and cooperation in the Asia-Pacific region
3. Facilitating cross-border data flows for the financial services industry
4. Encouraging efficient and effective financial systems

D. Promoting practical solutions to support the importance of inclusiveness and sustainable growth

1. Promoting the green bond concept
2. Improving SME access to finance
Expanding access to finance for low-income households and SMEs (including micro-enterprises)

E. Ongoing monitoring of the G20 agenda

VI. APEC Engagement with the Private Sector and ABAC Advocacy Efforts

Supporting the industry dialogues

VII. Conclusion

Appendices

1. Integrated Supply Chain and Value Chain Conceptual Framework
2. ABAC Letter to the APEC Investment Experts' Group (dated 25 February 2011)

Annexes

- A. ABAC Letter to APEC Ministers Responsible for Trade (dated 29 April 2011)
- B. ABAC Letter to APEC SME Ministers (dated 29 April 2011)
- C. ABAC Letter to APEC Energy and Transportation Ministers (dated 25 August 2011)
- D. ABAC Letter to APEC Finance Ministers (dated 5 September 2011)
- E. The APEC Business Advisory Council

MAIN REPORT

I. Introduction

The dynamic economies of the Asia-Pacific continue to be the major drivers of global economic growth. Global trade has returned to its pre-recession level and foreign direct investment, while still lagging, is on an upward trajectory. However, there is no guarantee that the growth of the global economy will continue. At best, it will be hindered by a long period of fiscal consolidation in economies and regions with high levels of public debt. At worst, the global economy could slip into a double-dip recession.

Threats from natural disasters are also persistent in this region and ABAC is conscious of the large-scale natural disasters that affected people in several economies in the region in the last year. The devastation wrought on economies this year, most particularly in Japan, has also highlighted the integrated nature of global and regional supply chains. Critical supply chain links must remain open at times of national emergency for continued economic growth. Leaders must ensure that domestic actions taken to protect their citizens are based on rational and science-based decision-making and accepted international standards. ABAC also recommends that Leaders demonstrate a strong leadership to raise public awareness of the importance of Emergency Preparedness and instruct the relevant ministers to implement policies to support regional and economy-wide joint public-private efforts to prepare for emergencies.

While APEC cannot address all of the threats to continued economic growth, ABAC believes that APEC has a critical role to fill as a forum for ensuring that economies continue to strive towards further trade and investment liberalization and facilitation. Liberalization of markets and economic integration in developing economies has lifted millions of people out of poverty. In the face of an uncertain economic outlook, it is incumbent upon APEC economies to continue to liberalize and facilitate trade and investment as a means of addressing existing and emerging threats and ensuring that more of the region's people realize the benefits of economic growth.

Against this background, ABAC adopted the theme "21 Economies for 21st Century Prosperity" and the sub-theme "Employing people and ideas for sustained growth in Asia-Pacific". ABAC believes that 21st Century prosperity will be achieved through growth that is balanced, inclusive and

sustainable. The 2011 work program focused on the following key areas:

- Regional economic integration encompassing APEC's core trade and investment liberalization and facilitation agenda;
- SME (including micro-enterprises) and entrepreneurship with an emphasis on job creation; and
- Sustainable growth with an emphasis on energy security and food security.

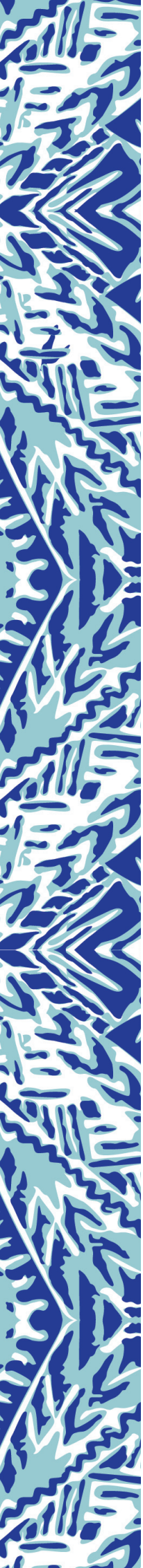
In this report, ABAC sets out practical actions which APEC economies could take to address the challenges noted above, achieve a seamless commercial environment in APEC and unlock the latent potential for economic growth in the region. The recommendations are organized according to ABAC's working groups.

II. Regional Economic Integration

Regional economic integration is the key to unleashing the growth potential of the Asia-Pacific region, and the best way to achieve this goal is by implementing a Free Trade Area of the Asia-Pacific (FTAAP). ABAC has identified a number of regional undertakings that could serve as pathways towards an FTAAP, including ASEAN+3, ASEAN+6, and the Trans-Pacific Partnership (TPP). No matter which of these ultimately serves as "the pathway" to FTAAP, it is critical that these undertakings address the existing barriers to a seamless economic environment. ABAC has identified a number of these barriers as next generation trade and investment issues, and has provided recommendations on addressing them in this report.

A. Identifying growth potential through a global supply chain and value chain framework

ABAC has adopted an integrated supply chain and value chain approach to identify actions that will help APEC achieve a seamless commercial environment (see Appendix A). The goods supply chain is defined as the pathway from primary resources through to markets and consumers, linking supply and demand. Similarly, the services supply chain is defined as the pathway by which primary services (both tangible and intangible) are either applied to goods as they move from



source to markets and consumers, or are delivered directly to businesses and consumers. The services supply chain can most easily be identified where knowledge has been commoditized and packaged as a “product”, ownership is established and trading and delivery occurs ‘at scale’.

Reducing barriers to the flow of the goods through the supply chain will spur growth by reducing waste, in terms of time and monetary expenditures. Reducing barriers in the services supply chain will increase the competitiveness of economies. The combined effect of improving the operation of the goods and services supply chains will be an increase in economies’ productivity, enabling economies to provide higher value-added services and increase the standard of living of their citizens.

The value chain relates to the monetary value that accrues at each point of the supply chain, made up of the value of both the physical goods and the “added value” of services applied to them. The value chain comprises a range of private and public sector services that support and add value to the supply chain such as quality assurance frameworks, innovation development frameworks, human resources, financial markets and investment regimes.

APEC’s efforts to date have achieved significant progress in facilitating the efficient flow of goods and services through the supply chains, however challenges persist. APEC economies can realize the full economic potential that can be derived from the free availability and efficient application of the value chain by identifying each component of the supply chain for goods and services and the elements of the associated value chain and addressing blockages at each stage.

ABAC urges APEC to explore a common understanding of the supply chains and value chains that underpin regional trade in goods and services, and use this as a basis to identify blockages to regional economic integration and, ultimately an FTAAP.

1. Facilitating the goods supply-chain

ABAC welcomes APEC’s efforts to improve the efficiency of the goods supply chain through the implementation of the APEC Supply Chain Connectivity Framework. ABAC believes that many of the barriers identified in the Framework, particularly those related to transparency and access to information, could be overcome by utilizing new

information and communications technologies (ICTs), such as cloud-computing, to develop an APEC Single Window Cloud. This concrete initiative would provide businesses with access to information on a range of rules and regulations related to customs procedures as well as tariffs and rules of origin for preferential trade agreements and documentation requirements. In addition, the Single Window Cloud would serve as portal for conducting a broad range of customs-related transactions online.

The rationale for the creation of this cloud includes ease of access: any time, any place, through any device; flexibility in scale and deployment; availability irrespective of the degree of digital readiness; and lower cost of ICT infrastructure and software implementation.

Recommendations:

- Undertake a study on the creation of an APEC Single Window Cloud with input from the private sector.
 - Continue to collaborate with major stakeholders in identifying blockages and overcoming barriers to establish seamless data sharing and cross-border links.
- (a) Achieving a balanced approach to trade security and facilitation

ABAC believes it is important to take a coordinated and holistic approach to enhance and facilitate the development of a mutual recognition scheme for Authorized Economic Operator (AEO) programs in APEC economies. A noodle bowl of various AEO programs should be avoided while, at the same time, encouraging the uptake of the AEO concept around the region.

The benefits and conditions of an AEO program differ between those designed for trade security and those geared towards both trade security and trade compliance. ABAC believes that distinction should be made between the two to make the process simple and orderly. Efforts should focus on developing mutual recognition arrangements using AEO programs that emphasize trade security.

Recommendations:

- Develop the AEO program mutual recognition scheme based on existing AEO programs

designed for trade security using common principles and common application processes.

- Ensure all the economic operators involved in the cross-border supply chain are eligible to participate in the AEO program.
- Clearly specify the AEO benefits for each operator in the supply chain. Explore ways to include benefits identified by ABAC in its 2010 recommendations to APEC Leaders in the AEO action plan.
- Develop an AEO certification system for AEO-qualified corporations in economies where AEO programs do not exist.
- Define the role of an APEC-wide AEO program, maximize its potential and avoid redundancy with other supply chain security programs to strike the most appropriate balance between trade facilitation and security.

(b) Harmonizing transportation safety regulations

ABAC maintains that there is a continuing need to harmonize transportation regulations on an international basis to achieve both safety and the facilitation of trade.

Recommendations:

- Ensure standards in each economy are aligned with those set by relevant international organizations and, where international standards do not exist, introduce an appropriate international framework to establish globally harmonized regulations.
- Promote capacity building activities to ensure transportation safety by encouraging compliance with current regulations among relevant supply chain operators.

2. Promoting regulatory coherence

APEC has achieved significant success in removing tariffs and quantitative restrictions. In recent years, there has been an emerging recognition of behind-the-border issues that create unnecessary non-tariff barriers to free trade and investment. Regulatory coherence aims to ease the trade impediments faced by businesses. Non-tariff barriers relate to the standards and qualifications set by government at the domestic level. Enhancing regulatory

cooperation within APEC economies will lower the costs of doing business, unblock 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 competitive and innovative. In order to demonstrate the value and importance for economies to maintain transparent, effective, enforceable and mutually coherent regulatory systems which are both risk and science-based, ABAC has taken a sectoral approach this year. Building on the principles of regulatory coherence advocated by ABAC last year, the goal is to develop effective regulation that facilitates the trade of goods and services as well as stimulates competitive economies and the region's economic growth.

Recommendations:

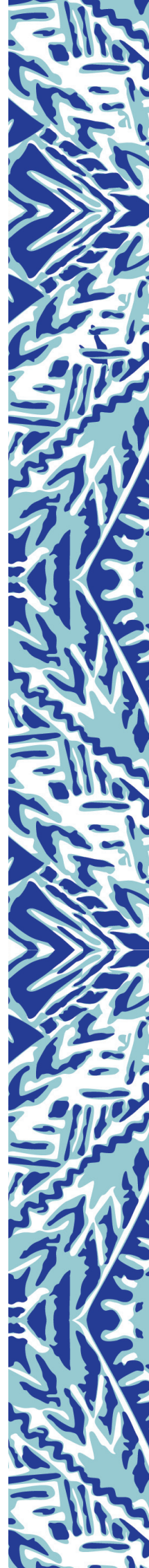
- Adopt a framework approach to regulatory coherence that incorporates the following characteristics:

Designing Regulations

- Harmonized international standards should be used as reference for domestic regulations.
- Use of equivalence and mutual recognition of standards to accept standards from other economies.
- Regulations should be performance-based rather than prescriptive.

Regulatory Institutions

- Regulatory institutions should promote approaches to regulation and implementation that are trade-friendly and avoid unnecessary burdens on economic actors.
- Regulatory institutions should address unnecessary costs of regulation.
- Regulatory institutions should advance both internal (domestic) and regional cooperation on regulatory issues to increase alignment of technical regulations, increase transparency, and identify mutually agreeable solutions.



Regulatory Impact Assessments

- Regulatory Impact Assessments should be used to assess the impacts of new or existing regulations on business.

Consultation Mechanism

- Economies should incorporate a consultation mechanism to enhance accountability, promote mutual learning, and encourage best practices.

Enforcement Mechanism

- Enforcement mechanisms should be transparent, equitable, and designed to ensure stability for the private sector.

Regulation Alternatives

- Regulation alternatives should be based on administrative simplicity, flexibility, efficiency, certainty and equity.

B. Accelerating trade and investment liberalization

1. Renewing focus on multilateral trade

ABAC recognizes the primacy of a rules-based multilateral trading system and the immense value of the World Trade Organization (WTO) in advancing global prosperity and resisting protectionist measures in times of economic crisis. A successful and comprehensive conclusion of the Doha Development Agenda negotiations will stimulate global economic growth in the best interests of all member economies. The successful conclusion of the Doha Round remains a high priority for the Asia-Pacific business community.

Recommendation:

- Call upon WTO Members of APEC to provide leadership at the 8th WTO Ministerial Conference in December in developing a credible way ahead for the Doha Round, noting that it is crucial that WTO Members have clear and pragmatic discussions that lead to the resumption of meaningful negotiations.

2. Continuing progress towards FTAAP

In the context of the increasing complexity of regional and global supply and value chains, and

the need for their smooth and timely functioning in order to support economic growth and development, ABAC continues to place a high priority on the achievement of a comprehensive FTAAP. ABAC strongly encourages the development of building blocks towards a possible FTAAP. Good progress has been made to date in the TPP negotiations, with eight rounds of negotiations held. Work is also continuing on the Comprehensive Economic Partnership in East Asia (CEPEA) and East Asia Free Trade Area (EAFTA).

Recommendations:

- Continue to press for progress towards the achievement of an FTAAP by further promoting the preferred pathways, engaging actively with the private sector on the scope of FTAAP and establishing a timeframe for its realization.
- Recognize the value of incorporating next generation trade and investment issues in negotiations of pathways toward an FTAAP.

3. Addressing next generation trade and investment issues

Trade agreements are not keeping pace with the increasing complexity of regional and global supply and value chains. ABAC wants to see any new trade agreements in the Asia-Pacific region take up this challenge by addressing the next generation trade and investment issues set out below. This will put APEC in the best position to achieve a comprehensive and high quality FTAAP in the future.

Next generation trade issues can be thought of as either 'new' issues (forms of trade or trade-related issues not covered by traditional free trade agreements (FTAs)), new and innovative ways of treating 'traditional' issues or longstanding issues that are gaining renewed prominence in APEC's current trade environment.

(a) Enhancing competition policy

Competition policy refers to the range of legislative and regulatory measures implemented by governments to promote competitive markets by minimizing barriers to participants entering markets, prohibiting anti-competitive conduct by businesses, and regulating sectors, industries or businesses where government enacts laws and regulations that create monopoly or near monopoly situations (e.g., monopoly infrastructure). Competition policy is primarily about increasing

the efficiency of domestic markets; as such, it has an important bearing on international trade. Anti-competitive behavior can undermine many of the benefits stemming from increased market access and national treatment that were obtained through international negotiation and agreement. Even where there are no longer legal or regulatory impediments to trade, anti-competitive behavior by domestic firms can prevent new market entrants from accessing business opportunities.

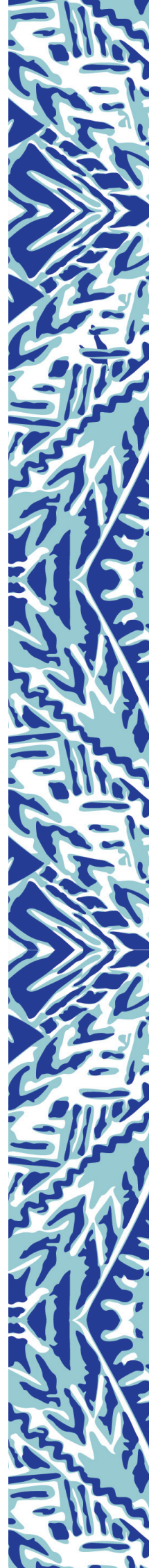
Currently, not all FTAs include a chapter covering competition matters. However, recent trends show that inclusion of competition chapters is becoming increasingly common. Therefore, while competition policy is not new to trade discussions between APEC economies, it is an emerging issue for future FTAs. At the same time, longstanding competition policy issues have gained renewed importance in trade amongst APEC economies.

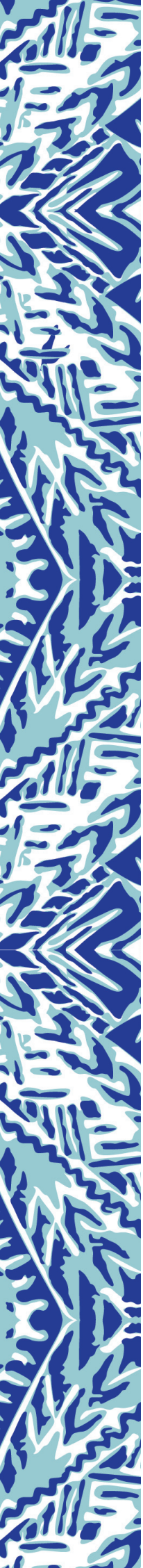
Recommendations:

- Adopt domestic competition policies consistent with the following principles, including through competition policy chapters in FTAs that draw on these principles:
 - Establish effective competition law and policy frameworks that address anti-competitive practices, taking into account the diverse circumstances of member economies in implementing these frameworks.
 - Establish frameworks to ensure effective enforcement of competition laws, while taking into account the diverse circumstances of member economies in implementing these frameworks and ensuring procedural fairness. Judicial systems or regulatory enforcement mechanisms should be accessible, accountable and provide for due process in judicial decision-making. Regulatory decisions should be transparent, made in a timely manner and subject to appeal or review. Adopt the procedural fairness principles endorsed by ABAC in 2009.
 - Promote the removal or reform of domestic policies and regulations that unnecessarily hinder competition, including through the review of the impact on competition of new or existing laws and regulations. Focus areas should include restrictions affecting trade in services, such as business or

occupational licensing, which have historically been outside the scope of FTAs.

- Promote the investigation and potential implementation of mutual recognition for business qualifications (e.g., occupational or business licensing) across the APEC region.
- Implement the APEC Principles to Enhance Competition and Regulatory Reform, and promote the utilization of the APEC-Organization for Economic Cooperation & Development (OECD) Integrated Checklist on Regulatory Reform in relation to competition policy and laws.
- Promote and apply competitive neutrality in state-owned enterprises, including through implementation of the OECD guidelines on corporate governance of state-owned enterprises as a reference. APEC members should also establish an independent mechanism for handling complaints when competitive neutrality requirements have been breached.
- Encourage structural separation and independence between the commercial and regulatory functions governments perform in markets.
- Encourage the removal of government restrictions on domestic parallel importation or reduce the scope of these restrictions under reasonable transitional arrangements.
- Provide for the equal and effective protection of property rights for domestic and foreign businesses and investors, including intellectual property on the grounds that uncertain or ineffective property rights discourage business investment and commerce by inhibiting owners from obtaining legitimate returns from their investment.
- Ensure trade remedy measures are not misused to inhibit international trade, investment and competition. The use of such instruments should be carefully limited to genuine concerns, so as not to impede fair competition and trade.
- Undertake capacity building to enhance the capability of policy-makers and regulators to design, enact and administer good





competition policy. The policy-making and regulatory institutions in each APEC economy should be strengthened to promote ongoing design, implementation and administration of laws and regulation in accordance with the principles of good competition policy. This may include best practice processes being embedded into policy-making frameworks so as to ensure ongoing implementation of good policy.

(b) Improving the investment environment

Expanding economic opportunities by encouraging foreign investment has always been a top ABAC priority. Given limited government and international organization funds, increased foreign direct investment is critical for the Asia-Pacific region to achieve its economic goals. APEC must therefore maintain its focus on spurring improvements in the investment environment of member economies and work towards improving the investment climate and investment instruments.

In support of the efforts of APEC Leaders in these areas, ABAC has undertaken several important initiatives, including: a proposal to amend and update the APEC Non-Binding Investment Principles (NBIP) in the face of changes in the way business is conducted in the region; submission to the APEC Investment Experts' Group (IEG) of detailed views on investment issues which ABAC believes are critical in making investment decisions; and a report on "Investing for Growth", which examines the critical role of investment in economic development, including the funding of large-scale infrastructure projects. The report will be submitted to APEC Leaders in Honolulu, and will provide the basis for a comprehensive plan to leverage foreign investment across the APEC region in support of the region's development.

Recommendations

- Adopt ABAC recommendations to amend/update the APEC Non-Binding Investment Principles.
- Improve the business environment, taking into account the recommendations outlined in ABAC's letter to the APEC Investment Experts' Group (see Appendix B) to facilitate further investment in the region.
- Implement the recommendations in ABAC's "Investing for Growth" report.

- Reaffirm the critical importance of facilitating regional investment flows as a means of enabling economic development, and in particular facilitating timely investment in the upgrading of critical infrastructure in all APEC economies.
- (i) Harmonizing tax systems for cross-border transactions

A company making an investment and running a business in a foreign economy is often faced with the risk of double taxation, potentially from both the home economy and also the economy of operation as a result of the difference in the transfer pricing rules in each economy, or in the application of transfer pricing rules. The cause of double taxation could be, for example, (1) an arbitrary selection of comparable companies resulting in an assessment of higher taxable income than reported in the tax return filed, (2) denial of a royalty payment as a deductible expense or regulations and/or guidelines which put a ceiling on the amount of royalty payment as a deductible expense, etc. Furthermore, double taxation relief through mutual agreement procedures may often be burdensome and take considerable time.

Such uncertainty caused by the non-transparent nature of tax systems and the unpredictable consequences of taxation procedures results in: (1) difficulty in the smooth repatriation of profit and uncertainty of potential double taxation, creating a precarious environment for companies to make foreign investments; (2) a serious impact on technology transfer and dispatch of technical experts from a parent company which are essential for business development, especially when a company has difficulty in recovering the return on technology or personnel services, in that the company has to face the growing risk of further taxation; and (3) significant man-hours and costs, which are necessary to settle disputes under domestic transfer pricing rules and mutual agreement procedures.

Recommendations:

- Encourage the use of the OECD Transfer Pricing Guidelines and the OECD Model Tax Convention as references within the APEC region to judge the appropriateness of the rules of each economy and their execution.

- Expand awareness of international tax principles, such as the OECD Transfer Pricing Guidelines and the Model Tax Convention in developing economies.
- Encourage each economy to conclude tax conventions or their equivalent with every economy in the APEC region.
- Provide an arbitration clause in tax conventions for disputes with no settlement for two years or more, which is effective for a quick solution to double taxation through transfer pricing taxation. Make a proposal to add an arbitration clause at the time of treaty revision if there is no arbitration clause in an existing tax treaty.
- For economies with bilateral tax agreements, encourage the use of advance pricing agreements (APA) as a way to prevent double taxation. Promote the use of APA procedures in each economy and further encourage the swift resolution of APA issues through the bilateral agreement mechanism.

(ii) Promoting bilateral social security agreements

Cross-border transfer of management resources such as people, goods and capital is getting increasingly important for global companies to develop and localize their global business. Especially, when companies transfer their technology and know-how from their economy to investment destination, it is essential to create an environment conducive to the movement of people as well. It is one of the key basic factors for business and investment strategies of companies.

The development of social security systems in the region should create the legal and social infrastructure necessary to provide a secure environment for business activities and to promote mobility of talented people.

However, as social security systems develop in the region, the problems of duplicate payments and non-refundable payments of security dues arise imposing large financial burden to companies. This causes a serious setback in investment facilitation in the region as the companies will have great difficulties in making business and investment decisions.

The solution to this problem is to conclude a social security agreement between two economies and

address the issue of payment of social security dues in the social security agreement for the benefit of the business community.

Recommendation:

- Enhance the conclusion of flexible and reasonable bilateral social security agreements in the region.

(c) Addressing skilled personnel shortages

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. In addressing this challenge, ABAC has adopted a “four-step” approach: a common, forward-looking methodology for measuring skills shortages in the economies of the region; focused vocational training programs based on insights from this skills mapping; outsourcing where the potential from vocational training has been exhausted; and the efficient movement of talent where other solutions to acute skills shortages had been exhausted. The recommendation to begin with a “pathfinder” project on building a rigorous skills mapping methodology for the APEC region was supported by the APEC Human Resources Development Working Group (HRDWG). Progress on this project continues, and will hopefully provide foundations for optimizing the region’s talent pool before skill shortages begin to strangle growth.

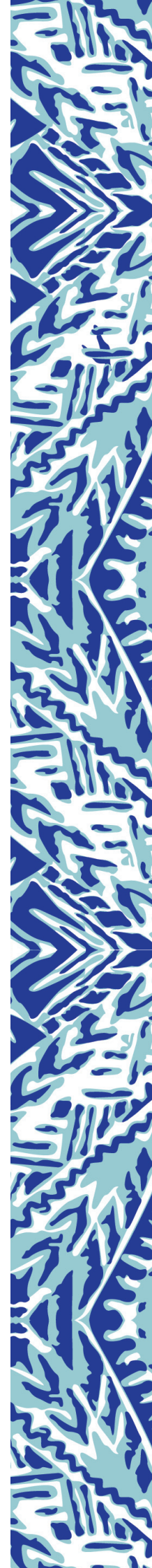
Recommendations:

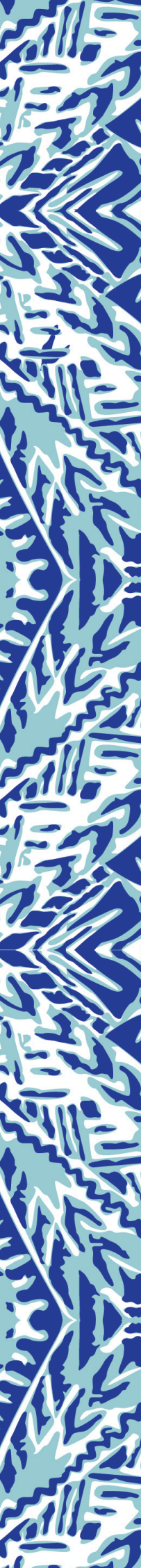
- Expedite progress on the Skills Mapping project to be led by HRDWG.
- Consider initiatives to regularize the management of talent movement around the APEC region.

(d) Promoting more open trade and investment in services

ABAC continues to hold as a core objective the liberalization of services trade and investment across the APEC region and the abolition of barriers to trade. This is critically important because services account for an estimated 65% of Gross Domestic Product (GDP) in the region.

ABAC considers there is an urgent need to address the challenge that many businesses and governments in the APEC region underestimate the critical





importance of strong and open services economies in fostering overall economic competitiveness, and in building services exports. This is in part because many services are “disguised” within manufacturing activity, and in part because most data sources systematically understate the contribution of services.

ABAC plans to submit to APEC Leaders in Honolulu a report which aims to raise awareness of services, their critical importance in APEC economies, and the value of openness to trade in services in building domestic competitiveness. It will provide case studies illustrating the importance and distinctive characteristics of traded services activity and identify key barriers to services development, and the potential importance of a transparent, trusted and interconnected regulatory environment in facilitating the development of a strong regional services economy.

Recommendations:

- Ensure continued progress in regional services trade and investment liberalization and facilitation, regardless of progress in the Doha Round.
- Give priority to regulatory reform, including consideration of taking forward the APEC-OECD 2005 Jeju Integrated Checklist.
- Establish an active program to raise informed awareness of, and improve data-gathering in, services trade and investment.
- Improve monitoring of progress in services trade liberalization, including by capturing and utilizing insights from work underway on the OECD Services Trade Restrictiveness Index as a potential means of measuring progress.

(e) Eliminating discriminatory and restrictive government procurement practices

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. The recent global economic crisis has heightened the awareness of discriminatory, trade-restrictive government procurement policies. To stimulate domestic economic activity and mitigate the effects of the economic downturn, many APEC economies launched comprehensive economic stimulus plans that

included significant public procurement projects. Many of these procurement initiatives resorted to protectionist policies that unfairly discriminated against foreign commercial operators, preventing them from bidding on contracts. Unfair procurement practices impede international trade, and suppress domestic innovation by limiting competition, which ultimately impairs long term sustainable growth. If domestic operators were encouraged to become competitive, they would not only be able to supply their domestic government at competitive prices but they would also more successfully export to foreign markets, increasing international trade and investment.

Discriminatory procurement practices favoring domestic commercial operators constitute a non-tariff barrier to trade. A growing awareness of these trade-restrictive effects has necessitated a need for set of international standards for government procurement. Governments are conspicuous actors in the modern economy, and will play an integral role in the global economic recovery. It follows that by their choice between fair or discriminatory procurement practices, governments can have a marked impact on international trade patterns. Addressing fair government procurement practices should be an integral part of future trade agreements. Elimination of these barriers will lead to a more efficient allocation of resources through increased competition, higher quality procurement and budgetary savings to government. Fair procurement practices also enhance supply chains by reducing the time, cost and uncertainty of moving goods and services throughout the region, simplifying procurement procedures, removing bureaucratic inefficiencies, promoting innovation, enhancing anti-corruption, as well as increasing transparency and public oversight.

Recommendations:

- Pay due attention to the government procurement issue and resume the work to address business concerns.
- Work towards promoting domestic anti-corruption efforts by enhancing the transparency of government procurement regimes and government procurement information.
- Expand efforts to enhance capacity building for developing economies through sharing of best practices.

- Support the liberalization of government procurement markets throughout the Asia-Pacific region in accordance with the principles and objectives of the Bogor Goals by encouraging a level playing field for all economic operators, foreign or domestic.

- Acknowledge that implementation timeframes for the liberalization of government procurement may vary, due to the differing stages of development of APEC economies.

(f) Adopting smart innovation policies to drive economic growth

Economies seek to leverage innovation to increase domestic productivity as well as move their economy up the value chain from producing low-value added products and services to producing high-value added products and services. Further, economies can apply the results of new innovations to address social challenges such as climate change, health and food security. Given these benefits of innovation, an increasing number of economies are making “innovation” central to their economic growth strategies. Carrying out these strategies involves the implementation of policies related to education, taxation, information and communication technologies, intellectual property rights (IPRs), investment, government procurement and trade.

The implementation of innovation policy can have a significant impact on trade policy, particularly in the context of creating a seamless commercial environment. Some of the areas affected by innovation policy, including investment, government procurement and technical barriers to trade (TBTs) have been the subject of more recent trade discussions; however, the majority of trade discussions have not considered the concept of “innovation” from a holistic perspective. In future trade discussions, APEC economies should consider the impact of innovation policy on trade policy to ensure that measures designed to spur innovation in an economy do not act as a barrier to efforts to promote regional economic integration.

Recommendations:

- Encourage the implementation of the APEC technology choice principles to allow market forces to determine the availability, commercialization, deployment, and use of technologies. This ensures that businesses,

government agencies, and citizens have the broadest access to different types of technologies and services.

- Promote the adoption of existing international standards where they exist and collaborate on the development of new common standards for emerging technologies. Economies should implement technical standards and regulatory policies that allow governments to meet their regulatory objectives, while minimizing the impact on trade. This helps spur innovation and competition among businesses and ensures that the benefits of ICT reach global consumers in the most efficient way.

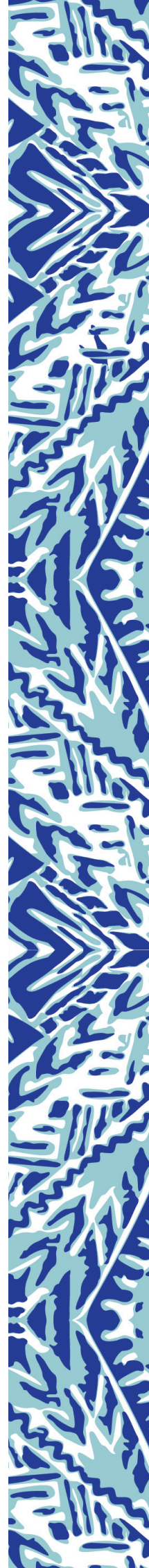
- Encourage foreign direct investment to promote the development and introduction of new technologies and business models, and create a competitive economic environment that spurs innovation. This provides a foundation for the growth of higher wage jobs, advanced skills, productivity, and broader choices and better prices for goods and services.

- Establish comprehensive and balanced intellectual property systems to encourage creation and innovation, and provide the tools for successful management and exploitation of IPR.

- Strengthen on-border policing and penalties for counterfeit and piracy, strengthen enforcement on the Internet, promote public awareness campaigns on intellectual property rights, and develop information sharing systems among private and public sectors. Promote participation in the Anti-Counterfeiting Trade Agreement.

- Implement policies that promote the global trend toward voluntary, collaborative innovation, including open and flexible immigration policies, for example, government incentive programs (grants, tax credits, etc.) that do not discriminate on the basis of employee citizenship or location of participating employees.

- Support the expansion of the range of tariff free WTO Information Technology Agreement (ITA) products. Since the adoption of the ITA, the IT industry has made rapid technological progress and many products have been converged but the range of tariff free items has not been





reviewed. Further, digital and electronically delivered products such as software or creative content should receive treatment no less favorable than their physical equivalents. This initiative will increase access to products that improve productivity, facilitate innovation and promote economic growth.

- Leverage the convening power of APEC to maintain a regular venue for discussion of the impact of innovation policy on trade policy and to share experiences and best practices.

4. Increasing transparency and fighting corruption

Corruption is a major obstacle to social and economic development and drastically increases the cost of conducting commerce in the APEC region. In the 2010 APEC Leaders' Declaration, APEC Leaders recommitted to continue their efforts to fight corruption and support transparency, including leveraging collective action to combat illicit trade and dismantle transnational illicit networks across the Asia-Pacific region. APEC Leaders also called for improved and regular reporting by APEC on its efforts to meet commitments in this area to build a secure community in the region.

APEC Leaders have recognized transparency and fighting corruption, as complex, cross-cutting, and important issues that adversely impact both public and private sector objectives of greater economic growth, prosperity and development. To address these issues, they have endorsed a number of robust deliverables to address corruption and increase transparency including the 2004 APEC Transparency Standards, Santiago Commitment to Fight Corruption and Ensure Transparency and APEC Course of Action on Fighting Corruption and Ensuring Transparency. Building on these commitments, 2011 is well positioned as a year in which APEC can enact robust strategies and actions to build momentum on its anti-corruption and transparency agenda.

Recommendations:

- Implement the 2010 APEC Leaders' Declaration commitment to publicly report on anti-corruption and transparency efforts, with benchmarks and timetables for full implementation.
- Public reporting provides the best means for APEC Leaders to demonstrate that they are moving forward on these commitments.

- ABAC supports strong public-private cooperation to enhance the reporting standards.
- Reporting demonstrates a commitment to accountability.
- An inaugural report should be issued by the November 2011 Leaders' Meeting in the US.
- As widely recognized tool to combat corruption, public reporting can help incentivize action, identify gaps in anti-corruption efforts, and increase accountability.

III. Sustainable Growth

A. Ensuring food security

In 1999, ABAC proposed that an integrated "APEC Food System" be established. Leaders endorsed the concept but implementation was desultory. In 2009, ABAC proposed that a high-level public-private process be established to be the central driving force in creating a coherent action agenda for food security in APEC.

In 2010, the first ever APEC ministerial-level meeting on Food Security was held. The ministers declared that a "meaningful consultation with relevant stakeholders is critical to making sustained progress towards our food security goals" and instructed Senior Officials to integrate the private sector into APEC's food security efforts. As a result, APEC has created a Policy Partnership for Food Security in which the private sector can play the role envisioned by ABAC and the ministers. ABAC strongly applauds this development.

ABAC recognizes that there are some new challenges which make the food situation ever more complex: (1) total global food demand and supply is in tight balance; (2) imbalance in the regional distribution of food is worsening; and, (3) food prices are both higher and more fragile. Therefore, ABAC fully supports the APEC Leaders' call to enhance international cooperation and increase financial and technological support from developed economies to developing ones.

Recommendations:

Both within the Policy Partnership for Food Security and individually, APEC economies should:

- Set up guidelines for balanced and efficient use of food sources for consumption by humans, animals and the energy sector via:
 - Agricultural Land-Use Zoning
 - Designated clusters for efficient use of water supply
 - Government measurement for zero waste consumption
 - Genetically Modified Organism (GMO) plantation for the energy sector
 - Farmers' Co-ops for Land Consolidation where appropriate
 - Reduced trade barriers to allow proper pricing signals
- Enhance food production and set policies to increase agricultural productivity via:
 - Developing irrigation systems and water resource management
 - Matching crops to the most suitable land
 - Greater collaboration and investment in R&D for modern farm management
 - Increasing IP-protected, market-based agricultural technology diffusion
 - Zero waste production
 - Increasing yields by using "New Seeds"
 - Improving the knowledge base of farmers
 - Mutual recognition of Good Agricultural Practices (GAP) and Code of Conduct (CoC)
 - Ending export subsidies and export restriction
- Set/adopt international standards on food; improve product quality via technology; identify major roadblocks and carry out good policy to ensure more efficient supply chains for food to market.
- Strengthen monitoring of the impact of financial instruments and reduce uncertainty in agricultural markets.

B. Addressing energy security

The International Energy Agency projects that total world energy demand will increase by 40% in 2030 leading to a corresponding 80% increase in global demand for fossil fuels. Greater use of fossil fuels presents both risks and opportunities for APEC economies which include six of the world's top ten energy consumers. A diversified and more efficient use of energy can ensure the availability of energy necessary to fuel economic growth and development.

To mitigate risks, the APEC community must hedge against volatility and supply disruptions in the short and medium term, and ease supply and demand tensions in the long term by decreasing energy intensity and developing new and diversified sources of energy.

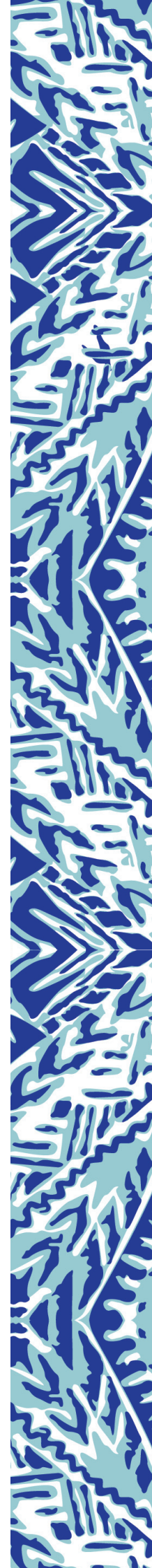
Recommendations:

While APEC economies are already working on the components of a more secure energy future, these efforts can be further consolidated, enhanced and accelerated:

- Create a regulatory, investment, and legal environment that encourages investment and action by the private sector. The business community has an abiding interest in ensuring affordable and sustainable supplies of energy. As APEC explores developing an Energy Security Framework that includes regional and national integrated energy strategies with measurable objectives, it is important that goals be realistic and that policies be put in place to leverage private capital and the expertise and dynamism of the private sector.
- Convene an annual meeting of APEC Energy Ministers, with private sector participation comparable to that at the 2007 Darwin Meeting. Energy cooperation is now such an important issue that APEC Energy Ministers should commit to annual meetings to ensure strong oversight of previous agreements and to take further actions based on current conditions. Robust private sector input and cooperation is necessary for success. Private sector participation should be patterned after the 2007 Meeting of Energy Ministers in Darwin, especially the integration of such entities as an APEC Energy Business Forum and the Energy Business Network.

In the near term, there is room for APEC economies to expand energy conservation efforts, promote renewable and clean energy resources, and take steps to increase energy productivity:

- Expand efforts to exchange best practices, standards and technologies for improved energy efficiency.
 - The exchange of information is important as energy efficient practices that are common in a sector in one economy may be unknown to the same sector in another economy.



- In order for APEC to promote energy efficiency, each economy should also consider defining a Minimum Energy Efficiency Performance Standard (MEPS) for certain carbon-intensive sectors, including electricity generation and steel industries, automobiles, home appliances and residential and commercial sectors.
- Alternative energy such as hydropower, solar, wind and biomass are sustainable sources, but will need cooperative development to ensure cost-efficient deployment globally. APEC economies should promote the growth of these industries by harmonizing standards and conformance on these emerging technologies, promoting the trade of environmental goods and services and introducing incentives such as feed-in tariffs.
- Facilitate the use of all viable energy sources by playing a constructive role in reducing barriers to energy investment and trade.
 - Natural gas is a transportable, viable energy source, particularly with the emergence of competitive shale gas, and producing economies should consider pursuing infrastructure developments to help bring these energy-dense, lower-carbon fuels to market as quickly and efficiently as possible. Streamlining permitting and routing processes will help; avoiding price controls and local content rules can also address the energy gap.
 - Alternative energy sources may increasingly become viable and contribute to the energy mix. Sources such as geothermal, solar, hydropower, biomass, waste and wind energy have different barriers to entry and scaling. APEC economies should promote the growth of these industries by examining domestic policies that may limit their adoption and by easing restrictions on technologies, promoting the trade of environmental goods and services and introducing incentives.
 - Nuclear power, notwithstanding what the world has learnt from the recent Fukushima crisis, remains a clean source of energy for economies which are able to meet safety standards set by the International Atomic Energy Agency (IAEA).
- Protect energy investments:
 - Promote strong investment treaties that create secure, predictable and non-discriminatory legal environments that will encourage large investors to spend the capital required for large-scale projects.
 - Ensure that the large-scale investments required for infrastructure and resource development are protected by strong investment regimes that allow for non-discrimination against foreign investors, give investors full protection and security satisfying the standards of customary international law, provide for free transfer of capital, set limits on expropriation and guarantee access to reliable third party dispute mechanisms.
 - Create a forum/venue for economies to share best practices and knowledge regarding attracting foreign direct investment in emerging technologies.
- In the resource sector, producing economies should open access to foreign participation in order to attract private capital and gain access to the most suitable technologies.
- Encourage power generation and other industrial plants to phase out inefficient systems and adopt new low-carbon and more cost-effective technologies.
 - Introduce tariff-based long term incentives that support efficiency gains. Because different sectors have different needs, fuel mixes, and challenges, the idea of implementing incentives on a sector by sector basis should be considered.
 - Introduce the Low-Carbon Pathfinder Scheme, based on the multi-track approach that reflects the different environments of each economy and the major energy-related sectors. The scheme allows each APEC economy to select and prioritize its preferred options for emission reductions, energy strategy, policies and regulatory measures. The scheme of each economy should be published and reported periodically among the APEC economies.

In the long term, the price of energy should reflect the cost of energy production, extraction, and distribution. Energy consumption is subsidized in many economies. As a result, energy markets are not as efficient as they could be in influencing consumer behavior towards energy efficient products and encouraging greater private sector investments in the development of clean energy infrastructure and low-carbon technologies. APEC economies should commit to:

- Eliminate inefficient fossil fuel subsidies to reflect the true cost of energy. Commitment by APEC Leaders to rationalize and phase out inefficient fossil fuel subsidies is laudable. APEC needs to establish timeframe, with milestones and targets, to gradually remove inefficient fossil fuel subsidies.
- Consider removing tariff and non-tariff barriers and enhance stronger intellectual property rights protection for low-carbon technologies and other environmental goods and services, specifically technologies for household, industrial, transportation, smart grid and other uses. Eliminating tariff and non-tariff barriers can reduce the cost of adoption and stronger IPR protection will encourage the commercialization and dissemination of new energy efficient and low-carbon technologies.

C. Promoting dissemination of environmental goods and services

A study commissioned by ABAC in 2010 identified barriers to energy-related investments, including energy efficient environmental goods and services (EGS). Based on surveys and interviews with private sector representatives, the study identified a broad range of issues that economies should address to promote the dissemination of EGS. This year, ABAC has begun exploring market-based initiatives to promote the dissemination of green technologies, and enhancing best practices in management and financing for the further promotion of trade and investment in EGS, where ABAC is extending this work to next year.

Recommendations:

- Make efforts to remove tariff and non-tariff barriers and enhance intellectual property rights protection for low-carbon technologies and other environmental goods and services for the further promotion of trade and investment in EGS.

- Facilitate the dissemination of new energy-efficient and low-carbon technologies, specifically for household, industrial, transportation, smart grid and other uses so as to help APEC members, particularly the developing ones enhance their competitiveness and development capabilities, with a view towards sustainable growth.

D. Ensuring water security

ABAC recognizes that water security is critically important for sustainable and inclusive growth in the face of rapid increases in population and urbanization. Due to the diverse nature of water security issues, ABAC is focused on promoting best practices and human resources development for urban water management.

Recommendations:

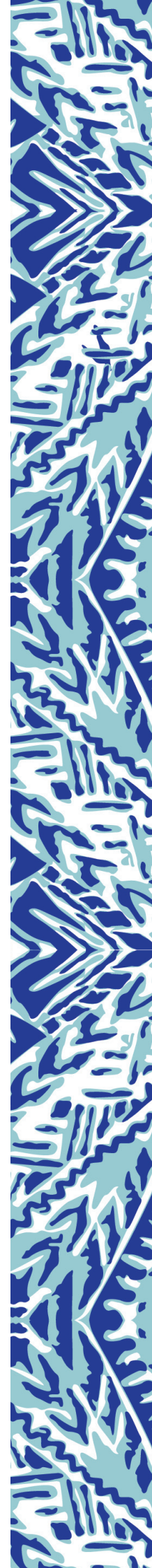
- Focus more on water management towards securing efficient use of water resources, reducing leakage, reuse of treated water, etc.
- Establish a body within APEC to assist in developing policy and action plan, including capacity building for long term human resource development programs to meet local needs.
- Raise awareness of the community on water issues by promoting community participation in water conservation activities.
- Set policies and legal frameworks, including long term concession periods, to foster public-private partnerships and to attract private investment in the water business.

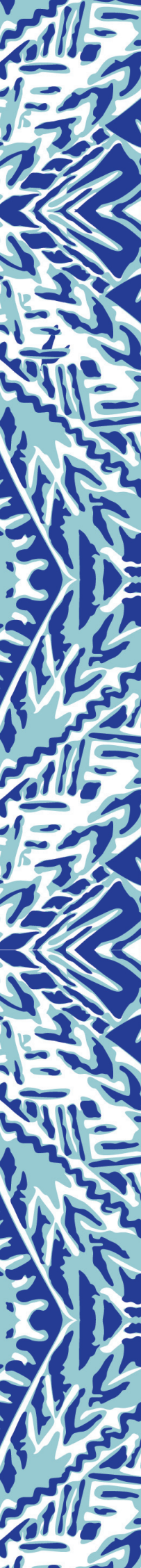
IV. SMME & Entrepreneurship

A. Promoting SME Start-up and Sustainability

Addressing barriers faced by SMEs in cross-border trade

ABAC urges APEC economies to support policies and initiatives that encourage small and medium enterprises (SMEs) (including micro-enterprises) to engage in cross-border trade. Although significant technological and regulatory changes have taken place since APEC's establishment, SME growth is often hampered by an inability to adapt to an increasingly competitive and fast-moving





commercial environment. ABAC identified such barriers to cross-border trade and provided related recommendations in a letter to APEC SME Ministers in May.

Particularly since the economic downturn that began in 2008, a combination of fiscal tightening and weaknesses in lending structures and evaluating credit worthiness has held back SME growth. And, as the importance of taking advantage of knowledge-based economic opportunities grows, the plight of SMEs is compounded by poor access to finance, technology and commercial information. In addition, smaller enterprises often lack the resources to handle complicated regulatory and legal matters.

Therefore, ABAC's recommendations are designed to improve the ability of SMEs to take advantage of capital, technology, information, and trade regulations. Although some of these recommended changes specifically address SMEs, revising generally applicable laws and policies can have an especially strong impact on SME success.

Recommendations:

Capital

- Improve access to capital by implementing policies that support secured lending, unsecured lending for micro-enterprises, comprehensive credit reporting systems, venture capital initiatives, and public-private initiatives such as government-backed loan guarantees.
- Help the financially underserved by supporting the APEC Financial Inclusion Initiative.

Technology and information

- Support the development of accessible, reliable, and affordable broadband networks.
- Encourage programs that help SMEs take advantage of available ICT, including marketing across borders using the internet.
- Establish market knowledge centers that SMEs can use to pursue cross-border business opportunities.

Trade regulations

- Implement the APEC Transparency Standards and related commitments.
- Reduce the cost and administrative burden for SMEs that develop and use intellectual property. Encourage the protection of intellectual property rights.
- Make trading easier by supporting the APEC Single Window initiative, and by ensuring that the Authorized Economic Operator programs take SMEs into consideration.
- Help SMEs understand and handle FTA-related issues, such as certification processes, Rules of Origin standards, and compliance.
- Encourage the development and adoption of voluntary codes of conduct.

B. Promoting economic inclusion

Promoting business opportunities for women

ABAC believes that unleashing the economic potential of women across the APEC region will provide a significant boost to economic growth. In order to catalyze action and dialogue on this issue, and to inspire the next generation of APEC women leaders, ABAC established the ABAC Women's Forum in 2011 to promote opportunities for women in business. In the few months since its founding, the ABAC Women's Forum has developed sophisticated ICT tools, including a website and a mobile app, to enhance communication and cooperation with women entrepreneurs, and to become a nexus for women's groups. The mission of the group is 'Connecting women to business success.'

The ABAC Women's Forum has been working with related agencies within APEC involved with enhancing business opportunities for women, to gain a greater understanding of the issues and mechanisms. It has developed a three-step approach: capacity building; collaboration; and conversation.

ABAC applauds APEC Leaders for recognizing the important role of women in the economy, and urges them to act on the policy priorities stated in their 2010 APEC Leaders' Declaration and Growth Strategy documents, and also in the

APEC Ministerial Meeting Joint Statement. ABAC also supports the establishment of the Women in the Economy Summit as a constructive elevation of gender issues to ministerial and senior official level, and will participate in the Policy Partnership for Women and the Economy (PPWE) and High Level Policy Dialogue (HLPD) as well as the panel discussions at the summit being held in September in San Francisco.

Recommendations:

ABAC notes that considerable work on the promotion of opportunities for women has been done in the last ten years; however, many women entrepreneurs still lack access to capital, markets, technology, skills and information to enable them to start or grow a business.

Capacity-building

- Improve access for women to capital, skills training, information on markets and regulations, and ICTs by implementing policies and putting in place legal structures that ensure equal treatment for men and women entrepreneurs, enabling women entrepreneurs to compete on an equal footing with men.
- Implement or enforce policies that eliminate material discrimination against women in the workplace, including ensuring equal pay for men and women where equal work is being done, and encouraging greater participation of women in senior levels of both public and private organizations.
- Promote greater economic participation by implementing policies promoting flexible work schedules for those caring for children or elderly or sick relatives, and the provision of safe and affordable child-care facilities.
- Create benchmarks for progress on issues relating to women in business, such as diversity on corporate Boards and senior management.

Collaboration

ABAC recommends the support and leveraging of women's initiatives such as the APEC Policy Partnership on Women and the Economy (PPWE) and the ABAC Women's Forum so as to advance opportunities for women in business and government.

- Promote greater awareness of gender issues within and between government departments at different levels.
- Promote active participation among the public and private sectors in PPWE and other economy and regional activities focused on the enhancement of women's opportunities in business.
- Ensure that both ABAC and the ABAC Women's Forum are represented on key APEC fora covering issues relating to women in business.

Conversation

It is vital to involve more women in efforts to promote women in business. ABAC recommends that APEC:

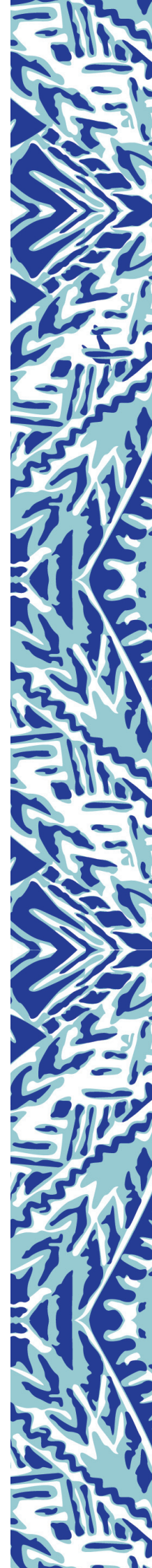
- Support the participation of women executives in public-private initiatives aimed at enhancing the business environment and promoting the significant presence of women in APEC bodies.
- Promote the appointment of more women executives to ABAC, with a view to making ABAC a model for other international bodies.
- Promote interaction and mentoring schemes for women in the private sector and public sectors to help women advance in business and government.

C. Advancing capacity building

1. Fostering innovative growth

With SMEs (including micro-enterprises) accounting for the majority of businesses and jobs in all economies, the promotion of innovative growth is widely recognized as vital to economic development in this post-crisis environment. The 2010 ABAC Innovative Growth Initiative identified key macro factors that governments could undertake to foster innovative growth in the areas of human resource development, innovation system, ICT infrastructure and business environment.

Building on that body of work, the 2011 initiative extension has focused on entrepreneurship and the commercialization of ideas, with the focus on identifying policies that foster innovation in SMEs in APEC.



Recommendations:

- Implement policies that promote a pro-innovation business environment, including promoting targeted emerging economic sectors, including green technology such as smart grid and clean power generation, and ICT-related applications such as cloud computing, providing training and incentives for more businesses to focus in these areas.
- Increase access to online information on markets, products, services and technologies, and to e-governance facilities, by providing training to SMEs in ICT skills and promoting ICT utilization by SMEs.
- Share experiences of economy-level initiatives and best practices between developed and developing economies.

2. Supporting green growth for SMEs

APEC economies follow a wide range of consumption patterns and pursue an equally diverse range of environmental policies. But one thing they have in common is a desire for a cleaner, safer and more sustainable environment.

Creating conditions that encourage SME growth in this area can help to drive innovations that raise living standards across APEC. And fostering green growth among SMEs also means creating jobs. Through its support of SME involvement in green growth, APEC can improve the lives of its citizens through both job growth and a better environment.

ABAC supports APEC initiatives to foster green growth among SMEs, which will allow them to play a more effective role in both of the main APEC environmental strategies: lowering carbon output and encouraging the domestic and cross-border growth of environmental goods and services.

ABAC also supports the Green Initiative, which focuses on identifying, measuring, and encouraging green growth among APEC SMEs. This initiative is intended to define, encourage and measure SME contributions to environmentally friendly behavior in APEC economies by pursuing objectives in four areas: clarifying the definition of “green growth” and a framework for related policies; supporting green technology innovation and management by SMEs; creating a green-friendly economic environment;

and creating green partnerships between SMEs and other organizations.

Recommendations:

- Adopt measures that support the dissemination of EGS (e.g., import tariff exemptions, better IP protection and the harmonization of standards). Because many SMEs lack the resources needed to overcome the inefficiencies and barriers posed by such regulatory weaknesses, ABAC expects such measures will have an especially positive impact on SMEs engaged in EGS.
- Support the Green Initiative recognized this May by APEC SME Ministers and the APEC SME Working Group.

3. Developing common principles for ethical business practices for SMEs

ABAC recognizes that corruption is a significant market access barrier that prevents companies, resource-constrained SMEs in particular, from realizing their full export potential. It welcomes concrete steps being taken by APEC to combat corruption and to facilitate open and transparent business environments, especially in sectors of export interest to SMEs. It also welcomes endorsement of the Kuala Lumpur Principles for Medical Device Sector Codes of Ethics (the “KL Principles”) by APEC SME Ministers in Big Sky, Montana. ABAC encourages the adoption and implementation of codes of business ethics consistent with the KL Principles by medical device sector industry associations and their member companies, including through ongoing capacity building programs.

ABAC also welcomes the endorsement by SME Ministers in Big Sky of the preparation of principles for codes of business ethics that apply to construction and biopharma sectors, where SMEs are important stakeholders.

4. Supporting the APEC Young Entrepreneurs’ Summit

Entrepreneurial culture and spirit needs to be inculcated to ensure that potential entrepreneurs are able to leverage emerging and new business opportunities, and APEC is an effective platform for collaboration on efforts to help start-ups initiated by young people.

With the changing economic landscape and bountiful opportunities within APEC for technological

advancement, ABAC believes that it is imperative that young entrepreneurs be equipped with the necessary skills and gain exposure to new business environments and innovation as well as sustainable business practices.

ABAC supported the adoption and implementation of capacity building programs such as the APEC Young Entrepreneurs' Summit organized by Malaysia in October 2011 as part of its ongoing initiative to assist young entrepreneurs to strengthen their capabilities and improve their participation in international markets. The Summit, an event that has been reintroduced after several years' absence, also provided an avenue for APEC to identify effective policies, strategies and initiatives to help entrepreneurs develop their skills and capabilities to make them more competitive and innovative. ABAC looks forward to supporting and participating in such events in the future on an annual basis.

5. Supporting SME Summits

ABAC supports the development of SMEs. In 2007, ABAC started to arrange summits aimed at promoting communication among SMEs, raising their profile with government authorities, and driving the sustainable development of the regional economy. This August, summits were held in Lima and Chengdu. In addition, an APEC Entrepreneurs' Roundtable will be held in Honolulu in November. These events provide a valuable platform for APEC SMEs to share information about opportunities and challenges, as well as to identify key policy solutions.

In order to harmonize and create synergy among these events, ABAC China will establish an APEC SME Summit Coordination Center in China to serve as the focal point among organizers of APEC SME Summits in different economies.

V. Finance & Economics

A. Promoting policy cooperation and coherence within APEC economies

To enhance efficiency in financial markets, there is a need for regulatory coherence on a broad range of issues. Without coherence of regulation, cross-border capital flows may be constrained and opportunities for regulatory arbitrage may emerge thereby impeding investment and market efficiencies, adding compliance and enforcement costs for both government and industry. For

consumers, regulatory divergence is tantamount to a concealed "inefficiency tax" that citizens pay on everything they purchase. This tax is the sum of the costs of duplicate regulations, cross-border administration delays and fees, and other regulatory impediments. For businesses, and in particular SMEs, higher costs of compliance hinder international competitiveness and complicate the most efficient deployment of economic resources.

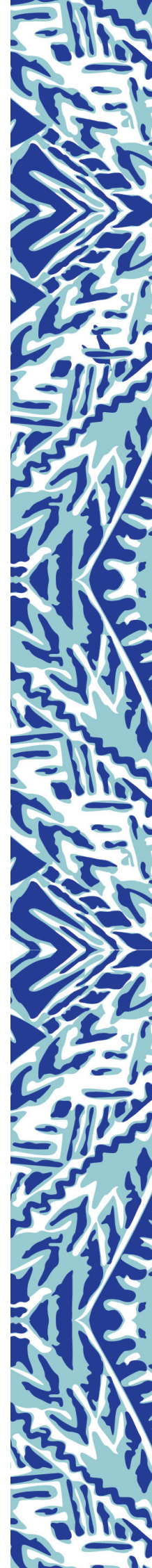
ABAC identifies that the goal of regulatory coherence is to develop effective regulation that facilitates the trade of goods and services, as well as stimulates competitive economies and the region's economic growth. Regulatory coherence, however, is not about less or more regulation. More than just harmonization of regulation, it is also about improving the process by which economies develop regulations, developing best practice and finding common standards acceptable to multiple economies.

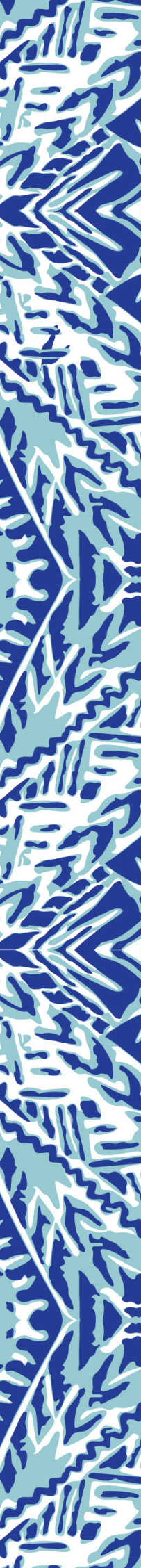
1. Expanding regulatory cooperation and regulatory coherence through the adoption of IFRS

ABAC observed in its 2010 Report to the APEC Economic Leaders that it believes the introduction of robust common accounting standards such as 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.

ABAC also noted that a number of complex issues remained for jurisdictions in interpreting important aspects of IFRS including approaches to "fair value", comprehensive income reporting and the potential liability of company directors and others who may unwittingly incorrectly interpret financial reporting requirements. Work is ongoing in refining International Accounting Standards and in clarifying the requirements of IFRS. While a number of APEC economies are moving to or have issued reporting standards equivalent to IFRS – Australia; Canada; Japan; Hong Kong, China; Chinese Taipei; Russian Federation; and Singapore – the principles-based approach of IFRS means that individual economy interpretations of aspects of the standards are the norm.

Despite there being overall support for implementation of IFRS, many private sector organizations have their concerns. As pointed out last year, ABAC has concerns on some of the newly





proposed accounting standards, including fair value measurement (IFRS 7 and IAS 39) and pension (IAS 19) given they may have significant impact on companies' Profit and Loss statements. In addition, the proposed changes on lease accounting (IAS 17) may have potential business and economic impact, such as on the availability of financing for SMEs. During the implementation of IFRS, it is important to examine the economic and business impact of the accounting standards, so that the economies are activated as a whole.

As part of APEC's goal of encouraging regulatory coherence and promoting regional economic integration, ABAC wrote twice during 2011 to the Chairman of the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) conveying ABAC's strong support for adoption of IFRS throughout the APEC region, one on lease finance and another on insurance contracts. At that time, ABAC noted that adoption of IFRS should be undertaken in a manner that minimizes impact on real economic activities. In particular, ABAC identified that it would be concerned with any impact of implementation on the financing activities of SMEs, as this is a focus area for Inclusive Growth initiatives, one of the pillars of APEC's growth strategy.

In this context, ABAC noted that IASB and FASB jointly released an exposure draft (ED) on lease finance dated 17 August 2010, proposing new accounting rules for treatment of lease financing and calling for finalization of the rules by June 2011. The IASB/FASB preliminary analysis of submissions noted that significant concerns were raised with the ED, including, as most concerns ABAC, the potential for the rules to have a negative impact on lease financing availability for SMEs. Among the concerns ABAC shared, was the reduction in the ability of businesses, particularly SMEs to access funding in many APEC economies and the funding ability of both lessees and lessors would be constrained as lease financing, currently a significant component of overall liquidity available to businesses, would become scarcer.

ABAC stated their belief that ABAC has a duty to underscore at a higher level that the ED be implemented in a way that does not impair APEC's overarching themes of Inclusive Growth, and think this consistent with the IASB/FASB conceptual framework that implementation of accounting standards should be neutral with respect to economic impact.

ABAC also noted that IASB released an exposure draft on insurance contracts dated 31 July 2010, proposing a new accounting standard for insurance contracts, including new standards for the valuation and disclosure of insurance liabilities, and the introduction of the margin approach in the presentation of financial statements. ABAC considers, however, that such changes would have significant negative impact on the insurance industry, including non-economic volatility and non-transparency in the reported results of insurance companies in the region, as well as the reduced availability and/or increase in the price of many long-duration insurance products that are particularly important for economies in the region with ageing populations.

The efficient operation of capital markets is best served through coherence and harmonization on how market information is reported. Hence, ABAC believes that the adoption of coherence to internationally agreed accounting and reporting standards will reduce risk and the cost of undertaking foreign investment.

In supporting the adoption of IFRS, ABAC requests that the APEC economies acknowledge that in the process of promoting the coherence of standards, relevant issues to be addressed are the identification of current issues in IFRS such as the impact on SMEs and an understanding of the current status of adoption of IFRS across APEC.

Recommendations:

- Establish a task force to discuss studies on smooth introduction of IFRS to ensure appropriate communication among IASB, FASB, APEC and ABAC.
- Undertake an impact study on certain provisions, such as those related to lease financing and insurance contracts noted above, 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 SMEs and other business groups, such as insurance companies, that will be affected. Adoption by economies of IFRS should take into account ways of satisfactorily dealing with the concerns raised by business groups.

2. Encouraging the adoption of international standards in internal audits

Reduction of risk and ultimately the cost of undertaking cross-border investments and capital flows are intrinsically linked to the availability of acceptable market information. Accordingly, the efficient operation of capital markets is best served through coherence and harmonization on how this market information is reported. One area where this can pragmatically be served is through the introduction of common accounting standards and Internal Audit Standards.

Good governance and risk management are central to the effective performance and sustainability of economies' public and private sector institutions. Internal audit is a major component of an institutions' governance system and its capacity to manage risk and internal control systems. In all sectors, internal audit can contribute to stronger organizations, more efficient and effective performance of organizations, organizations being better able to safeguard their assets, the reduction of the likelihood and severity of fraud and corruption and the prevention of unexpected market shocks.

The Basel Committee on Banking Supervision (BCBS) encourages internal audit in principle 9 of its October 2010 paper on "Enhancing Corporate Governance".

While internal audit is mandated in some APEC economies, this approach is not common in all APEC members. APEC is encouraged to explore how the profession of internal audit can be advanced in all member economies. This could be achieved by mandating or encouraging internal audit in relevant public sector institutions, in financial services and in the largest listed companies (for example, the top 100 or 200 companies).

The Institute of Internal Auditors (IIA) is the global body that advances the profession of internal audit. It has more than 160,000 members worldwide and there are IIA Institutes in the majority of APEC member economies. Where mandating is implemented, the application of the IIA standards (referenced in the BCBS paper "The International Professional Practices Framework") should be mandated or encouraged.

Recommendation:

- Promote coherence in regulatory approaches and cooperation. Consider mandating or at

least encouraging the adoption of IIA standards in member economies and consider ways to advance the profession of internal audit.

B. Enhancing capacity building within financial markets across the APEC region

Promoting infrastructure public-private partnerships (PPP) through public-private regional collaboration

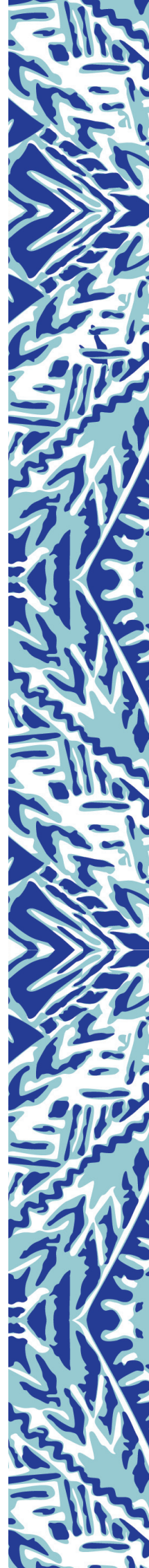
In the context of the region's exponentially growing need for infrastructure and the limited resources available in the public sector and multilateral institutions, an enabling environment to channel more private capital into infrastructure is becoming ever more important. Noting the Advisory Group on APEC Financial System Capacity Building's view that these challenges could be effectively met through closer collaboration among the public and the private sectors and multilateral development banks (MDBs), ABAC recommended that APEC launch a regional infrastructure partnership involving all of them. ABAC has formed a private sector panel and held initial Asia-Pacific Infrastructure Partnership (APIP) Dialogues in 2011 with several APEC member economies in Asia and Latin America. These dialogues, which are tailored to the specific needs and priorities of member economies, are designed to complement other initiatives within and outside the APEC framework.

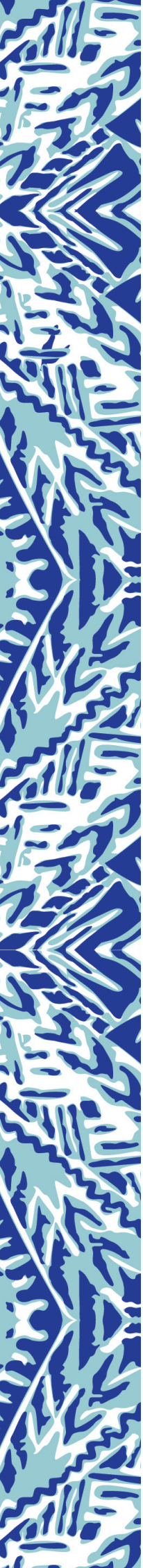
Recommendations:

- Support the Asia-Pacific Infrastructure Partnership Dialogues and encourage member economies and the private sector to continue and further expand these dialogues from 2012 onward.
- Develop a benchmarking index to assess the capacity of Asian member economies to carry out sustainable infrastructure PPPs, building on the Infrascopes index developed for Latin American economies by the Economist Intelligence Unit with the support of the Inter-American Development Bank.

C. Improving the efficiency and effectiveness of regional financial systems

Economic integration can be enhanced by providing a cohesive financial and regulatory environment across the APEC region that not only supports the flow of capital and investment but enhances the ability to trade more openly, freely and transparently.





A specific focus should be behind-the-border regulatory impediments to the free flow of capital and goods. Such a focus will make it cheaper, easier and faster for businesses, - particularly SMEs - to trade in the region.

Consideration also needs to be given to the development of policies and initiatives that support SMEs and those organizations often excluded in terms of their ability to access finance.

A recent APEC survey conducted by the Japan Chamber of Commerce and Industry concluded that inadequacies in the information and legal environments are the most serious problems affecting SME finance. The absence of clear legal frameworks to enforce rights of secured lenders is an impediment to credit availability, disproportionately affecting SMEs and other businesses that have historically had difficulty accessing bank credit. Systems for creating and perfecting valid security interests in the first instance are often not exclusive, universal and accessible to prospective lenders. Legal rules often do not clearly contemplate various forms of structured finance that are useful to providing SMEs with operating liquidity.

Key issues related to the legal infrastructure for secured lending that need to be addressed in various member economies are the following:

- Absence of exclusive security interest registry, giving rise to the “hidden lien” problem
- Voidable conversion/preference
- Unclear perfection rules for certain types of collateral, such as movables, receivables and goodwill
- Absence of blocked account security precedence
- Untested debtor-in-possession process
- Treatment of floating charges or absence of such concepts
- Lack of broad licensing authority for commercial lending.

Recommendations:

- Implement an APEC Financial Inclusion Initiative that, with regard to SME financing, would aim to improve and harmonize standards for perfection and enforcement of security interests in collateral, as part of a system for developing a robust commercial finance market, would promote innovative financial products, enhance overall liquidity for the SME sector, and advance the goal of financial

sector inclusion and sustainable growth. In addition to facilitating financing for SMEs, a harmonized approach would promote regional investment and trade in financial services in the APEC region. Such an initiative could focus on the following activities:

- A survey of key enablers of financing availability
- Developing model elements of an APEC or region-wide code of security interest creation, perfection and enforcement, which could include clear perfection rules, broad coverage of collateral types, exclusivity to eliminate the “hidden lien” problem, and provisions for debtor-in-possession financing
- A model treatment of floating charges/ accounts receivable financing
- Establishment of a public-private dialogue to validate improvements
- An APEC checklist for statutory/ regulatory implementation
- Promoting broad licensing authority for commercial finance, such as non-bank financial company charters.

Such an initiative will support lenders and investors in being less risk adverse, thereby reducing the costs of finance and encourage a more inclusive and efficient lending and investment environment.

1. Constructing new international credit rating systems

Credit rating systems have the responsibility of revealing risks, determining market price, and providing credit certainty. They are also an important component of the capital markets, especially bond market infrastructure, and could be a useful tool to accelerate financial market development in Asia. High quality credit rating can help investors to understand the issuer’s solvency and credit conditions, and it is an important reference standard for investors to choose bonds and to determine bond’s interest rates.

The outbreaks of global financial crisis and the European sovereign debt crisis have highlighted the problems in the current international credit rating system. The international community has voiced a growing desire to increase competition in the current market which is characterized by an oligopoly, and to improve the overall international credit rating system. Europe has accelerated the pace of establishing an independent credit rating system,

and Asian economies have lifted the promotion of local rating systems to a strategic height, actively participating in the reform and reconstruction of international credit rating system.

Recommendation:

- Support the development of open and effective competition in the global credit rating industry by fostering an environment conducive to the establishment of a market-driven and independent regional credit rating agency. A regional agency must be independent of any sovereigns to ensure impartial and transparent ratings. Credit rating is an important tool for addressing the problem of information asymmetry in financial markets, and could be a useful tool to accelerate financial market development in Asia. It would play an important role in revealing risks, determining market price, and providing credit certainty in capital markets, especially the bond market.

2. Advancing financial integration and cooperation in the Asia-Pacific region

There is need for a more robust discussion of regional integration, including its scope and meaning for the region. A regional regulatory forum is needed to improve collaboration among financial market regulators within the region and to achieve the much needed redesign of oversight of financial markets, in view of increasing financial integration and the huge potential of rapidly growing Asian economies. ABAC believes that APEC, with the involvement of the private sector, key international institutions and systemically important economies and financial centers in the region, can provide an excellent platform for advancing regional financial cooperation and integration. APEC also has an opportunity to make a significant contribution to regional financial integration through a pathfinder initiative building upon the Asia Region Funds Management Passport currently being discussed under the APEC Finance Ministers' Process.

Recommendations:

- Initiate discussions to establish a regional financial forum that will include all relevant financial market regulators and institutions playing key roles in financial policy in member economies. The task of such a forum would be to redesign the oversight of financial markets, for the purpose of enabling member

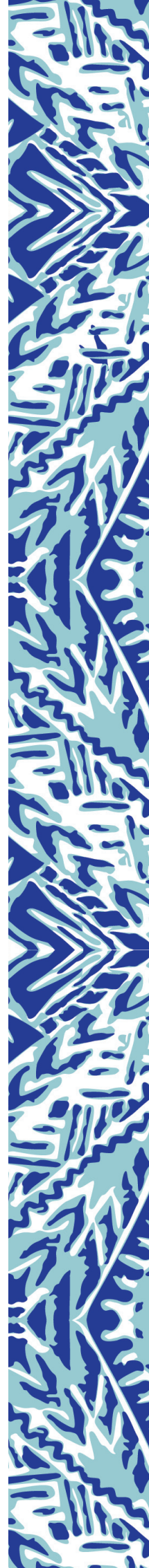
economies to more effectively capture the benefits of growing financial integration and rapid economic growth in the region.

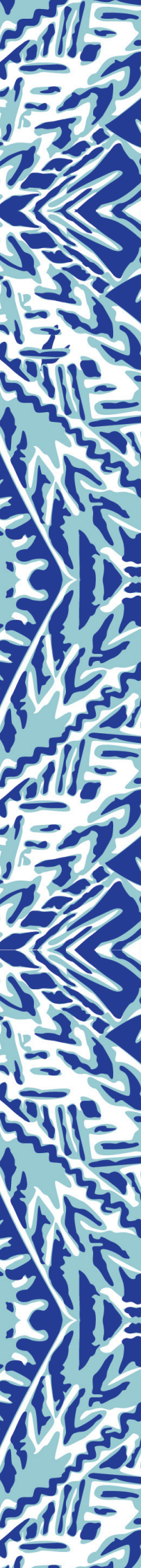
- Participate in a regional funds management passport regime to advance the work of the APEC Finance Ministers' Process on this issue through a pathfinder initiative. This initiative should be pursued in conjunction with capacity building programs on cross-border recognition of equivalent regulatory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

3. Facilitating cross-border data flows for the financial services industry

The facilitation of cross-border data flows builds upon the work done by ABAC in the last year to promote financial inclusion, a key APEC initiative for 2011, which itself was built upon the Inclusive Growth of the APEC Growth Strategy in 2010. Financial institutions rely heavily on gathering, processing, and analyzing customer information in order to provide financial services tailored to client needs, but are frequently confronted with non-tariff barriers in the form of regulatory restrictions, lack of regulatory coherence, and poor transparency in the development, implementation, and application of regulations. Data processing operations therefore are a critical component of financial services providers' business. Credit bureaus rely on gathering and transferring credit information to facilitate the review of credit files, authorize the extension of credit to borrowers, and help lenders comply with prudential lending norms, including Basel-related risk capital requirements. Restricting the cross-border flow of data by forcing operations onshore constitutes a non-tariff barrier to trade and hinders the ability of financial services firms in the region to support their clients.

Data processing operations are a critical component of financial services providers' information technology environment. They are also important to the credit bureaus that facilitate modern risk management and underwriting, and ensure portable credit files to an increasingly mobile talent force across the APEC region. Full-file credit bureaus are a key component of APEC's financial inclusion initiative, but can be hampered by undue restrictions on cross-border data flows. Regional data centers enhance risk management for capital and liquidity





because financial institutions can mitigate or accept risks based on a composite impact analysis, rather than through isolated and market-specific analyses. The economies of scale that exist in data hubs yield cost savings that allow firms to develop and employ state-of-the-art technology to protect the integrity, security, and confidentiality of data. Processing data at regional centers also provides a better vantage point to determine what is working well and how the financial institution can build on the product or service to further optimize the experience for the customer, thereby enhancing innovation in the region.

Recommendations:

- Avoid taking steps that localize and fragment data flows in the region, which increase barriers to entry and hinder regional commerce.
 - Recognize that domestic legislation concerning privacy protection and cross-border flows of personal data may hinder cross-border flows.
 - Remove or avoid creating, in the name of privacy protection, unjustified obstacles to cross-border flows of personal data.
 - Take all reasonable and appropriate steps to ensure that cross-border flows of personal data, including transit through member economies, are uninterrupted and secure.
 - Ensure that procedures for cross-border flows of personal data and for the protection of privacy and individual liberties are simple and compatible with those of other APEC economies.
- Do not limit the utility of regional data centers and instead allow financial institutions to transfer information into and out of their territory for data processing and storage.
 - Make commitments that allow financial institutions to perform certain functions, such as trade and transaction processing, in their home office rather than requiring that those activities be conducted by a local affiliate.
- Ensure that the APEC Privacy Framework, as part of the APEC Pathfinder, and any enforcement

agreements entered into pursuant to the APEC Cross-Border Privacy Enforcement Arrangement (CPEA), reflect the above principles of free flow of data across borders, and are consistent with APEC initiatives to promote regional economic integration.

4. Encouraging efficient and effective financial systems

In encouraging efficient and effective financial systems, ABAC wrote to the Basel Committee on Banking Supervision conveying ABAC's strong support for targeted policies that accelerate SME capacity building efforts including improved SME access to finance and raised concern for the impact of Basel III on SMEs. Given recent World Economic Outlook of a broad but uneven recovery in APEC economies, ABAC has identified access to finance as one of the most important issues facing SMEs today. At the global level, the capital flows that existed three years ago –cash flowing from resource rich economies to indebted developed economies –has not returned to the same levels, resulting in the world economy enduring a slow, tentative recovery.

Further to these market issues, Basel III has the potential to impact the availability and cost of trade finance. This may have the unintended consequence of worsening trade finance conditions and access for companies, particularly SMEs, from emerging markets involved in import and export activities thus negatively impacting on SMEs in the developing world and in the APEC region.

Recommendation:

- Coordinate with G20 so that the Basel Committee pays special attention to the risk weighting of trade finance to ensure that SMEs are not disadvantaged in any way and have an equal opportunity to participate, in line with the request of the G20 following its meeting in November 2010.

D. Promoting practical solutions to support the importance of inclusiveness and sustainable growth

From a sustainable growth perspective, while APEC has pledged to promote green growth and help economies make a successful transition to a clean energy future, businesses report a reluctance to invest in projects in the current investment environment due to low expectations of reasonable

returns on investment. This impediment can be overcome by providing greater opportunities for industry through trade expansion and identifying risk sharing and market information policies that increase the viability of infrastructure projects, in particular green growth projects.

Even though conducive policy initiatives in APEC economies exist, progress toward investing in sustainable projects and hence green growth is, at best, flat. Despite readily available financial resources earmarked for investment in sustainable energy and a healthy stream of new, innovative ideas, relatively little investment in sustainable projects is being made. ABAC urges APEC economies to identify policies and initiatives where government and the private sector can share risk and the development of capacity building and information standards to enhance the sustainable growth of investment markets.

From a business perspective, there are a number of risks and cost-related issues that deter the private sector from inclusive financing dealings. If some risks can be shared, private sector involvement could be enhanced. APEC economies therefore have an opportunity to contribute to expanding financial inclusion by providing an effective platform for sharing of information and policy reforms and identifying potential solutions where government and the private sector can share risk. ABAC therefore calls on all APEC economies to identify capacity building and information sharing policies to further develop financial inclusion through risk mitigation strategies.

1. Promoting the green bond concept

Science suggests greenhouse gas emissions need to decrease substantially against a business as usual scenario to avert the direct consequences of climate change. Achieving the pathway to a low-carbon economy is possible using a variety of technologies and policy mechanisms. Narrowing the capital gap to finance environmental solutions requires financially sound investment products and the mobilization of private investment to supplement public funds. In this way, bond financing is critical in the transition to a low-carbon economy.

Despite this importance, there has been a slow pace in investor buy in of the green bonds available due to a number of reasons:

- To date, projects have not existed on the scale necessary to attract large institutional investors.
- Lack of resources and standards for bond investors to identify, screen and monitor individual green finance opportunities.
- No “aggregator” has existed to either ring fence existing projects or create captive pools of capital that would be earmarked to fund green projects.
- Wide array of project types due to the numerous pathways to combat climate change.

To combat this slow buy in rate, the private sector has commenced green bond initiatives of which include: giving clients transparent, low risk ways to invest in the green bond sector; creating market practices and investment vehicles to give investors better access to green investment opportunities; providing investors with more highly specialized and targeted green bond investment alternatives; allocating capital to existing green bond programs; and developing targeted allocations based on the existing investable universe.

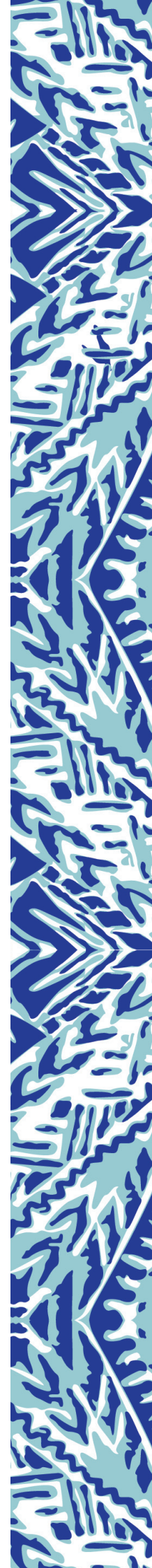
Recommendations:

- Develop market standards and vehicles to give investors broader access to green investment options to overcome the current bottlenecks experienced in the green bond domain. These initiatives will overcome the bottlenecks by creating a platform for efficient financial intermediation between issuers and investors in green bonds.
- Establish an impartial forum for cooperation between all key sectors and specialists to promote idea sharing, research and barrier identification.

2. Improving SME access to finance

SMEs (including micro-enterprises) play important roles in economic and social development, especially in creating jobs and promoting innovation. Yet it is well recognized that financing problems of SMEs is a worldwide issue and hampers SMEs’ whole life cycle.

Since 2010 SMEs, especially those of the emerging markets, have been presented huge challenges. On the one hand, some economies keep raising the benchmark interest rate and deposit reserve ratio and reining in credit limits, leading to fund



shortage in the market and making it more difficult and costly for SMEs to seek for funding. On the other, rapid rising cost of raw material and labor since 2011 has increased by a large margin the operation cost of corporations. At the same time, bills decline due to saggy demand from European and U.S. markets. All the above factors have led to shrinking profitability, increasing operation difficulty and bankruptcy.

The current challenges faced by SMEs in their operation and funding are even bigger than those during the global financial crisis period of 2008. If these financing challenges cannot be properly solved in the long run, they will have a negative impact on the comprehensive, coordinated and sustainable development of the region's economy and society. However, economies in the region are increasing their support to solve SME funding difficulties.

Recommendations:

- Develop SME financing system and step up policy support through the following five activities:
 - Set up and enhance a policy-based finance system for SMEs.
 - Facilitate the establishment of a multi-layer direct funding system.
 - Enhance the macro environment for SME operation.
 - Increase fiscal subsidy and favorable taxation treatment for SMEs .
 - Increase educational support.
- Encourage stronger support from financial institutions – economies of the APEC region should promote SME funding in three aspects:
 - Central governments should standardize and guide the positive role of informal finance.
 - Local governments should set up gradual risk reimbursement funds for SME loans and develop SME credit risk sharing system.
 - Financial institutions should increase funding to SMEs, take SME funding as the strategic focus of corporate financing and adapt supportive measures in their organizational structure, product and service innovation, marketing strategy, and risk prevention.
- Solve SME financing difficulty through insurance mechanisms. Solving technical risk is the key to SME financing difficulty.
- Greatly promote private financial credit mechanism with multiple forms.

- Promote innovation of SME finance forms through the following two activities:
 - Actively promote supply chain financing.
 - Greatly promote financing through leasing.
- (a) Expanding access to finance for low-income households and SMEs (including micro-enterprises)

Addressing the needs of many people living in poverty and promoting the growth of enterprises in the Asia-Pacific region through improved access to finance remains a major challenge. With growing constraints on public resources in the wake of the recent crisis, mobilizing private resources to serve the financial needs of low-income households and small enterprises has become ever more important. ABAC sees the need for public and private sectors and institutions to collaborate more closely and coordinate their efforts and to identify and focus their efforts on areas that address specific needs of APEC member economies, activities that effectively harness APEC's strengths, and issues that promote APEC's broader goal of regional economic integration.

Recommendations:

- Closely coordinate with relevant institutions and the private sector activities under the APEC Financial Inclusion Initiative, and discuss how APEC can provide a robust regional platform to help expand the availability of credit to micro-enterprises and low-income consumers on a sound and sustainable basis, more widely mobilize grassroots savings, and more effectively harness remittances within the region to facilitate financial inclusion.
- Intensify and broaden capacity building activities to assist key officials and regulators in undertaking legal, policy and regulatory reforms to develop properly structured credit information sharing systems and improve the legal architecture for secured lending, including rules for filing and perfecting security interests in collateral, ease of diligence and completeness of lien registries, as well as rules governing licensing and market access that will facilitate the flow of credit to small enterprises.
- Undertake a policy dialogue involving relevant government agencies, international institutions and the private sector to examine best practices in facilitating the development of venture

capital, including the use of public resources and tax policy to effectively mobilize private investment in venture capital funds and the promotion of an environment that is conducive to innovation.

- Underscore the need for financial sector standard setters and regulators to address unintended consequences of regulatory reforms affecting SMEs' access to finance. In particular, they could encourage: 1) the IASB and FASB to allow sufficient time for an impact analysis of new accounting rules for treatment of lease financing before appropriate revisions are made; and 2) banking regulators and the Basel Committee to consider appropriate refinements to Basel rules on capital, leverage and liquidity that recognize the low risk nature of trade finance.

E. Ongoing monitoring of the G20 agenda

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.

Recommendations:

- Avoid financial transaction tax and its negative impact on financial integration and coherence by regulatory reform.
- Promote and establish methodologies for macroeconomic policy cooperation and coordination, liberalization of trade and investment and growth strategies with structural reform as a package in light of their complementary nature at G20.
- Invent methodologies and mechanisms to monitor and control excess volatility of exchange rate and capital flow in the APEC region.

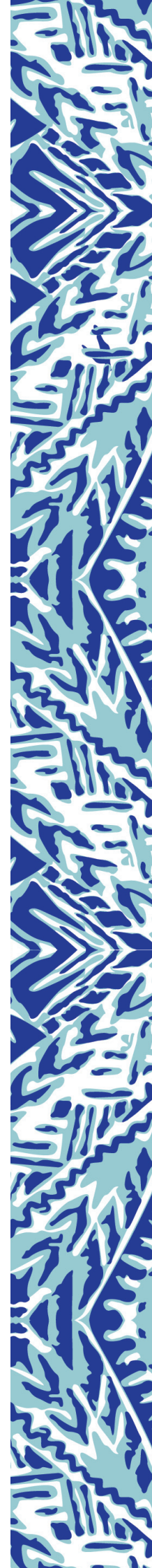
VI. APEC Engagement with the Private Sector and ABAC Advocacy Efforts

ABAC's work this year has benefited from enhanced engagement with APEC Officials. In addition to direct participation in APEC meetings, ABAC also supported efforts by APEC sub-fora, including the Competition Policy and Law Group, Intellectual Property Rights Experts' Group, Anti-Corruption and Transparency Experts' Group, and Investment Experts' Group to engage directly with the private sector through various events. ABAC further supports the work of APEC's industry dialogues, which provide a regular forum for exchange and collaboration between government officials, academics and industry.

Supporting the industry dialogues

ABAC welcomes and strongly supports the leadership of the Life Sciences Innovation Forum (LSIF) in developing a comprehensive framework and roadmaps for achieving regulatory convergence for medical products by 2020, including the sharing of information and training on key regulatory topics to encourage the development of innovative technologies. ABAC supports the work of the LSIF and Health Working Group on ways of collaborating to address the serious non-communicable disease challenges in the region, including the compounding effect of ageing demographics and lifestyle diseases. In that regard, ABAC also commends the foresight of the Health Working Group and LSIF in holding the first high-level and multi-sectoral Health Systems Innovation Dialogue in advance of the UN High-Level Meeting on Non-Communicable Disease to discuss ways of establishing multi-sectoral partnerships to address non-communicable disease challenges in the region.

Under its 2011-2013 Strategic Framework, the Chemical Dialogue has been making considerable progress on measures to facilitate trade in chemical products, moving to examine ways of implementing the agreed principles for best practice chemicals regulation; deepening collaboration to implement the Globally Harmonized System for the Classification and Labeling of Chemicals in a consistent way, including preparing guidance for the consumer products sector; sharing information and seeking clarification on certain REACH implementation issues; and, assessing the economic impact of chemicals in the region. The Dialogue has also begun a process of collaboration to ensure that emergency responders to chemical incidents have access to technical information, available resources, contact points, and the requirements for the entry





of personnel and equipment. ABAC commends the work of the Dialogue to examine ways of facilitating the uptake and deployment of innovative chemical technologies that support green growth as outlined in its Strategic Framework and recommends that Leaders welcome this initiative as a contribution to the international chemicals agenda, including the Strategic Approach to International Chemicals Management (SAICM) and the Rio+20 Earth Summit 2012.

VII. Conclusion

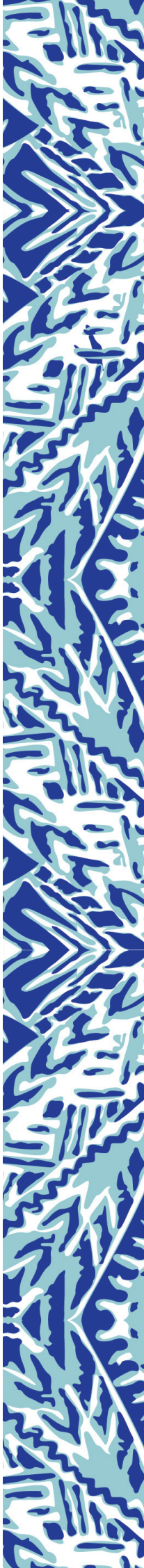
These many, carefully considered recommendations from Asia-Pacific business sector are of little worth if they do not reach the ear of APEC Leaders and responsible officials on a timely basis. As a result, ABAC members have over the past year augmented their efforts to attend and speak at key APEC meetings, in particular ministerials and those meetings clustered around the year's Senior Officials' Meetings. This has ensured that ABAC's priority concerns have been heard and considered by key responsible officials, underscoring the messages delivered during ABAC's annual Dialogue with APEC Leaders. The willingness of APEC Leaders and officials to encourage this augmented engagement has been greatly appreciated.

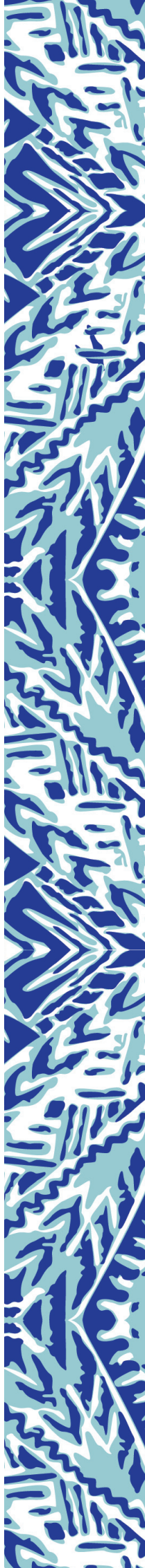
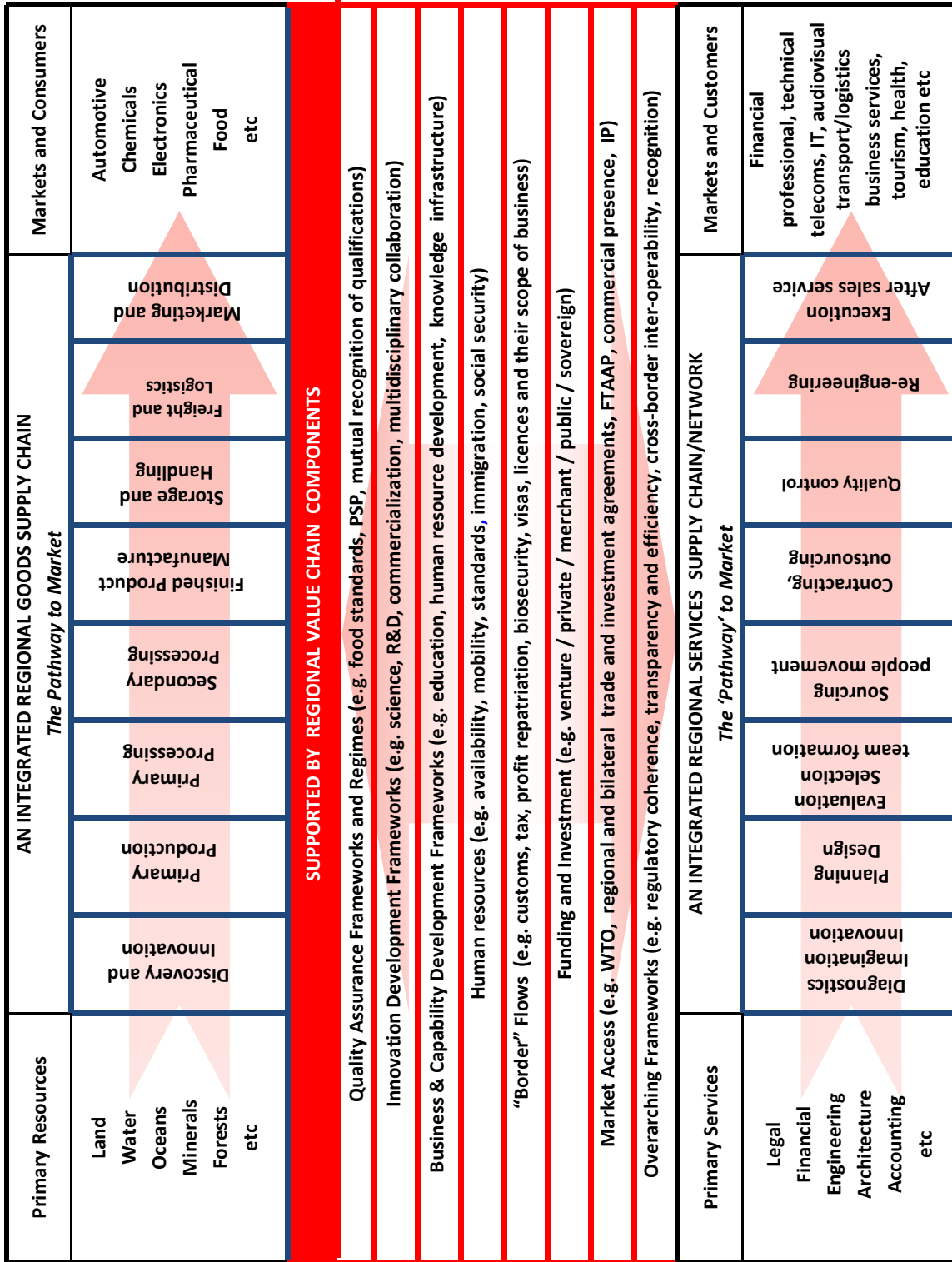
Early evidence of the value and effectiveness of this effort can be seen in many areas. These include the progress made towards amendment of the APEC Non-Binding Investment Principles, creation of a Policy Partnership on Food Security which will bring officials and business leaders together to develop policy in this area, the completion of the Strategic Framework on Energy Security, and an initiative to encourage APEC to develop a region-wide skills mapping process that will enable governments and businesses alike to identify on a timely basis emerging skills shortages.

This ABAC advocacy has been accompanied and complemented by enhanced efforts in home economies to keep local business communities abreast of APEC activity and initiatives, to draw upon local business organizations to identify and develop ABAC's policy priorities, and to liaise regularly with local officials concerned with or affected by APEC activity.

ABAC applauds the efforts of APEC Leaders and Senior Officials to harness business views and concerns on the region's pressing policy issues and commits to respond positively.

APPENDICES







APEC BUSINESS ADVISORY COUNCIL



25 February 2011

Mr. Toru Shimizu

Convenor
 APEC Investment Experts' Group
 Ministry of Foreign Affairs
 Japan

Dear Mr. Shimizu:

In my capacity as ABAC Chair, I would like to update you on the Council's recommendation regarding APEC's efforts in addressing investment issues in the region.

In the 2010 ABAC Report to APEC Leaders, ABAC reiterated its recommendation to further facilitate investment flows, including establishing a consultative mechanism within APEC for government and private sector representatives to discuss ways in which the investment environment can be improved. In this context, ABAC welcomes the upcoming public-private dialogue on investment which will be held on March 4 as a part of the APEC Investment Experts' Group (IEG) meetings.

Taking this opportunity, we would like to inform you of ABAC's views on the investment issues we would like to see addressed in the IEG's work this year. ABAC believes that improving the business environment (or "ease of doing business") in each economy is critical to enhancing investment in the APEC region, together with improving frameworks directly related to foreign investment. Therefore, ABAC believes that the IEG agenda should take into consideration a broad range of issues. While some of these issues are dealt with directly by other APEC sub-fora, we feel that the IEG should be aware of the emphasis that the private sector places on these issues when making investment decisions:

The following are the primary areas where ABAC sees potential for improvement among APEC economies with examples:

- Import/export procedures, tariffs, customs clearance
 - Simplify customs procedures including through the APEC Single Window Initiative and improve transparency of implementation
 - Eliminate de facto import/export restrictions posed by duties
- Employment/human resources
 - Clarify labor-related laws and improve transparency of implementation
 - Enhance workforce skills and capabilities
 - Remove obstacles to labor mobility (e.g., complicated visa application process for expatriates)
- Taxation
 - Promote consistency between regulations and the actual implementation of taxation, including tax investigation and tax calculation
 - Enhance skills and capabilities of taxation authorities
 - Improve understanding between the tax authority and corporations on elements in tax schemes, including transfer price and permanent establishment taxation issues

- Infrastructure
 - Enhance infrastructure (e.g., port facilities, transportation, electricity, medical, communication)
- Intellectual property rights
 - Enhance measures to address piracy and counterfeit
 - Improve enforcement of regulations for protecting confidential corporate information
- Overseas remittance/foreign exchange controls
 - Rationalize controls on foreign exchange which impacts overseas remittance and settlement
- Dispute settlement
 - Enhance understanding of dispute settlement mechanisms among public and private sectors
- Localization issues
 - Enhance efficiency of investment by limited or eliminating localization requirements tied to investment

It is also important to improve the framework directly related to investment; it is necessary to agree on due process for implementation of regulations, ensuring level playing field and principles of transparency and predictability for facilitating investment, as envisioned in the APEC Non-Binding Investment Principles. In addition, enforcement of rules and regulations should be ensured and establishment of a Free Trade Area of the Asia-Pacific (FTAAP) should eventually streamline and achieve their convergence.

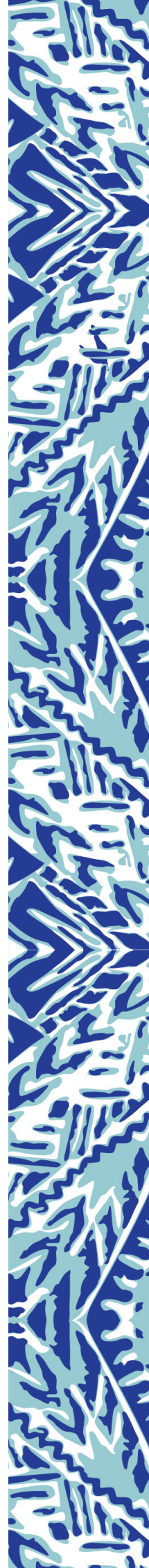
ABAC also encourages APEC to work on promoting environment-friendly investments contributing to sustainability, as well as investment in food technology and supply chain infrastructures to enhance food supplies thus contributing to food security.

Finally, ABAC also requests that APEC review and update the 1994 Non-binding Investment Principles in the face of the changes in the way business is conducted in the region, as suggested in the ABAC Chair's letter of 27 August 2010 to the then IEG Convenor and also noted in the 2010 ABAC Report to APEC Economic Leaders.

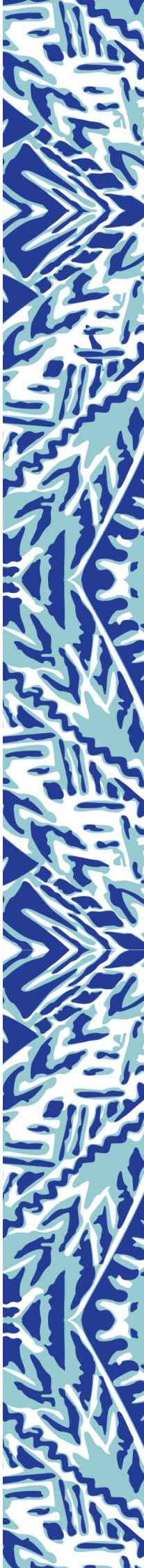
Sincerely yours,



Deb Henretta
ABAC Chair 2011



ANNEXES





APEC BUSINESS ADVISORY COUNCIL



29 April 2011

The Honorable

Ron Kirk

Chair, Meeting of APEC Ministers Responsible for Trade

United States Trade Representative

United States

Dear Ambassador Kirk:

On behalf of the APEC Business Advisory Council (ABAC), I am pleased to share with you and your fellow APEC Ministers Responsible for Trade our key recommendations aimed at promoting economic growth and recovery in the region.

Our recommendations are made in a global economic context that remains fragile. Risks lie in the divergence in growth between developed and developing economies and in the slow recovery of foreign direct investment which remains at below pre-crisis levels. Our recommendations below and in the attachment focus on actions that APEC member economies could take to address these risks.

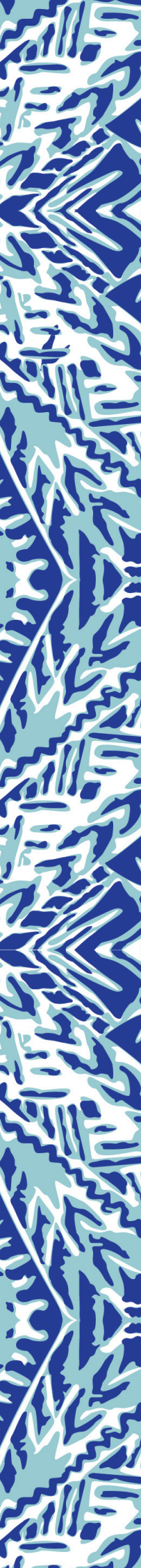
ABAC's priorities lie in the promotion of regional economic integration through the liberalization of goods, services and investment flows, enhanced supply chain connectivity and improved regulatory coherence between economies. We welcome the decision of APEC Economic Leaders in Yokohama last year to take concrete steps towards the creation of a Free Trade Area of the Asia-Pacific (FTAAP). FTAAP should be advanced in a manner that ensures business growth while promoting social inclusion. ABAC looks forward to receiving further details on the concrete steps to be taken and to monitoring progress in the identified pathways to FTAAP.

ABAC recommends that a key objective of steps towards FTAAP should be to enhance the operation of integrated supply and value chains which reflect the way business is now increasingly being done in the region. As an incubator for ideas, APEC has a key role to play in identifying blockages and overcoming barriers and impediments to enhance competitiveness, make business more profitable, help companies better manage inventories and lower costs for consumers.

ABAC recommends that particular attention should be focused on actions aimed at accelerating the growth of FDI. Such actions include improving the predictability, transparency and efficiency of the legal and regulatory environment for investment and providing effective mechanisms for expedited approval processes and the resolution of disputes.

ABAC is ready to work closely with APEC Ministers and officials to identify priority actions that could be taken in "next generation" areas such as behind-the-border regulation, trade in services, competitive markets, innovation, government procurement and labor mobility. The principles of gradual improvement, mutual benefits as well as differentiated approaches should be adopted to guarantee the inclusive participation of all members, with due consideration to the varied adaptive capacities of developing economies. We will develop our ideas further in our annual recommendations to Economic Leaders.

Regional economic integration will also be served by the earliest possible conclusion of the World Trade Organization's Doha Development Agenda. The case for concluding Doha is as strong as ever. Despite progress on the global trade negotiations, the differences in Non-Agricultural Market Access are effectively blocking progress and putting into serious doubt the conclusion of the Round this year. ABAC recommends



that Ministers adopt a strong statement in support of the concluding final modalities in a timeframe that allows Doha to be concluded with an ambitious and commercially meaningful outcome this year.

ABAC is conscious of the large-scale natural disasters that have affected people in several economies in the region in the last year. The devastation wrought most particularly in Japan has also highlighted the integrated nature of global and regional supply chains. ABAC recommends that Ministers take all necessary steps to keep critical supply chain links open at times of national emergency. Ministers should ensure that domestic actions taken to protect their citizens are based on rational and science-based decision-making and accepted international standards.

The disaster in Japan, and ongoing uncertainty in the Middle East, have also amplified ABAC's concern about global energy security. ABAC recommends that officials be directed to give urgent attention to energy security, including reviewing the safety of nuclear power, developing renewable energy and taking measures to stabilize the price of oil and other fuels.

Finally, ABAC's work includes a number of other trade and investment initiatives that are relevant to improving the business environment across the region. An update on progress on these initiatives is provided in the attachment.

We look forward to participating in your meeting in Big Sky, Montana in May and to discussing these recommendations in greater detail.

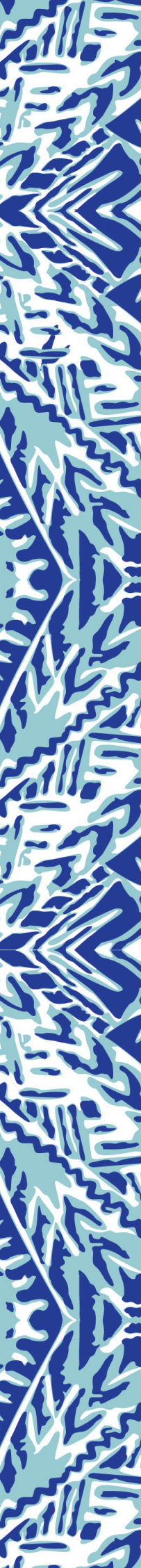
Sincerely,



Deb Henretta
ABAC Chair 2011

PROGRESS REPORT TO APEC MINISTERS RESPONSIBLE FOR
TRADE – OTHER INITIATIVES

- 1. Investment liberalization and facilitation.** APEC should continue to promote investment and facilitate cross-border investment flows which will be the key engine for growth in the region. While the core principles of investment are enshrined in the APEC Non-Binding Investment Principles, ABAC has recommended improvements to these principles to ensure that they will meet the changing conditions of the business environment. National Treatment and Most-Favored-Nation Treatment are fundamental to unburdened and non-discriminatory market access by international investors. It is important to investors that clear, transparent and predictable investment laws, consistent both at central legislation and local enforcement levels, are in place. The availability of transparent, prompt investment approval and licensing processes, and a timely and fair mechanism for settlement of disputes connected with foreign investments, are also essential for promoting investments that will create jobs and revive the economy.
- 2. Regulatory Coherence.** ABAC believes the promotion of regulatory coherence can provide tangible benefits to both government and private sector stakeholders as well as consumers in the region. This year, ABAC will develop recommendations on regulatory coherence from a sectoral perspective, taking into account the principles in the APEC-OECD Joint Regulatory Checklist and the Economic Committee's Good Practice Guide on Regulatory Reform. The objective of this effort is to demonstrate the value and importance for economies to maintain transparent, effective, enforceable and mutually coherent regulatory systems which are both risk and science-based, adhere to international best practices, and assure high levels of collaboration among APEC governments and their stakeholders.
- 3. Environmental goods and services.** Addressing tariffs and non-tariff barriers to trade and investment in environmental goods and services (EGS), will facilitate greater access to technologies and products that support APEC's environment and development goals, including increased energy efficiency and resources conservation. In addition to enhancing market access for EGS, ABAC recommends taking concrete actions to promote joint research, deployment, development and transfer of low- and zero-emission technologies, to facilitate the diffusion of EGS technologies, including exploration of market-based initiatives to promote the dissemination of green technologies, and enhancing best practices in management and financing for the further promotion of trade and investment in EGS.
- 4. Food security.** Food must be kept affordable and abundant; if not, all business will suffer. A set of guidelines for balanced and efficient use of food sources (human, animal and energy sectors) is urgently needed. To this end, ABAC recommends a "Food System" approach, ending trade (both import and export) restrictions, and institutionalizing a role for the private sector in APEC's food security decision-making. ABAC agrees that practical priorities should be increasing agricultural productivity and preventing post-harvest loss. ABAC has a keen interest in leading business sector involvement in policy development aimed at ensuring future food security, and looks forward to detailed discussion of these issues at the Public-Private Food Security Dialogue in Big Sky, Montana in May, including the Terms of Reference for this important public-private initiative.
- 5. Innovative Growth.** ABAC urges APEC economies to establish new areas of growth by creating an environment that enables innovation to flourish, including through market-driven and non-discriminatory innovation policy that fosters trade and economic growth. This can be achieved by promoting and rewarding innovation through the establishment of balanced intellectual property systems, strengthening intellectual property rights cooperation (i.e., patent cooperation), establishing market-driven processes for choosing technologies, and facilitating and enabling cross-border collaboration. ABAC also supports the expansion of the Information Technology Agreement (ITA) which will broaden the scope of information and communication technology products that are traded without tariffs. This initiative will increase access to products that improve productivity, facilitate innovation and promote economic growth.

- 
6. **Energy security.** ABAC believes that the energy security frameworks of APEC economies should include strong policies to facilitate greater investments in projects utilizing renewable or low-carbon energy sources. Collaboration on standard-setting for energy efficient and low-carbon technologies including smart grid, are necessary to enhance energy productivity, develop low-carbon energy sources, promote efficiency, and prevent barriers to trade in related products. ABAC supports the development of an APEC Energy Declaration to establish suitable long term energy strategies for the region.
 7. **Labor mobility/skills mapping.** 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. In addressing this challenge, ABAC has adopted a “four-step” approach: region-wide skills mapping; vocational training; outsourcing; and the adoption of common best practice approaches to the regional movement of skilled personnel. This approach has received in-principle support from APEC’s Human Resource Development Working Group (HRDWG), and is in the process of being developed in detail. ABAC urges Ministers Responsible for Trade to lend support to this initiative.
 8. **Authorized Economic Operator.** Authorized Economic Operator (AEO) programs have been developing steadily in APEC, especially over the last two years. ABAC believes that the orderly development of an APEC-wide AEO program is necessary to enhance and facilitate the development of mutual recognition schemes and to avoid a noodle bowl of various AEO programs. ABAC recommends that APEC economies determine the minimum requirements and conditions for mutual recognition common to AEO programs designed for trade security and those geared towards both trade security and trade compliance. It further recommends the development of an AEO certification system in economies where an AEO program is non-existent.
 9. **Single Window System.** Efforts to implement the Single Window within APEC economies should be sustained. ABAC welcomes the work undertaken by the APEC Sub-Committee on Customs Procedures (SCCP) and the establishment of the Single Window Working Group (SWWG) in 2006. A survey undertaken by SWWG in 2010 revealed that only thirteen economies have developed Single Window Systems, five economies are developing them, and only two economies have Single Window Systems that cover all trade-related government agencies’ procedures, including customs. ABAC urges that an APEC-wide Single Window System be adopted. There is common understanding in ABAC that the Single Window vision provides support to the implementation of the Supply Chain Connectivity Framework Action Plan.
 10. **Transportation safety standards.** ABAC maintains that there is a continuing need to harmonize transportation regulations on an international basis to achieve both safety and the facilitation of trade. Standards in each economy should be aligned with those set by relevant international organizations and, where international standards do not exist, the introduction of an appropriate international framework to establish globally harmonized regulations should be encouraged. APEC economies should promote capacity building activities to ensure transportation safety by encouraging compliance with current regulations among relevant supply chain operators.
 11. **Water security.** ABAC believes water security is critically important for sustainable and inclusive growth and to improve the access of poor people in the region to safe water in the face of rapid increase in population and urbanization. Due to the diverse aspects of water security issues, ABAC will focus on the promotion of best practices and human resources development in urban water management and seek findings which are applicable to economies in the region. ABAC believes that APEC should pay more serious attention to water security and will work to make meaningful recommendations to APEC Leaders later this year.



APEC BUSINESS ADVISORY COUNCIL



29 April 2011

The Honorable
Francisco Sanchez
 Chair, APEC SME Ministerial Meeting &
 Under Secretary for International Trade
 Department of Commerce
 United States

Dear Under Secretary Sanchez:

On behalf of the APEC Business Advisory Council (ABAC), I would like to share our key recommendations related to small and medium enterprises (SMEs) (including micro-enterprises) and entrepreneurship. This letter responds to nine areas identified by APEC as barriers to SME cross-border trade. Of these, ABAC has prioritized critical areas to business.

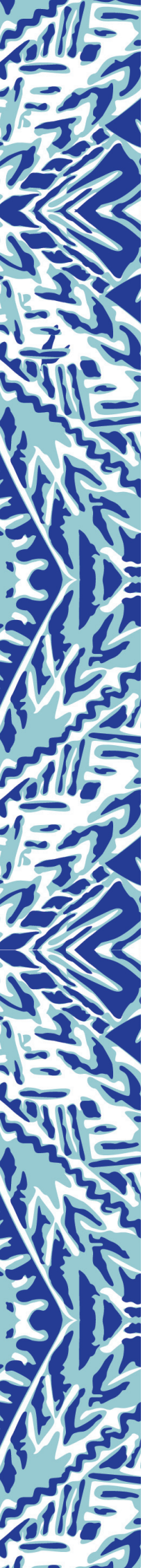
The most fundamental challenge faced by SMEs remains access to finance. ABAC recommends that SME Ministers promote and implement reforms to ensure a clear legal infrastructure for lending, including more predictable rules for secured lending and related innovative financial solutions, as well as fully transparent credit information systems which will incentivize lenders to significantly expand more affordable credit to SMEs in the region. ABAC is holding specific workshops this year to develop capacity building activities that APEC could spearhead to help member economies bring about these improvements and foster greater access to credit for SMEs along with strengthened market-based risk disciplines for lending institutions. We recommend that SME Ministers be mindful of developments in G20 and Basel III and ensure that these issues like the new capital framework do not increase the cost of, or limit access to, finance.

ABAC encourages enabling frameworks for start-ups that make available alternative financing such as venture capital and micro-finance solutions. There are considerable benefits from closer public-private sector partnerships in seeding the formation of innovation-based micro-enterprises through co-investment approaches such as matching government grants or initial funding schemes.

The second major issue for SMEs is the lack of capacity to internationalize and difficulty in identifying foreign business opportunities. Consistent with last year's recommendation, we recommend that APEC create market knowledge centers; encourage the participation of domestic SMEs in multinational supply chains; and promote better use of online technology and improve Information Communication Technology (ICT) infrastructure. Further, we ask governments to keep SMEs in mind when setting trade liberalization policies and agreements, especially in the context of next generation agreements.

The third major issue is the need for transparency and open business environments. As they venture into foreign markets, SMEs are consistently faced with varying requirements. Challenged by limited resources, an open and transparent business environment lowers costs associated with handling different policy and regulatory requirements. ABAC continues to support initiatives that promote open and transparent business environment such as the APEC Transparency Standards and the Santiago Commitment to Fight Corruption and Ensure Transparency. In addition, ABAC recommends continuing the development of voluntary codes of ethics for the medical device industry and following on with other identified industry sectors.

The fourth major issue is the inability to protect intellectual property rights (IPRs). Identifying sources of infringement and pursuing remedies are costly, technically difficult, and lengthy tasks. SMEs, especially in developing economies, find it difficult to take advantage of IPR to develop innovative products



and services. In response, APEC economies should improve the IPR environment for SMEs by establishing IPR support centers that can help SMEs learn about best practices. In addition, ABAC recommended that APEC economies review and enhance patent laws to encourage innovation.

ABAC members have also been actively involved in initiatives and events that address economic inclusion. With a high proportion of SMEs established and run by women and young people, ABAC endorsed the establishment of the ABAC Women's Forum, which aims to identify key capacity building policies that enhance opportunities for women in business. ABAC also endorsed the revitalization of an annual Young Entrepreneurs' Summit set to take place in October in Kuala Lumpur, Malaysia. These activities will provide platforms for more focused and specific recommendations on inclusion that will be forwarded as actionable items to APEC economies in 2011.

ABAC has supported efforts to deepen our understanding of how to strengthen SMEs. We have, for example, extended work on an innovative growth initiative, a research project that will help us identify practices and policies that foster innovation among SMEs. ABAC will hold APEC SME Summits in Peru, China and Hawaii in 2011. These events will provide valuable platforms for APEC's SMEs to share experiences about their opportunities and challenges and identify key policy solutions.

ABAC believes that the above recommendations will enhance conditions for APEC's SMEs and for sustained growth throughout the region. We look forward to participating at your meeting in Big Sky, Montana next month to discuss these recommendations in greater detail.

Sincerely,



Deb Henretta
ABAC Chair 2011

TOP BARRIERS AND RECOMMENDATIONS RELATING TO SME CROSS-BORDER TRADE

1. **Lack of access to financing (SMEWG):** Two primary hurdles to SME (including micro-enterprises) lending have been identified: gaps in the legal infrastructure for secured lending, and insufficient credit information.

(a) Legal Infrastructure for Secured Lending

A major impediment in many APEC economies is the lack of simple, transparent systems for filing security interests in collateral, and in searching the availability of prior interests. Without such systems, the risk of “hidden liens”, or the inability of lenders to secure clean legal opinions on their priority status, creates uncertainty. This makes it difficult for financial institutions to appropriately underwrite SMEs or forces them to charge higher fees to reflect the risk of lending in a legally unsure environment.

(b) Full File and Comprehensive Credit Information Systems

In many economies, credit information systems are limited to negative information and segmented, not reflecting a borrower’s full credit file. Such lack of depth in credit information exposes lenders to increased losses and adoption of excessively conservative decision policies that deny credit to otherwise creditworthy borrowers.

Recommendations:

ABAC asks SME Ministers to support concrete capacity building activities to help economies improve the legal infrastructure for secured lending and develop full-file and comprehensive credit reporting systems that are underpinned by sound frameworks for privacy and data protection. Activities should include relevant government stakeholders with responsibility for any legislative and regulatory changes needed to address these issues.

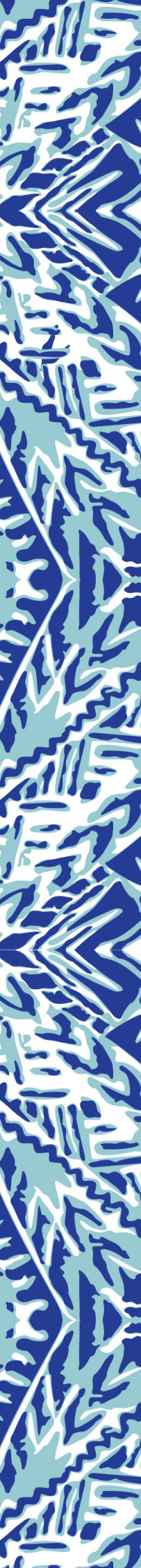
ABAC urges SME Ministers to mobilize support for needed legal and regulatory reforms that can expand sources of financing for SMEs, including support for venture and start-up capital initiatives, public-private partnership approaches such as government-backed loan guarantees, and greater access to information concerning financing programs through traditional financial institutions.

We also welcome the launch of the APEC Financial Inclusion Initiative under the Finance Ministers’ Process, which ABAC has recommended to assist economies in providing a favorable environment for expanding financial services to micro-enterprises and low-income households. ABAC calls on member economies, multilateral institutions and the private sector to collaborate in the successful implementation of this initiative.

2. **Lack of capacity to internationalize and difficulty in identifying foreign business opportunities (SMEWG):** Developing resources to assist SMEs in doing business in foreign markets is fundamental to encouraging SMEs to internationalize their operations. SMEs often lack the resources and knowledge necessary to proactively seek business opportunities in foreign markets, and instead rely on a passive approach of waiting for customers to approach them.

Recommendations:

Governments should encourage SMEs to actively seek opportunities to reach overseas customers by providing relevant information through “market knowledge centers” which may include consultancy, organizing of overseas business missions, basic training programs on international trade, providing technology platforms



that promote the development international SME networks, and provision of integrated market research data.

Governments can also assist SMEs by encouraging the participation of domestic SMEs in the multinational supply chain and creating a better environment for globalization by liberalizing trade and investment through Free Trade Agreements (FTAs) which are developed with the aim of providing concrete benefits to SMEs.

3. **Difficulty navigating differing legal, regulatory, and technical requirements (CTI):** For SME exporters in developing economies, these varying requirements can be particularly challenging to navigate, both in terms of obtaining information and in terms of their ability to demonstrate conformance in a reliable and accurate manner. With fewer resources, improved access to legal, regulatory, and technical information will make it easier for SMEs to export their goods and services to different markets by decreasing monetary and resource costs associated with acquiring knowledge of the regulatory environment in different export markets.

Recommendation:

APEC economies should strive for increased regulatory transparency by fully implementing the APEC Transparency Standards.

4. **Need for open and transparent business environments (SMEWG):** An open and transparent business environment lowers the cost of doing business and increases predictability; both are important factors for SMEs that often lack the resources to have specialized personnel in foreign markets to deal with issues related to corruption.

Recommendations:

ABAC supports efforts to develop industry specific voluntary codes of conduct for the medical device and construction industries as well as other industries with a high concentration of SMEs. In addition to these efforts, ABAC strongly supports broader efforts to promote an open and transparent business environment through the implementation of APEC commitments such as the APEC Transparency Standards, Santiago Commitment to Fight Corruption and Ensure Transparency, and APEC Course of Action on Fighting Corruption and Ensuring Transparency. A public reporting process should be undertaken by APEC economies to promote the early implementation of these commitments.

5. **Inadequate policy and regulatory frameworks to support cross-border electronic commerce (CTI):** Electronic commerce provides SMEs with a virtual global storefront, which is a powerful enabler for the internationalization of SMEs. Important to the continued growth of electronic commerce and its role in promoting trade, are policies and regulatory frameworks that promote the use of electronic commerce.

Recommendations:

ABAC also urges governments to provide taxation assistance and other incentives to encourage and support R & D. Furthermore, we urge the improvement of IT infrastructure and the provision of professional training for SMEs in response to advancement in technology.

ABAC would like to reinforce the use of ICT, as a tool to accelerate micro- and small business entry into the global markets, where SMEs can benefit from scale merits and further developments. In addition, ABAC further encourages the free flow of business information as well as technical assistance for SMEs wishing to explore foreign business opportunities. Better access to information about more distant markets is a condition for stronger SME cross-border trade growth.

Based on the results of the study*, the ability of SMEs to increase productivity, innovate and reach new markets through basic ICT tools, are limited by insufficient skills within SMEs to utilize broadband, high subscription prices and a lack of awareness of the benefits of broadband. Efforts to encourage greater ICT utilization by SMEs should include measures to lower prices, specifically increasing competition in the telecommunications market and providing incentives to support SMEs' utilization of broadband services and ICT-related education. ABAC believes that reliable and affordable access to broadband services is a prerequisite to greater productivity, innovation and more sophisticated e-commerce applications.

APEC economies should establish policy environments and support mechanisms contained in the Digital Prosperity Checklist that will enable SMEs to harness the benefits of information and communication technologies.

6. **Inability to protect intellectual property (CTI):** A major concern for SMEs is the inability to protect intellectual property rights. Identifying sources of infringement and pursuing remedies are costly, technically difficult, and lengthy tasks. SMEs, especially in developing economies, find it difficult to take advantage of IPR to develop innovative products and services.

Recommendations:

APEC economies should develop expedited procedures for registering trademarks and patenting goods and ideas for SMEs. Information regarding options for recourse in cases of IPR infringement should be made publicly available. APEC economies should establish IP support centers for both domestic and foreign SMEs as a means of disseminating best practices for protecting IPR in cross-border trade. Patent laws should be reviewed and enhanced to encourage innovation.

7. **Excessive transportation and related costs (SMEWG):** A number of factors contribute to excessive transportation and other related costs, including inadequate infrastructure, limited availability of transportation options, and higher insurance costs for overseas shipments. These costs generally impact SMEs to a greater degree since they cannot take advantage of economies of scale nor have the resources to identify other, more cost-effective shipping alternatives.

Recommendation:

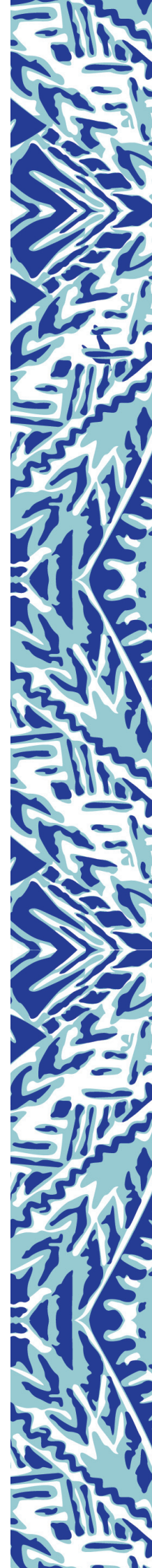
Swift and comprehensive implementation of APEC's Supply Chain Connectivity Initiative will play a key role in driving down transportation and logistics costs for SMEs. A particular focus should be placed on increasing the capacity of local logistics service providers and increasing competition in the transportation and logistics services sector.

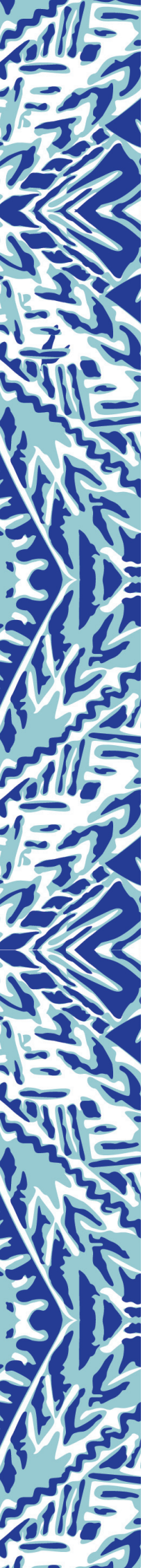
8. **Customs clearance delays, including difficulties in navigating overly complex customs requirements and documentation (CTI):** Customs clearance delays often have a more significant impact on SMEs because they tend to have lower inventory volumes (e.g., just in time inventory), their role in complex supply chains that require prompt and accurate shipment of components to final assembly points, and the shipment of perishable goods (e.g., food or medical supplies).

Recommendations:

Increased transparency and predictability in customs procedures will facilitate SME participation in international trade. ABAC urges APEC to advance implementation of the APEC Single Window initiative, along with trade facilitation efforts within individual economies. Trade security initiatives such as Authorized Economic Operator programs should be developed in a manner that considers the unique needs of SMEs, including needs for technical support and other forms of assistance.

* Relates to a study commissioned by ABAC in 2010 entitled "Information Communication Technologies: A Tool to Accelerate Inclusive, Balanced, Sustainable and Knowledge-Based Development across the APEC Region".





All APEC economies should accede to, and fully implement, the World Customs Organization's Revised Kyoto Convention on the Simplification and Harmonization of Customs Procedures. Information on documents and processes required for moving goods across borders should be made available to the public. Economies should institute advanced ruling mechanisms to reduce customs delays and APEC economies should establish commercially meaningful de minimus levels to expedite clearance of goods across borders.

9. **Difficulty in taking advantage of preferential tariff rates and other aspects of trade agreements (CTI):** Improving understanding of how to utilize FTAs will make it easier for SMEs to take advantage of preferential tariff rates and other benefits of FTAs. By making it easier to utilize FTAs, SMEs will lower their overall cost of doing business in other economies and be more competitive.

Recommendations:

An ABAC-commissioned study identified transparency, simplified certification processes, Rules of Origin (ROO) complexity and compliance as resource and organizational barriers to taking advantage of FTAs. Typically, this means it is large companies with the scale and resources who capture the intended benefits of FTAs. FTAs may have unintentionally created a competitive advantage for the big company to use to further out-compete the small. The study further identified ROO Certification costs as the highest barrier to taking advantage of FTAs.

ABAC recommends APEC economies provide additional training to customs officials and SMEs on rules of origin administration and HS code interpretation as needed. Certification issues will persist across the region as long as product certification is open to interpretation. Small and medium-sized businesses and organizations either lack the knowledge, experience, and/or size to administer the process effectively.

Transparency and access to FTA tariffs and rules of origin should be improved through the enhancement of APEC's WebTR initiative to develop a fully searchable online database of tariffs and rules of origin for FTAs between APEC economies.



APEC BUSINESS ADVISORY COUNCIL



25 August 2011

The Honorable

Steven Chu

Co-Chair, APEC Energy and Transportation Ministerial Meeting

Secretary of Energy

United States

The Honorable

Ray LaHood

Co-Chair, APEC Energy and Transportation Ministerial Meeting

Secretary of Transportation

United States

Dear Secretaries Chu and LaHood:

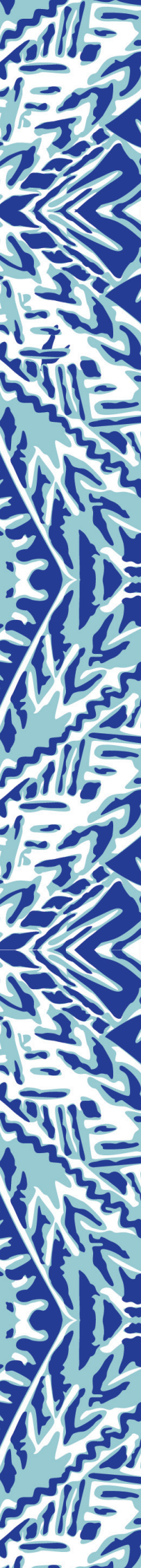
The APEC Business Advisory Council (ABAC) would like to commend you for your plans to hold the first ever Joint APEC Energy and Transportation Ministerial Meeting in San Francisco this September. We believe that this is an important step in a broader discussion on energy security and climate change. We look forward to participating in the upcoming Energy and Transportation Public-Private Dialogue and would like to share with you our recommendations on energy security.

In order for APEC to attract the amount of capital that will be required to meet the region's energy needs in the future, ABAC calls for a regulatory, investment and legal environment that promotes stable fiscal regimes; and transparent, stable and non-discriminatory legal regimes which will encourage investment and action by the private sector. The business community has an abiding interest in ensuring affordable and sustainable supplies of energy and recognizes the potential role sectoral approaches could play in realizing vital energy security goals.

According to the International Energy Agency, the transportation sector in 2008 accounted for 61.4% of global oil, 5.9% of global gas and 1.6% of global electricity consumption. The world's dependence on fossil fuels is well illustrated in the transportation sector and we urge steps be taken to expand and diversify energy resources; promote conservation and improve efficiency; and encourage clean energy use and technology innovation.

First, ABAC recommends regular meetings by APEC Energy Ministers and efforts to create a regulatory, investment and legal environment that encourages investment and action by the private sector. As APEC explores the development of an Energy Security Framework that includes regional and national integrated energy strategies with measurable objectives, it is important that the goals be realistic and that policies be put in place to leverage private capital and the expertise and dynamism of the private sector. Measurable targets for the transportation sector should be considered within this framework.

Second, the price of energy should, in the long term, reflect the cost of energy production, extraction and distribution. Energy consumption is subsidized in many economies and, as a result, markets are not as efficient as they should be in influencing consumer behavior towards energy-efficient products and in encouraging private sector investments in the development of clean energy and low energy infrastructure. APEC economies should therefore advance:

- 
- The elimination of inefficient fossil fuel subsidies that distort demand and run contrary to policies to reduce energy consumption: The commitment by APEC Leaders to rationalize and phase out inefficient fossil fuel subsidies is laudable. APEC needs to establish a timeframe, with milestones and targets, to gradually remove fossil fuel subsidies. Given the heavy reliance on oil in the transportation sector, APEC Energy and Transportation Ministers should accelerate efforts to promote alternative energy sources, such as bio fuels, electric, natural gas, solar, biomass and hydrogen, for use in transportation.
 - Remove tariff and non-tariff barriers and strengthen intellectual property rights (IPR) protection for low-carbon technologies and other environmental goods and services. Eliminating tariff and non-tariff barriers will reduce the cost of adoption and stronger IPR protection will encourage the commercialization and dissemination of new energy efficient and low- carbon technologies used in the transportation sector. Improving the availability and affordability of these energy efficient options is critical in encouraging a change in consumer and industrial behavior.

We wish you a productive set of meetings and look forward to discussing these issues in San Francisco.

Sincerely,



Deb Henretta
ABAC Chair 2011



Tang Kin Fei
Chair, ABAC Sustainable Growth Working Group



APEC BUSINESS ADVISORY COUNCIL



5 September 2011

The Honorable
Timothy Geithner
 Chair, APEC Finance Ministers' Meeting
 Secretary of the Treasury
 United States

Dear Secretary Geithner:

On behalf of the APEC Business Advisory Council (ABAC), we are honored to share with you and fellow APEC Finance Ministers the current business priorities we see as integral to enhancing greater economic integration across the APEC economies.

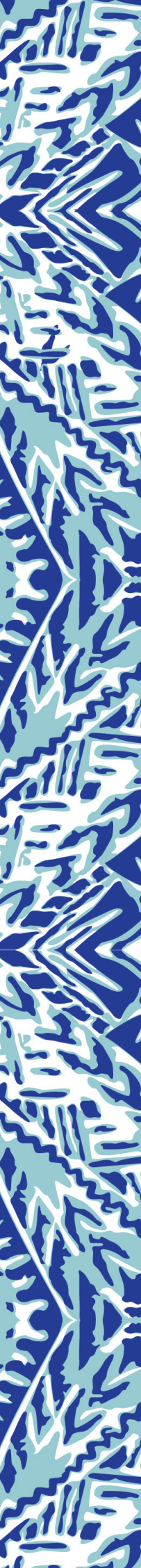
In supporting the outcomes set by APEC this year, our recommendations aim to achieve two long term objectives:

1. Building on our goal of realizing economic growth that is balanced, inclusive, sustainable, innovative and secure.
2. Strengthening APEC's economic and financial frameworks to enable the APEC region to mitigate the impact of unforeseen shocks, including financial, economic and natural disasters.

Recent strains on financial markets brought about by the tensions from the current challenges of fiscal deficits, high debt and low growth have created an environment of volatility and uncertainty. It is imperative that strong and coordinated leadership prevails and economies resist protectionism, which would undermine trade and investment.

Accordingly, our report requests that you and your fellow Finance Ministers individually and collaboratively focus on long term structural reforms and policies that not only strengthen the fundamentals of your respective economies but also facilitate the efficient allocation of economic resources through effective financial systems and markets. We therefore call on you to address the following issues:

1. A regional regulatory forum is needed to improve collaboration among financial market regulators and to achieve much needed redesign of the oversight of financial markets in view of increasing regional financial integration and the huge potential of rapidly growing Asian economies.
2. Develop policies and initiatives that support the capacity building of SMEs (including micro-enterprises) in terms of their ability to access finance. This would include development of SME management capabilities, accessibility and consistency of credit information for lenders, innovative risk sharing frameworks for lending and practices that enhance a more transparent market for information. Such initiatives will support both lenders and investors in being less risk adverse, reduce the costs of capital and finance, encourage a more inclusive lending and investment environment and thereby enhance a more efficient allocation of economic resources.

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3. In the context of the region's growing needs for infrastructure and the limited resources available in the public sector and multinational institutions, an enabling environment to channel more private capital into infrastructure is becoming ever more important. ABAC has formed a private sector panel and held initial Asia-Pacific Dialogues in 2011 with several APEC member economies in Asia and Latin America. ABAC calls on APEC to support the Asia-Pacific Infrastructure Partnership Dialogues and encourages member economies and the private sector to continue and further expand these dialogues in 2012.
 4. Develop policies and initiatives that support capacity building in enhancing the efficiency of capital markets. This would include evaluating strategies that look to improve accessibility and consistency of credit information for lenders and innovative risk sharing frameworks and practices that enhance a more transparent market for information. In support of this, all member economies need to expedite the uptake of universally accepted accounting and auditing standards such as the International Financial Reporting Standards and the Institute of Internal Auditors standards.

Regional integration of financial markets and the efficiencies it brings is seen by ABAC as integral for enhancing financial support to economic growth across the APEC region. To this end, ABAC decided at its meeting in Lima to commence work to develop a proposal to be put to Leaders for improving the regional financial system. ABAC recognizes the importance of working collaboratively to improve the regional financial system, including strengthening monitoring of cross-border capital flows, and supporting the efficient allocation of resources through ongoing review of international credit rating systems, so as to promote the stable development of financial markets.

Finally, we remain concerned about the capitalization requirements of the financial institutions not only within the APEC region but also globally. We affirm that these requirements should be maintained and closely monitored in order to reinforce the confidence of business and industry.

In conclusion, we are cognizant that these issues are not a quick fix and will require sustained long term policy initiatives and structural reform. We therefore urge that you and your fellow Finance Ministers commence dialogue and action on these issues both between yourselves and individually with the ABAC members in your respective economies in an effort to create an environment conducive to renewed private sector investment and inclusive growth.

Sincerely,



Deb Henretta
ABAC Chair 2011



John W. H. Denton
Chair, ABAC Finance & Economics
Working Group

The 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 2011

In 2011, the United States took on the Chair of ABAC, with Japan and the Russian Federation as co-chairs, following the APEC order. Co-chairs represent immediate past and future chairs.

ABAC adopted the theme "21 Economies for 21st Century Prosperity", with the tag line "Employing people and ideas for sustained growth in Asia-Pacific." This theme reflects the ABAC 2011 objectives of helping APEC achieve progress in the following priority areas:

- Regional economic integration
- SME (including micro-enterprises) and entrepreneurship
- Sustainable development

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

- Regional Economic Integration Working Group (REIWG)
- SMME & Entrepreneurship Working Group (SMMEEWG)
- Sustainable Growth Working Group (SGWG)
- 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 developing economies through the Advisory Group on APEC Financial System Capacity Building.

ABAC convened four meetings in 2011: Guangzhou, China (14-17 February); Seoul, Korea (26-29 April); Lima, Peru (21-24 August); and Honolulu, Hawaii, USA (7-10 November). Four meetings of the Advisory Group were also held: Guangzhou, China (14 February); Seoul, Korea (26 April); Lima, Peru (23 August); and Honolulu, Hawaii, USA (10 November).

ABAC actively participated in various APEC meetings and related events, inter-alia: APEC Finance Deputies' Meeting (San Francisco, USA: 22 February); APEC Financial Inclusion Inaugural Meeting/Workshop (San



San Francisco, USA: 23-24 February); First APEC Senior Officials' Meeting (SOM I) and related meetings (Washington, DC, USA: 27 February – 12 March); SOM II and related meetings (Big Sky, Montana, USA: 7-18 May); Meeting of APEC Ministers Responsible for Trade (MRT) (Big Sky, Montana, USA: 19-20 May); Joint MRT/SME Ministerial Meeting (Big Sky, Montana, USA: 20 May); APEC SME Ministerial Meeting (Big Sky, Montana, USA: 21 May); APEC Senior Finance Officials' Meeting (Washington, DC, USA: 21 June); APEC Workshop on Public Investment Challenges and New Possibilities for Private Participation in Infrastructure (Washington, DC, USA: 22-23 June); SOM III and related meetings (San Francisco, California, USA: 12-26 September); APEC Finance Ministers' Meeting (Honolulu, Hawaii, USA: 10 November); and 23rd APEC Ministerial Meeting (Honolulu, Hawaii, USA: 11 November).

Other events organized and/or participated in by ABAC included: Asia-Pacific Service Industry Conference (Guangzhou, China: 14 February); Guangzhou Mayor Roundtable with APEC Business Leaders (Guangzhou, China: 14 February); Asia Regional Funds Passport Initiative Briefing for the Japanese Government and Financial Industry (Tokyo, Japan: 6 March); Regional Symposium on Enhancing Financial Policy and Regulatory Cooperation (Melbourne, Australia: 8-9 March); APEC Policy/Technical Workshop "Designing and Developing an Asia Region Funds Management Passport" (Hong Kong, China: 15-16 March); Asia Regional Funds Passport Initiative Briefing for the Korean Government and Financial Industry (Seoul, Korea: 27 April); Symposium "Financial Inclusion: Regulations to Support MSME Financing Availability" (Manila, Philippines: 27-28 June); 7th Public-Private Dialogue for the Asia-Pacific Region (Colombo, Sri Lanka: 5-6 July); 3rd ADBI-AFDC-ABAC Roundtable on Financial Inclusion (Urumqi, China: 12-14 July) Asia-Pacific Infrastructure Partnership Dialogue on Latin America (Lima, Peru: 24 August); APEC SME Summit Peru 2011 (Lima, Peru: 25 August); APEC SME Summit (Chengdu, China: 29-31 August); Asia-Pacific Financial Inclusion Forum (Tokyo, Japan: 6-8 September); Asia-Pacific Infrastructure Partnership Dialogue with Indonesia and the Philippines (Jakarta, Indonesia: 3 October and Manila, Philippines: 5 October); and ABAC SME Symposium and Entrepreneurs' Roundtable (Honolulu, Hawaii, USA: 10 November).

Studies and Related Work

ABAC undertook a review and update of the 2008 Strategic Framework for Energy Security in APEC with a view to providing more comprehensive and specifically targeted recommendations to APEC fora engaged in energy security policy work, particularly from a private sector perspective. It commissioned the University of Southern California's Marshall School of Business to undertake a research project to examine the impact of supply chain chokepoints, including on food, and to provide an estimate of the lost value arising from these chokepoints.

ABAC has also developed a publication "Investing for Growth" which captured the themes of ABAC's previous recommendations related to investment as well as the public-private dialogue on investment held in Washington, DC earlier in the year and organized them into a coherent framework for investment. The framework will be leveraged as an advocacy tool to support ABAC's efforts to advance APEC's work on investment, including the update to the Non-Binding Investment Principles and the Investment Facilitation Action Plan, two initiatives of particular interest to ABAC.

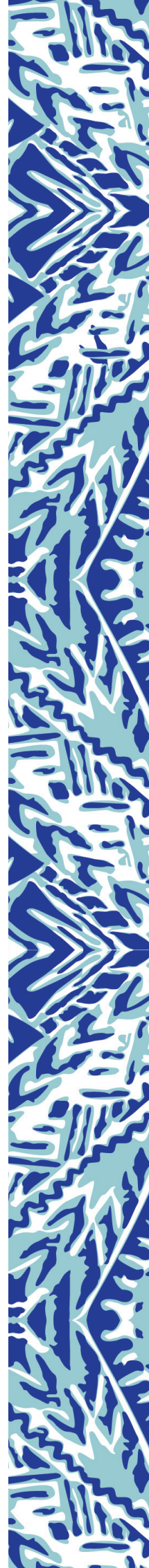
Outreach

As part of its communications outreach efforts and in line with its economic inclusion agenda, ABAC established an ABAC Women's Forum which aims to co-develop and promote policies that enhance opportunities for women in business in the region.

ABAC strengthened its interaction and engagement with APEC Senior Officials/APEC fora. It sent its largest ever delegation of members and staffers to the meetings in Big Sky and held meetings with the APEC leadership at the domestic level after each ABAC meeting. Further, ABAC developed 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, SME and micro-enterprise development, capacity building, strengthening and deepening capital markets, energy security, food security, climate change and the implementation of the growth strategy, including through structural reform.



ABAC EXECUTIVE DIRECTOR 2011

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