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ABAC BULLETIN

APEC Business Advisory Council

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Closing the Gap between Aspirations and Reality

The APEC Business Agenda for 2012 successfully completed under Russian leadership

Vladivostok, Russia 5 September – Business leaders representing 21 economies in the APEC Business Advisory Council (ABAC) convened in Vladivostok, Russia for their fourth and final meeting this year, marking the culmination of the Russian presidency in ABAC.

“We have made notable progress on our priorities for 2012 in advancing regional economic integration to realize a Free Trade Area of the Asia-Pacific, strengthening food security in the region, improving supply chains connectivity, and fostering innovation and technology dissemination,” said ABAC Chair for 2012 Ziyavudin Magomedov.

Private-public partnership has been central to ABAC work this year, bringing business experts and top Government officials together around the policy table on a number of business-focused platforms – prominently on food

security, science and innovation in APEC, and strengthening capital markets. The first APEC Policy Partnership on Food Security (PPFS) meeting was held in Kazan, Russia in June, while the APEC Policy Partnership for Science, Technology and Innovation (PPSTI) was created in Vladivostok, and the Asia-Pacific Financial Forum will hopefully be forged at a symposium in Sydney in March 2013. APEC Finance Ministers endorsed in principle ABAC’s proposal to establish the Asia-Pacific Financial Forum (APFF) in Moscow shortly before the Vladivostok Leaders’ Meeting.

In their 2012 Letter to Leaders, ABAC Members expressed concern over the uncertainties that global economic challenges bring. “We urge APEC economies to take resolute actions to guard against financial and sovereign risks and the rise of protectionism, while pursuing trade liberalization and maintaining a robust growth trajectory.”

Among various initiatives aimed at securing a Free Trade Area of the Asia-Pacific (FTAAP) that were discussed were the Trans Pacific Partnership (TPP) and the Regional Comprehensive Economic Partnership (RCEP). ABAC’s top priority remains the creation of a freer and more open market for goods, services and investment.

In line with more open trade in services, the Council adopted a new services liberalization and facilitation agenda this year. It began its expanded work by commissioning a study by a team from the Marshall School at the University of Southern California that identifies and quantifies the impediments to trade in services for each APEC economy. The results were discussed at ABAC IV Meeting in Vladivostok and will be presented to APEC Senior Officials when they meet ABAC Members at the ABAC1 meeting in Manila between January 20-23 2013.

ABAC Calendar 2013

20-23 January
ABAC I

Manila, Philippines

03-06 April (TBC)
ABAC II

Singapore

08-11 July
ABAC III

Kyoto, Japan

02-05 October
ABAC IV

Bali, Indonesia

PwC's 2012 APEC CEO Survey Business seeks openness and liberalization in Asia Pacific

CEOs want APEC to work towards freer flow of investments, harmonized regulations and skills mapping

5 September – An abundance of economic and social issues are tabled in the Asia-Pacific Economic Cooperation (APEC) agenda every year. Each of these issues relate to the overarching goal of developing a dynamic and harmonized Asia-Pacific community underpinned by free and open trade and investment.

Among the topics discussed in APEC, CEOs and industry leaders identified certain issues that are of higher importance because of their direct impact to business. In the 2012 APEC CEO Survey themed “Addressing Challenges, Expanding Possibilities” conducted by PricewaterhouseCooper (PwC), global business leaders called for APEC to focus on promoting a freer flow of investments, harmonizing regulations and standards, and in developing skills mapping in the region.

In promoting greater regional economic integration, one of the main goals in the APEC agenda, about half of the CEO-respondents believed that the removal of barriers

to trade in services, more than any other development, would fast track its progress. Business leaders also recognized the importance of bilateral and regional trade agreements, and harmonizing regulations and standards in effectively integrating the region's economies.

Companies were looking into adding at least 5% to their workforce each year for the next 3 to 5 years, while coping with the high turnover rates in the region. This is why greater access to services was a highlighted need by chief executives, who identified the depth of the talent pool as the most important factor to their company's success. However, nearly half of them expect perceived skills shortages to pose a real threat to their expansion plans. Further, they expect pressure to intensify soon as only a third of CEOs believed that labor mobility restrictions would soon ease.

In the light of recent economic developments, the current worries of CEOs are on the possible recession in the United States, the continued Eurozone crisis, and the slowdown of expansion in China.

A spike in oil prices above US\$150/barrel would also impact heavily on business growth. These perceived bumps on the road reflect the low confidence of CEOs for their companies in the next 12 months. Long-term prospects, however, seem brighter. More than half of the respondents are 'very confident' about their prospects for revenue growth in the next 3-5 years.

China and the US remain the top investment targets for CEOs in the next few years, with Indonesia, Peru and Malaysia also attracting investors particularly headquartered in faster-growing APEC economies. Resource-rich countries such as Russia and Australia, and services capitals in Asia such as Hong Kong and Japan, also drew significant investment interest. Accessing local talent and reaching more domestic consumers were the leading priorities in deciding on investment locations.

The APEC CEO Survey 2012 was conducted from June 14 to August 2, 2012 covering more than 370 industry leaders from 40 nations including all 21 APEC economies. The result of the survey was presented during the ABAC IV Meeting and at the APEC CEO Summit 2012 in Vladivostok, Russia. ■

Green Light from the Finance Ministers

APEC Finance Ministers support ABAC's work on financial integration, financial inclusion, and infrastructure finance

4 September – Significant progress has been made this year by ABAC's Advisory Group on APEC Financial System Capacity-Building (Advisory Group) when the APEC Finance Ministers pledged support for ABAC's proposal to explore the creation of an Asia-Pacific Financial Forum (APFF) and to further expand the Asia-Pacific Infrastructure Partnership (APIP) Dialogues in 2013.

In its Joint Ministerial Statement released 30 August 2012, the 21 APEC finance ministers welcomed the intensive public-private collaboration proposed by ABAC in

developing the region's capital markets. The need to strengthen and deepen the capital market infrastructure in the region was highlighted in the 2008 global financial crash when it proved impossible for governments, pension funds and corporate fund managers to invest their pooled funds in the region in spite of extreme volatility in the markets of Europe and the US.

.... With the APEC finance ministers' backing up APFF, including the support of the Australian Government, concrete ideas for the structure, participation profile, and

activities of the APFF are scheduled to be jointly developed by private and public sectors in a symposium to be held in March 2013 in Sydney, Australia.

Financial Inclusion

The client as the center of consideration is the main theme of the Advisory Group's advocacy on financial inclusion. According to the World Bank, 2.5 billion people are financial excluded – and this includes access to appropriate financial products and services as well as being equipped with the knowledge and capability to use them effectively. ABAC's Advisory Group urges

regulation for micro-financing that would address the problems of harsh collection practices, over-indebtedness, and higher fees. It calls in addition for consumer protection - crucial since clients and beneficiaries of micro financial institutions are not typically protected as regular bank clients are.

The Advisory Group also seeks efficient cross-border facilitation of remittances and to reduce the high costs of remitting money. Some areas that could be looked into are market transparency, efficient infrastructure, competitiveness of market conditions, and appropriate governance.

"We welcome the importance of harnessing private sector resources and expertise in promoting economical, effective and sustainable delivery of financial education, to keep pace with the continuing evolution of financial services," said

the APEC finance ministers in their Policy Statement on Financial Literacy and Education. They added: "We welcome ABAC's inputs on public-private sector collaboration to develop innovative models of financial education based on new modes of access, as well as effective policy frameworks and guidelines for voluntary, fair, transparent and unbiased private sector engagement in financial education."

APIP Dialogues

In 2011, a Task Force created by the Advisory Group started conducting confidential dialogues with Government officials on the challenges they face attracting private investment in long-gestation infrastructure projects. These so-called "APIP Dialogues" now provide a venue for governments and private sector meet in confidential circumstances to discuss frankly and objectively the

many complex matters related to infrastructure finance and enhance understanding of the issues and risks present. Since then, successful APIP rounds have been held with Mexico, Peru, the Philippines, and Vietnam, while an APIP Dialogue for Indonesia is scheduled on 22 October 2012.

The APEC finance ministers have expressed their continued support and endorsement for the APIP Dialogue process. "We encourage the public and private sectors to work closely together to further expand the Asia-Pacific Infrastructure Partnership Dialogues in 2013," said the ministers in the 2012 APEC Finance Ministers Joint Statement.

ABAC and the Advisory Group agreed in Vladivostok that they aim to continue 2012 work on regional financial inclusion, infrastructure PPP, financial inclusion, and venture capitalism next year during the Indonesia chairmanship in APEC. ■

Enhancing SMME Competitiveness through Innovation

3 September – The Small, Micro and Medium Enterprises (SMME) and Entrepreneurship Working Group of ABAC has endorsed the policy recommendations put forward by ABAC Chinese Taipei from its "Innovative Growth Initiative" study. The research looked into case studies and best practices to identify various trade issues relating to SMMEs in the region. In the ABAC IV Meeting in Vladivostok, ABAC Chinese Taipei presented four key findings from its research on bottlenecks faced by SMMEs in attaining innovative growth. One of the major obstacles that prevent SMMEs from forming cross-border strategic alliances is the lack of information. Enterprises are unaware of the benefits of cross-border strategic alliances, explaining the low-level of participation. The one-way government foreign recruitment policies and bureau-cracy, meanwhile, limit cross-border flow of human capital which is critical to

business development.

The study also points to inconsistent standards and high license fees and royalty charges as major barriers for SMMEs in entering new markets. Lastly, language barriers prevent SMMEs from accessing emerging international industry clusters.

Globalization has led economies and firms to share and utilize resources to attain the most efficient mode of operation for markets. In APEC economies, science parks and economic development zones have sprouted that successfully encouraged enterprises to engage in innovative activities. Opportunities to secure funding are higher for SMMEs present in industrial clusters, as well.

Based on these findings, ABAC submitted the policy recommendations to APEC to consider:

- construct an Information Exchange Platform under APEC.

- multilateral matchmaking activities for SMMEs to increase their connections within the industry chain and cross-border alliances.
- connect SMMEs with industrial standards organizations through the APEC Subcommittee of Standards and Conformance and construct a royalty fee payment consultative platform.
- encourage regulatory coherence on work visas and tax issues, and promote information on regional talent opportunities.

Entrepreneurship and Innovation is one of the priority areas in the APEC SMEWG agenda for 2013-2016. In its Joint Ministerial Statement, APEC SME Ministers suggest steps to promote innovative SMEs such as those related to financing, regulations and institutional infrastructure. ■

Barriers to Trade in Services

New Marshall School report explores barriers to services trade, and attempts to measure the potential gains from liberalisation

3 September – Taking off from last year’s ABAC study on trade in services entitled, “Understanding Services at the Heart of a Competitive Economy”, the Council commissioned a follow-up study that identifies and quantifies the most significant barriers to trade in services. The researchers from the USC Marshall School of Business presented the results of their study, which included 231 in depth interviews with business executives from 19 APEC economies, at the ABAC IV Meeting in Vladivostok. The study covered five services sectors - business/professional, financial, transportation, distribution, and telecommunications.

The study estimated that a 10% reduction in trade costs could result in US\$100 billion additional services-related GDP within APEC. And there is still much room to boost this as APEC economies differ significantly in their openness to services trade. According to the Report, “Singapore, Hong Kong and New Zealand were found to be the most open while Indonesia, Viet Nam and the Philippines are currently relatively less open.”

The barriers to economies’ level of openness are mostly found “behind the border”, or issues concerning domestic regulations and the efficiency of government agencies with services sector oversight. It is noted that economy-specific regulations discriminate against foreign services pro-

viders through higher transaction costs or by requiring domestic presence.

Problematic factors consistently identified as the top barriers to services trade included: inconsistent regulations, recognition of skills and qualifications, standards & specifications, regulatory transparency, inconsistent monitoring and enforcement, coordination among government agencies, regulatory instability, dispute resolution, government bureaucracy, language and culture, access to human capital, and access to skills talent.

The study also revealed a lack of services provisions within bilateral and regional trade agreements. “Our analysis of APEC FTAs found up to 80% of service provisions focus on market access barriers while only 20% focus on “behind the border” issues such as regulatory heterogeneity between economies,” one of the researchers from USC Marshall.

Data availability is severely lacking, and this poses a challenge for economies and the region to assess the effectiveness of policies governing services. “Scarcity of data on trade in services has major implications for policy making. Differences in definitions, measurement and the lack of detailed service trade statistics for all economies make it difficult to identify trade pattern trends,” stated the Report. For the business community, the lack of reliable and available information is a hindrance to trade.

Drawing insight from the study, ABAC Members agreed to continue to prioritize trade in services in APEC, not only because of the perceived economic potential but because of the great need by businesses in the region for superior services. It is noteworthy that the 2012 APEC CEO Survey concluded that the top APEC-related issue that business executives feel APEC should prioritize is the trade in services agenda.

The Council also seeks to address the lack of information by encouraging governments and industries to set common definitions and measurements of data on trade in services, and to make these available to facilitate sharing of best practices.

From the conclusions of the study, ABAC advised APEC leaders to avoid introducing new non-trade barriers to trade in services and focus on behind the border challenges and regulatory heterogeneity, instead of market access. The business leaders urge APEC to include service regulatory environment provisions when crafting free trade agreements.

The USC Marshall School researchers were invited to join the ABAC I 2013 meeting in Manila, Philippines on 21 January to present their report to the APEC Senior Officials who will be joining the meeting for the dialogue with ABAC members. ■

Impediments	HI	UMI	LMI	Shared Impediments
(EI) Inconsistent Monitoring and Enforcement	X	X	X	3
(EI) Coordination Among Government Agencies	X	X		2
(EI) Dispute Resolution		X	X	2
(EI) Government Bureaucracy		X	X	2
(RE) Recognition of Skills and Qualifications		X	X	2
(RE) Inconsistent Regulations	X			1
(RE) Repatriation of Profits	X			1
(RE) Regulatory Transparency	X			1
(BE) Cultural Differences	X			1
(EI) Regulatory Instability			X	1

Photo Corner



The APEC Business Advisory Council (ABAC) held a close-door meeting with APEC Leaders during the APEC Leaders' Week in Vladivostok, Russia. The business leaders raised questions concerning ABAC priority issues such as regional economic integration, and other issues concerning SMME development and financing. ■

Overall ABAC priorities for 2013:

- Deepening regional economic integration
- Promoting infrastructure and sustainable development
- Fostering SMME development & entrepreneurship
- Promoting the development and integration of financial markets

ABAC working groups:

1. Regional Economic Integration

- Promote building blocks of regional economic integration to fulfill Bogor Goals and ultimately achieve FTAAP
- Promote supply chain connectivity and the supporting infrastructure and services
- Promote liberalisation of services and investment along with trade in goods
- Facilitate movement of people
- Address next generation trade and investment issues
- Address regulatory coherence

2. Finance and Economics

- Macro economic overview and G-20 developments
- Promote Asia Pacific Financial Forum (APFF) in developing regional financial markets integration and address regulatory and structural reform
- Develop strategies to achieve balance growth and stronger financial integration
- Promote PPP and infrastructure finance
- Promote financial inclusion (including SME access to finance)

3. SMME and Entrepreneurship

- Support policy development in promoting creation of new businesses and new business models
- Facilitate the use of internet technologies to empower SMME access to international markets
- Support policy development in promoting sustainability of businesses, in particular in access to finance
- Develop initiatives to boost entrepreneurship

4. Infrastructure and Sustainable Development

- Accelerate infrastructure development
- Promote development of the blue economy
- Promote green growth, including environmental goods and services
- Strengthen food security and liaison with PPFS
- Strengthen energy security
- Accelerate technology dissemination

5. Action Plan and Advocacy

- Track progress and effectiveness of ABAC recommendations
- Help synchronize ABAC Working Groups in identifying and enhancing linkages within ABAC recommendations and with APEC
- Develop action plan and advocacy plan for ABAC 2013 key priorities
- Build greater awareness in home economies of the role and importance of ABAC and its priority initiatives