



7 May 2014

H.E. Gao Hucheng

Chair, Meeting of APEC Ministers Responsible for Trade
Minister of Commerce
People's Republic of China

Dear Minister Gao:

On behalf of the APEC Business Advisory Council (ABAC), I am pleased to share with you and your fellow APEC Ministers Responsible for Trade (MRT) some of our priorities and initial recommendations as we prepare to report to APEC Leaders later in the year. Our work this year focuses on deepening regional economic integration, promoting infrastructure growth and connectivity, encouraging sustainable development, fostering SMME development and entrepreneurship, and promoting the development and integration of financial markets. We believe APEC economies should take concerted actions in these areas with the aim of opening markets to trade and investment and achieving long-term growth.

As a strong supporter of the World Trade Organization (WTO), ABAC welcomes the outcomes of the 9th WTO Ministerial Conference (MC9) in December 2013. We encourage APEC economies to redouble efforts to move forward the WTO Doha Round agenda and fight against protectionism. Implementation of the "Bali package" is of utmost importance, in particular the Trade Facilitation Agreement (TFA) which will contribute to reducing costs and increasing efficiency in the movement of goods and provision of services. We urge Ministers to take the lead in Geneva in pushing for the early implementation of the TFA. Similarly, ABAC strongly urges APEC to demonstrate greater leadership in advocating for a commercially significant expansion of the ITA by the conclusion of the MRT Meeting in May, in particular by limiting sensitivities and supporting the mutually balanced and ambitious liberalization goals set forth in the initial ITA expansion negotiations.

We note the significant progress achieved in the trade initiatives we have previously identified as potential pathways to a Free Trade Area of the Asia-Pacific (FTAAP). In light of these developments and as we near the 2020 deadline for the achievement of the Bogor Goals, ABAC sees the need for more "top down" direction in the FTAAP process. This should comprise further articulation of the overall vision, robust economic analysis of the possible gains and a dialogue aimed both at increasing transparency and identifying business needs. Thus, we would welcome concrete steps towards the realization of an FTAAP such as developing a roadmap, a timetable, and a feasibility study. These undertakings should build on the extensive work completed by APEC, ABAC and PECC and recognize that the Trans Pacific Partnership (TPP), Regional Comprehensive Economic Partnership (RCEP) and the Pacific Alliance (PA) will serve as important building blocks toward an FTAAP. We are ready to be part of the process and provide business inputs.

ABAC welcomes progress being made in the negotiating pathways. TPP is close to completion but needs further political direction if momentum is to be maintained. Quality, ambition and comprehensiveness need to be the driving goals in order to meet business needs. Any bilateral negotiations on market access need to be carefully managed to avoid lowering the level of ambition. Moreover, the conclusion of the TPP should not be delayed by any participants which are unable to adhere to the principle of comprehensiveness set out in the Broad Outlines for TPP announced by Leaders in November 2011. Likewise, RCEP needs to adopt a quicker pace and a level of ambition that would increase alignment with other pathways to FTAAP, including TPP. We urge the broadest possible participation in pathways to an FTAAP that is in line with the spirit of open regionalism. We believe that an FTAAP should converge around the highest standards from each of the pathways.

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ABAC is undertaking a range of initiatives in the services sector this year, such as identifying the services sector's role in Global Value Chains; mapping those business organizations across APEC with a specific interest in services liberalization; developing a framework for managing the efficient movement of temporary workers around the region; and engaging with APEC officials on services issues.

Over the longer term, sustained economic growth will be dependent on increased investment – both domestic and foreign – in the capacity of the region's economies. We urge Ministers to address barriers to FDI identified in our 2013 Report to Leaders and draw on tools created by the business community and APEC to provide guidance and promote dialogue between governments and private business such as APEC's Investment Facilitation Action Plan. We further urge that Ministers support a proposal to establish a high-level group of investment experts to provide objective advice on the development and use of quantitative indicators as a tool to promote confidence in, and to socialize the value of, investment performance indicators.

ABAC commends APEC for its holistic and forward looking multi-year programs to enhance infrastructure and connectivity in the APEC region. There are still parts of our region that are not serviced by quality infrastructure and economically connected to the APEC region. ABAC encourages all streams of the APEC process to work together in a more coordinated way on building new, high quality regional and domestic infrastructure for connectivity. This coordination matters to business investors and users. It will help to increase the pipeline of viable infrastructure projects, strengthen quality transportation networks and enhance global value chains. ABAC believes that greater regional take up of global data standards (GDS) will materially strengthen the functioning and connectivity of regional supply chains, thereby supporting the enhancement of value chains. We commend APEC for the work program on GDS now underway.

Of particular concern is the gap between the region's massive infrastructure needs and the ability of governments to sufficiently finance the needed increase in capacity. Vigilance is required to ensure that international standards setters do not unintentionally impede the ability of long-term investors to invest in the Asia-Pacific region. Under the right conditions, investments by sovereign wealth funds, state-owned enterprises and pension and insurance funds could provide major sources of investment. To provide guidance on attracting and utilizing foreign capital, in 2013, ABAC created an Enablers of Infrastructure Investment Checklist. We urge APEC economies to utilize the Checklist as a platform for increased dialogue with the business community by partnering with ABAC to complete its self-assessment process and establishing it as a practical benchmarking tool within APEC's Multi-Year Plan on Infrastructure Development and Investment (MYPIDI).

ABAC calls on Ministers to encourage financial market regulators and relevant authorities to collaborate with the private sector under the Asia-Pacific Financial Forum (APFF) to facilitate trade and supply chain finance, expand SMMEs' access to finance and promote greater investment in infrastructure.

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

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

Yours sincerely,



Ning Gaoning
ABAC Chair 2014

Progress Report to APEC Ministers Responsible for Trade

- 1. Creating Partnerships to Remove Barriers to Infrastructure Investment.** ABAC applauds APEC's efforts to address this challenge by expanding its focus on infrastructure development, as demonstrated through the launch of the Multi-Year Plan on Infrastructure Development and Investment (MYPIDI) and the establishment of a Public-Private Partnership (PPP) Center in Indonesia. As a fundamental determinant of supply chain performance and investment competitiveness, the creation of new infrastructure as well as reinvestment in existing projects will be instrumental in promoting long-term growth in the Asia-Pacific region. Private sector capital and expertise will be needed to help governments to meet future demand and address existing gaps. A particular concern to business is the time and costs required to take infrastructure projects from the approval stage to the operational stage due to inadequate coordination and preparedness as well as uncertainty associated with regulations and risk. Addressing these issues early in APEC's multi-year programs could remove years from the project development process, save millions of dollars in project costs as well as provide immediate impetus for financing and create a stream of new viable projects in the pipeline.

To build on this important work, ABAC encourages APEC governments to leverage ABAC's complementary Enablers of Infrastructure Investment Checklist to engage the business community in a more robust, high profile dialogue on this important subject. The Checklist is designed to measure performance and promote a better understanding of the complex policies and institutional practices needed to attract and effectively utilize FDI in infrastructure. It presents a unique opportunity for all APEC economies to draw attention to progress and successful outcomes in their respective infrastructure environments as well as create new partnerships with potential investors.

- 2. Improving the Environment for PPPs through Public-Private Dialogues.** The Asia-Pacific Infrastructure Partnership (APIP) is providing advice to Ministers and senior officials on critical factors that support the development of PPPs for infrastructure development and financing. Enhanced infrastructure facilities in the region's economies – both developed and developing – remain a major development challenge and one which if met would contribute in a significant way to economic growth and to greater efficiencies in trade in goods and services in the region. High quality infrastructure enhances the prospect of improved connectivity in the region's economies and in opening opportunities for economies to benefit from engagement in supply chains. There are strong links between the need for more secure investment flows and the financing needs for infrastructure. We encourage strong support for the work of the APIP which will be providing support to Indonesia as it seeks to establish a PPP Center of Excellence in the coming period and for APIP's work to support China's priorities for infrastructure. We will bring these messages to APEC Leaders later in the year.
- 3. Completing Negotiations of the WTO Information Technology Agreement.** The Information Technology Agreement (ITA) is one of the most commercially successful trade pacts in the World Trade Organization (WTO) driving growth, innovation, and creating jobs in both developed and developing economies. The ITA has significantly contributed to promoting innovation in the APEC region and around the world by putting innovative, more affordable information and communication technologies (ICT) products into the hands of consumers. Additionally, the ITA has provided access to necessary components of high-value ICT products, encouraging greater integration in global value chains for manufacturing of these devices. Despite tremendous innovation in the technology sector and the appearance of thousands of new ICT products on market, not a single new tariff line has been added to the ITA in 18 years. To bring the agreement up to date, ITA member countries held monthly negotiating rounds in Geneva throughout much of 2013. Notwithstanding these significant efforts to complete the ITA expansion, economies were not able to narrow their differences for an agreement, and the negotiations were suspended in late November.

ABAC is disappointed about the loss of momentum in completing the ITA negotiations. ABAC strongly urges APEC to demonstrate greater leadership in advocating for a commercially significant expansion of the ITA by the conclusion of the APEC Ministers Responsible for Trade (MRT) Meeting in May, in particular by limiting sensitivities and supporting the mutually balanced and ambitious

liberalization goals set forth in the initial ITA expansion negotiations. Such an outcome will be a significant contribution by APEC to the WTO and the global economy.

- 4. Enhancing Supply Chain Connectivity.** ABAC applauds APEC's efforts to enhance competitiveness in the region by making it easier, cheaper and faster to conduct trade in goods and services across borders. A 2013 report by the World Economic Forum estimates that raising all countries' supply chain performance halfway to global best practices on border administration as well as transport and communications infrastructure would increase global GDP by approximately US \$2.6 trillion and exports by US \$1.6 trillion.

ABAC supports APEC's systematic approach to improving supply chain performance, including the development of a comprehensive capacity building plan on supply chain connectivity and the creation of a dedicated APEC Trade and Investment Liberalization and Facilitation (TILF) Sub-Fund for Supply Chain Connectivity. Companies and associations trading in the Asia-Pacific have valuable experience in moving goods and services seamlessly, quickly, and inexpensively through the region. For this reason, ABAC also calls on APEC to endorse the creation of an APEC Alliance for Supply Chain Connectivity (A2C2), a public-private forum that would work with economies to develop and implement the recommendations related to APEC supply chain connectivity comprehensive capacity building plan. Furthermore, ABAC encourages APEC economies to utilize the A2C2 as a tool to expedite their commitment to the WTO Trade Facilitation Agreement (TFA).

- 5. Building Effective Global Value Chains.** Global Value Chains (GVCs) have become a dominant feature of the global economy, involving economies at all levels of development. When value chains are global, economies' trade and investment policies become more interdependent and the costs of protectionism are higher, more immediate and more pervasive. In this context, measures are necessary to prevent the spread of new trade-distorting measures such as local content requirements (LCRs). Although LCRs are sometimes seen as a way to "climb" a value chain, they in fact cause significant economic repercussions to all trading partners by stifling their investment climates, and negating the gains of otherwise effective trade facilitation measures. This growing fragmentation of production across borders reinforces the need for economies to adopt an open, predictable and transparent trade and investment regime as tariffs, non-tariff barriers and other restrictive measures impact not only foreign suppliers, but also domestic producers. This also underscores the importance of pursuing high-standard trade agreements that have the largest impact by covering as many dimensions of GVCs as possible, including not only goods but also services, investment, competition, intellectual property and the temporary movement of workers.

GVCs place new demands on firms, in particular as regards the need for strong coordination and efficient links between production stages and across economies. ABAC encourages APEC to utilize the private sector as a source of expertise in the development of APEC's Strategic Blueprint on Global Value Chains. APEC economies should emphasize the reduction or elimination of import/export restrictions in order to facilitate broader APEC economy engagement in GVCs. APEC officials should also provide leadership and support for high-standard trade agreements that cover as many dimensions of GVCs as possible.

- 6. Promoting Good Regulatory Practice.** In recent years, there has been an emerging recognition of the need to tackle behind-border issues that create unnecessary non-tariff barriers to free trade and investment. For businesses, and in particular SMMEs, higher compliance costs hinder international competitiveness and complicate the most efficient deployment of economic resources.

ABAC urges APEC to strengthen implementation of the three good regulatory practices agreed to by APEC Leaders in the Honolulu Declaration as well as the three GRP tools identified in the APEC Bali Declaration. In this regard, ABAC welcomes the proposal endorsed at SOM I on public consultations on proposed regulations in the Internet Era, and looks forward to providing practical perspectives on actions economies can take to strengthen their public consultations through information technology. Specifically, ABAC supports efforts to more closely align APEC economies' regulations with global best practices, utilize performance-based rather than prescriptive-based regulations, design regulatory institutions that promote trade-friendly regulation, and strengthen public-private cooperation through

the use of consultation mechanisms to enhance accountability, promote mutual learning, and encourage best practices.

- 7. Supporting the Development of SMMEs.** SMMEs are the backbone of APEC economies. They are an integral source of economic growth and employment opportunities in the APEC region. ABAC believes that SMMEs will benefit from an environment that helps nurture their development, adaptability and sustainability. ABAC therefore encourages Ministers to consider: (a) creating capacity building programs for SMMEs to access international networking and collaboration opportunities; (b) expanding channels of internationalization for SMMEs by introducing effective and actionable technologies, including use of ICT and e-Commerce; (c) increasing public-private dialogues and partnership; (d) removing barriers for new and creative business initiatives; and (e) supporting SMMEs' effective access to finance with new innovative channels, such as internet finance.

ABAC urges Ministers to address existing barriers within traditional financing mechanisms for SMMEs, as well as support innovative, non-traditional financing mechanisms such as equity capital and crowd funding, which are providing expanded opportunities for growth to SMMEs.

ABAC recommends that Ministers adopt a comprehensive approach to accelerate innovative growth for SMMEs through policies promoting entrepreneurship and facilitating market-driven development, dissemination, and commercialization of cutting-edge technologies. ABAC urges Ministers to help enhance opportunities for SMMEs by simplifying legal and regulatory barriers. ABAC will continue to explore the feasibility of an open innovation platform initiative aimed at stimulating cross-border collaboration and market-driven technology dissemination throughout the region.

- 8. Improving Women's Economic Inclusion.** APEC has taken important steps to improve women's economic participation. It is increasingly clear that their advancement is not only a social imperative, improving their lives and the lives of their families, but an economic imperative as well. However, women throughout the APEC region still face challenges related to obtaining capital, reaching markets, developing skills and capacity, accessing networks, and achieving leadership positions. The presence of these obstacles has resulted in a large amount of untapped productivity within the APEC region. ABAC encourages Ministers to support policies to eliminate these obstacles. Addressing these barriers and taking steps to bring more women into the economic mainstream in both the private and public sectors will drive economic growth and promote stability in the region.

- 9. Promoting Green Growth.** ABAC commends APEC for its concrete commitments to green growth. APEC's agreement to tariff reductions on 54 items of Environment Goods (EGs) provided an incentive for 14 WTO members to start a similar agreement in January this year, breaking the stalemate in international negotiations. APEC has also committed to reduce energy intensity in the region by 45% by 2035. Energy conservation is the least expensive and most accessible source of energy, and it will be a key element to achieving the 45% target. These are tangible commitments with benchmarks that can be easily measured. To accelerate the green growth agenda, ABAC recommends that APEC: (a) enforce tariff reduction for the 54 EG items by the end of 2015, expand discussions on environmental services, and identify and eliminate non-tariff barriers for environmental goods and services; and (b) introduce policies that stimulate energy conservation, encourage wider use of energy-saving equipment, and facilitate free trade of such goods and services.

- 10. Addressing Energy Security.** A stable supply of electricity is at the core of economic growth and is a pressing issue in the APEC region. Renewable energy is the ultimate source of power generation, but cannot become the dominant source without further technical innovation. For most economies, an energy mix including fossil fuels will need to remain in place, but their impact on the environment is a key concern. To balance economic growth and environmental protection, ABAC recommends that APEC: (a) step up efforts to support technical innovation of renewable energy; (b) establish, strengthen and fully enforce regulations to alleviate the environmental burden; (c) mitigate the impact of fossil fuel for power generation by utilizing technology with the smallest environmental footprint available; and (d) expand use of clean coal technology by providing assistance including capacity building and financing in association with international bodies, where necessary.

11. Achieving Food Security. ABAC has a long history of championing the importance of engaging the private sector to help find solutions to achieving food security in the region. The APEC Policy Partnership on Food Security (PPFS) was created in response to the Ministers' acknowledgement of the importance of working hand-in-hand with the private sector and the PPFS is now ABAC's prime vehicle for engaging on food security in the region. ABAC believes that the structural and operational challenges currently facing the PPFS must be addressed if it is to realize its goal of achieving food security within the APEC region by 2020.

12. Promoting Healthy Workforces. Rapidly aging populations and the rising burden of non-communicable diseases (NCDs) pose a substantial challenge to sustainable economic growth. This trend has important implications for the wellbeing of communities, long-term care costs as well as the productivity and availability of labor. Health-related absenteeism, disability and productivity losses are a substantial concern for both the public and private sector. To promote a better understanding of these trends, ABAC is partnering with the APEC Life Sciences Innovation Forum (LSIF) to jointly commission a study that will document the current productivity cost of NCDs, analyze their future potential impact and provide a knowledge base for more effective policy responses to this important challenge.

Smart investments in healthcare systems coupled with business-friendly trade and regulatory policies can help APEC economies address this trend. Such policies can leverage the private sector to the fullest extent by encouraging the creation of new therapies and treatments and ensuring they are delivered in a timely and safe manner. For example, companies rely on consistent data standards to more effectively track and trace products as they move through increasingly complex multinational supply chains. In order to generate additional data, this year, ABAC is working with universities in the Republic of Korea and the United States to launch a pilot project that will examine how the application of common data standards to the cross-border trade of medical products can create cost efficiencies and protect patients by reducing compliance costs and preventing substandard and counterfeit medicines from reaching distribution.

13. Accelerating Financial Market Development to Promote Growth. The Asia-Pacific Financial Forum (APFF) has been established and is now developing a number of public-private initiatives to enable financial markets to support the growth of domestic consumption and trade, infrastructure investment, innovation, and SMMEs. To play this role, financial markets need to evolve to have greater diversity of financing sources, with a larger role for deep and liquid capital markets and institutions that can provide long-term finance. They also need to become more inclusive. The APFF is currently identifying ways to address market, regulatory, and operational issues that affect the ability of insurers and pension funds to expand their investments in infrastructure. It is also developing action plans to help improve the legal and institutional infrastructure for the wider use of movable assets and consumer credit information that will help SMMEs. ABAC will present recommendations on these matters to APEC Finance Ministers and Leaders.

14. Facilitating Trade and Supply Chain Finance. Supply chains offer significant opportunities for SMMEs to benefit from and contribute to the growth of trade. Currently, they face a rapidly changing trade finance landscape being shaped by new regulations, economic conditions and industry trends limiting suppliers' access to working capital. However, new innovative solutions are also helping them cope with demands of longer production and distribution cycles and growing export volumes. APFF's work is focused on promoting appropriate and consistent implementation of Basel III with respect to trade finance, proportionate application of know-your-customer and client due diligence rules, and legal and institutional reforms to help develop the collateral management industry. It also deals with promoting the wider use of innovative trade settlement instruments such as bank payment obligations (BPO), e-commerce platforms and emerging market currencies. ABAC urges Ministers to encourage greater public-private collaboration to facilitate trade and supply chain finance through the work of the APFF.

15. Building Robust Partnerships in the Mining Sector. As substantial producers and consumers of minerals and metals, it will be important for APEC economies to collaboratively promote effective regulatory environments for the mining sector to underpin the region's prospects for sustainable

economic growth. Robust partnerships and dialogue between the public and private sector will be needed to ensure that responsible investment leads to beneficial outcomes for communities, economies and investors. We encourage APEC to expand its focus on this economically vital sector and build on its well established history of facilitating public-private collaboration by taking additional steps to engage the business community in partnerships with stakeholders such as the APEC Mining Task Force. To inform future discussions, ABAC is commissioning a study that will examine how mining impacts the regional economy, highlight policies that encourage investment and determine best practices in responsible mining.