

**APEC Business Advisory Council  
Report to APEC Finance Ministers**

The APEC Business Advisory Council (ABAC) is pleased to present its report and recommendations for the year 2014 to APEC Finance Ministers.

Global financial and market conditions continue to show improving signs and the global economy should strengthen over the coming two years. However, urgent action is needed to further reduce unemployment and to address other legacies of the global financial crisis such as the health of banking sectors (OECD Economic Outlook). Advanced economies are gaining momentum and driving the pick up in global growth – GDP growth globally is forecast to be at 3.4% in 2014 and 3.9% in 2015, with the US economy projected to grow by 2.6% and 3.5%, respectively. The Euro zone and Japan will show only very modest increases in growth. The BRICS (including China, Indonesia and Russia) are projected to grow by 5.3% this year and 5.7% in 2015.

Economic recovery in the region's economies is proceeding at varying speeds, and while growth for the region as a whole is improving over the year, the medium-term outlook has weakened. Of concern is a faltering in the contribution of trade to regional growth and a trend fall in productivity growth in the region (APEC Policy Support Unit (PSU)).

To arrest and reverse this trend, we need to improve competitiveness in the region's economies by enhancing labor market and productivity growth through innovation, raising the skills quality of our workforces, improving efficiencies in economic processes and intensifying connectivity in the region's markets. These are essential objectives in achieving sustained growth and regional economic integration. They involve the more efficient use of capital and stronger investment flows and improved market access for trade and services.

ABAC's priorities this year have focused on these challenges. Not surprisingly, the challenges are similar to those identified in G20's strategies to stimulate growth, reforms to financial systems and attracting capital into infrastructure investment.

Our recommendations and report on our activities respond to priorities set by ABAC China on advancing the FTAAP and connectivity in the region. Our major findings are set out under sub-headings below as these have been considered by the Finance and Economics Working Group (FEWG) of ABAC and they also draw on recommendations and activities of other groups which operate under the auspices of FEWG, namely: the Asia-Pacific Financial Forum, the Advisory Group on APEC Financial System Capacity Building and the Asia-Pacific Financial Inclusion Forum. Details of their work are contained in the two annexes to our report, the Asia-Pacific Finance Forum's Interim Report to the APEC Finance Ministers, and the Advisory Group on APEC Financial System Capacity Building's 2014 Report on Capacity Building Measures to Strengthen and Develop Financial Systems, which we endorse. A copy of the publication produced from our 2014 Asia-Pacific Forum on Financial Inclusion will be sent separately to Finance Ministers. The work of FEWG and the related groups reflects deep collaboration between public and private sector interests and supports ABAC's view that this collaboration is a critical factor in the success of regional development.

i) **Asia-Pacific Financial Forum (APFF)**

The Asia-Pacific region today faces the challenge of transforming its economic growth model from one that still remains considerably dependent on consumer demand in Europe and North America to one that is increasingly driven by domestic and regional demand. This transformation will require significant increases in domestic consumption supported by strong investment growth. It will require efforts to address poverty, environmental issues and the economic impact of aging, expanding infrastructure and facilitating competitiveness, innovation and the growth of small, medium and micro-enterprises (SMMEs). The Asia-Pacific Financial Forum (APFF) has identified a number of action plans that can enable financial markets and services to support this process.

***Recommendations***

- ABAC recommends that APEC Finance Ministers encourage public-private collaboration through the APFF to: (a) expand access of SMMEs to financing through improved legal and institutional frameworks for credit information and the use of factoring, movable assets and accounts receivables as collateral in secured transaction systems and factoring, as well as trade and supply chain finance; and (b) develop deep, liquid and integrated financial markets through better financial market infrastructure and cross-border capital market practices, increased ability of insurers and pension funds to invest in long-term assets and provide longevity solutions, effectively meeting capital market participants' needs for hedging instruments and information, and successfully launching the Asia Region Funds Passport.

ii) **Internationalization of the Renminbi**

Ongoing policy reforms to the Chinese financial system and reforms to the capital account are facilitating the internationalization of the renminbi. ABAC notes that a number of economies have entered into bilateral currency swap agreements in 2013 and earlier agreements have been renewed. Benefits arise from these arrangements, including growing acceptance of the renminbi as a settlement currency and stability in the renminbi exchange rate. A report by the Center for International Finance and Regulation in Australia notes the desirability of China pursuing a gradual pathway to renminbi internationalization, as relevant economic and financial system reforms are successively implemented in China. The report notes that if the renminbi becomes a new major reserve currency, it is likely to have a stabilizing impact on the international monetary system.

***Recommendations***

- The gradual implementation of policies by China to internationalize the RMB should be endorsed as significant contribution to financial system stability in the region and globally.

iii) **Financial Inclusion Initiatives**

The 2014 Asia-Pacific Forum on Financial Inclusion provided an opportunity to review current trends, recent achievements, ongoing challenges and opportunities in financial inclusion in six economies in the region. The Forum identified a number of key priorities for future initiatives to promote greater access to finance of households and SMMEs in the region. Policymakers and regulators have a responsibility to address these issues. In most developing economies, there is a huge need to build capacity to design effective laws, implement rules and policies, build political

support for reforms, establish institutional architectures, and to develop skills and capacity to continuously adjust rules and regulations to a continuously evolving market. Providing opportunities to build this capacity remains a serious challenge for the region.

### ***Recommendations***

- ABAC recommends that APEC Finance Ministers encourage greater public-private collaboration and capacity building initiatives to help member economies: (a) develop financial regulatory frameworks that are proportionate to risks and balance the objectives of safety, soundness, integrity and consumer protection with market innovation and accelerating financial inclusion; (b) design financial inclusion strategies that promote a broad range of financial services and prudential systems that retain incentives to innovate; (c) promote coordination among relevant ministries and stakeholders and private sector inputs in policy formulation; and (d) accelerate the development of market infrastructure, particularly those related to financial identity, credit information, collateral management and payments.

#### **iv) Measures to mobilize long-term savings and investment**

Last year, Ministers endorsed an ABAC-supported and Australian/Asian Development Bank Institute (ADBI)-sponsored three-year program to enhance transparency and predictability in investment decision-making in the region. The first phase of the program was a public-private dialogue in Beijing in September 2013 on ways to encourage better understanding by stakeholders in investments by sovereign wealth funds (SWFs), state-owned enterprises (SOEs), pension and wealth funds in the mobilization of long-term finance for infrastructure. SWFs and SOEs are increasingly commercializing their offshore investment activities, managing risks and are concerned about the rule of law and governance in the economies in which they invest. Any modifications to the APEC Investment Facilitation Action Plan should focus on ways to encourage investments by SWFs, SOEs, pension and wealth funds. Capital importing economies should treat their investments in a non-discriminatory way, refrain from applying any unnecessary regulatory barriers and rules should be transparent and predictable. APEC should consider a compliance requirement with the Santiago Declaration in members' responses to Individual Action Plans. There would be value in developing partnerships between governments, business and academia to promote good investment principles.

The dialogue also led to consideration of a proposal, endorsed by ABAC, to establish a Regional Investment Analytical Group (RIAG) to encourage the use of quantitative indicators and methodology for measuring investment performance and to socialize the use of indicators in the region's economies. RIAG would involve representatives of major regional and international agencies such as the World Bank, the Organization for Economic Cooperation and Development (OECD), the Asian Development Bank Institute, the APEC PSU and the ASEAN Secretariat as well as experts from regional think tanks and officials. The Australian government has sought the endorsement of the APEC Investment Experts' Group (IEG) and the APEC Committee on Trade and Investment (CTI) to receive reports from RIAG, noting that reports could identify ways in which investment policy frameworks could be improved, bolster the IEG agenda and expand the range of tools and technical information on regional investment trends. ABAC's views on RIAG reports would be provided direct to Ministers and senior officials. The Secretariat function would be managed by the Australian APEC Study Center at RMIT University and participation would be on a self-funded basis, similar to the arrangements relating to other ABAC initiatives such as the APFF and APIP.

The work of APFF has also underscored the important role that insurers and pension funds can play in channeling long-term savings to long-term investments. Enabling these institutions to more effectively assume this role requires addressing regulatory and accounting issues that have an impact on incentives for engaging in long-term business, as well as market and operational issues that constrain the flow of investment to long-term assets and longevity solutions for efficient management of retirement savings.

### ***Recommendations***

- Review APEC's Investment Facilitation Action Plan approaches with a view to encouraging investment flows from SWFs, SOEs, insurance, pension and wealth funds and ensuring transparency, predictability and non-discriminatory treatment.
- Encourage economies in responding to Individual Action Plans to show their compliance or otherwise with the Santiago Declaration.
- Agree to the establishment of a Regional Investment Analytical Group as an ABAC initiative to promote and socialize the use of quantitative indicators to enhance investment performance in regional economies.
- Engage insurers and pension funds through the APFF in the APEC Finance Ministers' Process work on infrastructure to promote deeper understanding of obstacles to expansion of their investment in infrastructure and other long-term assets and discuss approaches to address these issues.

### **v) Asia-Pacific Infrastructure Partnership**

In 2013, APEC launched its Multi-Year Plan on Infrastructure Development and Investment (MYPIDI) and the APEC Finance Ministers established the APEC PPP Experts Advisory Panel to assist member economies in improving coordination and developing capacity to build bankable project pipelines through PPP Centers. A Pilot PPP Center was set up in Indonesia. The Asia-Pacific Infrastructure Partnership (APIP), adopted by the Finance Ministers as a policy initiative in 2011, has undertaken several dialogues with governments in APEC and participated in various regional discussions. APIP has identified a number of key issues from these dialogues and discussions that can be addressed using APEC as a collaborative platform.

### ***Recommendations***

- ABAC recommends that APEC Finance Ministers develop an implementation roadmap for promoting infrastructure PPP projects to assist member economies in: (a) effectively allocating risks between public and private sectors; (b) improving institutional capacity to promote PPPs; (c) facilitating infrastructure finance, especially long-term and local currency funding; (d) providing an enabling legal, policy and regulatory environment; and (e) promoting public support for PPPs. We also recommend continuation of APIP dialogues with interested economies.

vi) **Establishing an Asia-Pacific Urban Infrastructure Network**

Cities in the region contribute to more than 75% of the region's GDP but urban growth challenges have become increasingly complex due to inadequate attention to infrastructure and services to meet transportation, communication, education, health needs and environmental risks. These challenges require a holistic policy framework to support economies and their cities in providing for sustainable urban infrastructure and ensuring sustainable development, and to enhance the institutional capacities of public policy agencies in the region in designing and implementing PPP infrastructure projects. Collaboration will be a vital aspect of this work and it will involve expertise from the region and globally. Australia and China have launched a collaborative initiative through the formation of an Asia-Pacific Urban Infrastructure Network to be held on a biennial basis with the first meeting convened in Melbourne in September.

ABAC endorsed an Australian funded research and a capacity building initiative to strengthen the capacities of agencies in enhancing transactional skills in PPP agencies in the region and in improving efficiencies in agency operations, particularly in relation to the development of urban infrastructure.

***Recommendations***

- Support the establishment of an Asia-Pacific Urban Infrastructure Network that will meet at biennial forums to develop a holistic framework and guidelines to support sustainable urban development in the cities of the region and measures to finance relevant infrastructure and supporting capacity building initiatives.

vii) **Improving Valuation Practices in APEC**

Valuations are central to decision-making within the global economy, applying both to capital and property market decisions and to decisions and actions in public and private sector organizations, including regulatory organizations. The public interest, economic growth and development of financial systems are impacted in a multitude of ways by decisions and actions that are dependent on valuations. This critical role of valuation underscores the importance for economies in the region to agree on the adoption of high-quality valuation standards across jurisdictions globally and develop a credible valuation profession.

***Recommendations***

- ABAC recommends that APEC Finance Ministers encourage the public sector to collaborate with ABAC, the International Valuation Standards Council, valuation professional organizations (VPOs), experts from industry and other relevant bodies to promote high-quality valuation practices and professionals across member economies through region-wide convergence toward robust global valuation standards and the development of sustainable VPOs as caretakers of professional standards, education and knowledge depositories.

viii) **Improving SMME access to financing**

The APEC Framework for Innovative SMME Financing Mechanisms report provides a comprehensive overview of SMME financing options with more focused attention on alternative

and innovative financing mechanisms that move beyond traditional bank financing options. While it is recognized that traditional bank financing remains the primary vehicle for SMME financing, this report highlights the opportunities for economies to develop a comprehensive suite of policy options that support innovative and diversified financing models.

### ***Recommendations***

- ABAC recommends that APEC Finance Ministers strengthen support for innovative financing mechanisms for SMMEs, such as micro-finance, angel and seed investments, internet trade finance, venture capital and crowd funding and junior/venture exchanges. Furthermore, we propose that regulatory frameworks be reviewed with the purpose of enabling these innovative SMME financing mechanisms to be introduced successfully in each economy.

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### ***Appendices:***

- A) Asia-Pacific Financial Forum Interim Report to the APEC Finance Ministers
- B) Report of the Advisory Group on APEC Financial System Capacity Building