



**Indonesian  
National  
Committee for  
Pacific  
Economic  
Cooperation  
Council**

**Conference on  
Asia-Pacific Economic  
Integration and Connectivity:  
Pathways for Resilient and  
Inclusive Growth**

**Edited By:  
Tan Khee Giap  
Eduardo Pedrosa  
Grace Aw**

**Conference on**

**Asia-Pacific Economic**

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## Foreword

For the first time since its seminal Bogor Goals, APEC is being chaired by Indonesia. This provides a unique opportunity to review how the region is progressing towards these goals and whether there is a need for a new compelling vision for Asia-Pacific economic cooperation. As much as current circumstances define and limit the issues that regional and global processes can address, there is a need to have a vision of what the region will look like in the future which can then in turn guide the type of initiatives needed to achieve that vision.

While the Bogor Goals are often remembered as being “the achievement of free and open trade in the Asia-Pacific region”, this was more of a means to an end – the end being defined in the opening paragraph of the Bogor Leaders’ Declaration “our economic cooperation which will enhance the prospects of an accelerated, balanced and equitable economic growth not only in the Asia-Pacific region, but throughout the world as well.” In the face of the difficult economic circumstances the world now faces in the aftermath of the worst economic crisis since the Great Depression, these words have even greater resonance today than they did almost 20 years ago when they were written.

The vision of an open, integrated and prosperous Asia-Pacific region is critical not just for the members of the region but the rest of the world. The spirit of cooperation and trust engendered through almost a quarter of a century of meetings between officials at the technical level all the way through to Leaders needs to be built on if we are to avoid the tensions and conflicts that characterized previous eras of transition in the global economy.

To this end we brought together leading thinkers from the research community, government and business to consider some of the key issues policy issues confronting the region today. The conference tackled three distinct areas where deeper thinking and input is required to make further progress: financial policy; trade policy; and infrastructure as well as the support needed through technical and economic cooperation to achieve that progress.

The key point we take away from this conference is that the vision of the Asia-Pacific region articulated almost two decades ago remains as relevant as did then. However, the emphasis today must be on ensuring that the integration process must be made more inclusive and that the benefits of growth are spread through our economies. This entails a much higher degree of connectivity among the region’s businesses and peoples and therefore larger investments in infrastructure to make these connections – whether physical or virtual.

We would like to express our sincere appreciation to all of the session chairs, moderators and speakers who contributed their time and ideas. We would like to thank Prof Tan Khee Giap, chair of the SINCEPEC and his support team especially Ms Amanda Lim without whose tireless work the event would not have been possible.



Jusuf Wanandi  
Co-Chair



Don Campbell  
Co-Chair



## **Executive Summary**

### **Asia-Pacific Economic Integration and Connectivity: Pathways for Resilient and Inclusive Growth**

The Pacific Economic Cooperation Council (PECC), the Indonesian National Committee for Pacific Economic Cooperation (INCPEC) and the Singapore National Committee for Pacific Economic Cooperation (SINCPEC) convened a conference of thought-leaders from the Asia-Pacific to consider challenges facing regional cooperation in the current economic climate and propose solutions to them. The Conference was funded by SINCPEC and supported by INCPEC and the broader PECC community.

The discussions benefitted from a strong contingent of top level decision-makers from the Indonesian government responsible for leading its chairing of APEC this year, Mr Hatta Rajasa, Coordinating Minister for Economic Affairs, Dr Mari Pangestu, Minister of Tourism and Creative Economy; Mr Mahendra Siregar, Vice Minister of Finance; Mr Chatib Basri, Chairman of the Investment Coordinating Board; and Mr Arto Suryodipuro, Deputy APEC SOM Chair. In addition to the representatives from this year's APEC chair economy, many officials from other APEC economies shared their views at the conference.

As demonstrated by the economic crises that have impacted the region and the world over the past 15 years, levels of interdependence and possibilities for contagion are on the increase, regional and global frameworks have been evolving to coordinate policy responses to crises but they remain insufficiently connected to each other to effectively coordinate with each other. Indonesia, as a member of ASEAN, APEC, the East Asia Summit and the G20 is uniquely placed to emphasize the need for coherence among these many organizations.

The recovery from the global economic crisis continues to be weak with a number of economies undertaking additional measures to stimulate growth in their economies. There is much that needs to be done to put the global economy on a sustainable growth path and create opportunities for the persistent high level of unemployment in several advanced economies.

#### **An Asia-Pacific Agenda for Financial Cooperation**

The tremendous growth seen in the Asia-Pacific region was built on integration through trade in goods, in the post-crisis era, there is a need for increased domestic and intra-regional demand to drive growth, especially in East Asia. . Such a strategy would not have been possible in 10-15 year ago but in emerging Asia today there is a substantial middle-income group with sufficient levels of discretionary spending who can now act as a driver of growth.

The question ahead is now to ensure that growth in the future not only increases aggregate incomes but also reduces poverty and increases the size of the middle class. The development of efficient financial markets is critical to achieving this goal.

### ***Developing the Financial System critical to achieving inclusive growth***

The capacity of banks needs to be developed if the region is to achieve its goal of rebalancing growth, promoting domestic demand and inclusive growth. East Asia in particular has relatively high savings rates and yet the region's financial system is not yet in a position to recycle those savings into productive investments in the real economy. The SME sector in particular will require much better access to finance if it is to create the jobs needed in the region in the coming years. The problem of SME access to finance is not unique to Asia and one encountered all around the world.

### ***Immediate Risks Facing the Region***

One immediate concern especially for emerging Asia is the increase in capital flows as a result of the increased global liquidity. There is a risk that these flows will lead to excessive credit growth and the creation of asset bubbles. While the expansion of credit is not necessarily a risk it needs to come with the development of sophisticated capital markets to fund growth in the real economy. Furthermore, much depends on how credit expansion is funded - whether through growth in deposits or wholesale funding.

In light of the financial crisis of 1997-98, Asia has been developing its own resources to deal with the risk of sudden reversals of capital flows. Firstly the region has built up substantial reserves but also regional swap agreements through the Chiang Mai Initiative. To complement these efforts the ASEAN+3 Macroeconomic Research Office has been established which monitors the potential build up of risks in regional economies.

The Chiang Mai Initiative Multilateralization (CMIM) and the ASEAN+3 Macroeconomic Research Office (AMRO), established in March 2010 and May 2011 respectively, have made substantial headway. CMIM funding was doubled to \$240 billion since May 2012. AMRO's regular monitoring should provide the basis for a quick report to aid the CMIM's leadership to make a decision should that moment arise. While the CMIM facility is yet to be tested the key will be to ensure that decision-making is swift if it is to make a difference in forestalling crises.

### ***Regional vs Global Approaches***

The CMIM should not be seen as a replacement or substitute for the International Monetary Fund (IMF) but rather a complementary effort. It is smaller, and is intended to be flexible so that it can be activated quickly during a crisis and provide timely funds. It is not an Asian version of IMF, but can be viewed as an additional source of funds that can be deployed by Asia. CMIM is more for short-term liquidity, unlike the IMF. As such, both CMIM and IMF can co-exist, but it will be better to coordinate them.

### ***The Asia-Pacific Financial Forum***

There are now moves to create an Asia-Pacific Financial Forum under the APEC umbrella which would bring together stakeholder from the business community as well as regulators and other relevant government officials to try to bring a greater sense of urgency and coherence to regional efforts in the financial sphere.



### **Infrastructure Development: Connectivity, Integration & Structural Reform**

It is clear that a 'business as usual' approach is no longer possible in terms of future economic development in the APEC region. One of the most important spring boards to future growth and development but also one of the weakest, is infrastructure. The Organization for Economic Cooperation and Development (OECD) has estimated that the infrastructure requirement across the globe to 2030 is US\$50 trillion dollars. This cannot possibly be met by public financing alone. Yet, private investment in most economies still only comprises 1.5% of total infrastructure expenditure. As far as the business community is concerned, the regulatory environment is the starting point for assessing the risk return equation for private sector investment in long term projects. Investors need significant certainty and clarity to be assured of a stable and viable stream of income over the long haul.

### ***Price and Affordability***

With the right regulation and the right price level, it is possible to make infrastructure commercially viable. One way forward is for various stakeholders to take up responsibility for financing different periods of a project's life cycle, the biggest risks are during the initial phases of a project making while steady and predictable revenue streams are available in the middle of the project which tail off towards the end of a project's life. One of the innovations possible is that the government takes that risk since most of it is in their control anyway. Bonds can be floated later on in the project's life to finance the remaining project. Such innovations could mobilize a lot of that money that would be needed to finance much more than currently ongoing.

### ***Project Readiness***

Project readiness remains the biggest bottleneck of all. It is difficult to make projects bankable, and the risks involved as well as responsibility of the risks must be clearly defined. It is important that the right people are there from technical to legal, to make the project bankable. For Public Private Partnership (PPP) projects, a huge amount of money is required for project preparation. In some economies, the legal environment not strong enough for PPP projects. In such cases, a publicly led privately operated model can be adopted instead.

### ***Unique Challenges for Cross-Border Projects***

Governments will rather spend on domestic infrastructure than on cross border projects, as cross-border infrastructure always seems to benefit the 'other economy' more. Few will think of the collective benefit. For the sub-regional project to be a success, it is necessary to objectively assess each economy's share of benefits and costs. Here, the presence of an honest regional broker like the Asian Development Bank (ADB) is essential. The Greater Mekong Sub-Region is one example where a lot of cross-border infrastructure has to be built with the ADB taking on an important role.

### **The New Environment for Trade Policy**

While the balance of priority issues facing the region is shifting towards financial policy coordination and cooperation and behind the border issues, trade policy remains critical for keeping the flow of goods and services flowing. However, the appetite for unilateral and multilateral trade liberalization has significantly diminished since the Bogor Goals were set. The Doha Development Round is stalled and the prospects for a breakthrough are bleak. However, there is still momentum in regional



deals especially the ASEAN Regional Comprehensive Economic Partnership Framework (RCEP) and the Trans-Pacific Partnership (TPP).

### ***Geopolitics and Economics in Regional Cooperation***

The Trans Pacific Partnership (TPP) is seen by some as an instrument to exclude China while some see Asian initiatives as a way of drawing a line down the Pacific. While this may motivate some, it is much more likely and makes more economic sense that this is wrong. The biggest economic benefits from regional integration will come if there is convergence between the TPP and the RCEP. One factor not yet discussed but requiring greater consideration is how economies in the region will look not in one year but in 10 to 15 years. On the other hand the US, while still in a flux, is gaining export competitiveness and likely to be more open to the prospect of freer trade with China as its own economy recovers from the crisis.

While Asia-Pacific economies stand to gain large benefits from these agreements, especially if they lead to a Free Trade Agreement of the Asia-Pacific they should also show leadership in bringing a conclusion to the long-stalled WTO Doha Development Round. The completion of the Doha Round is crucial to set a benchmark for the 'WTO plus' negotiations of the many regional agreements. Many of the new regional arrangements, including the RCEP and the TPP, are 'WTO plus' as they cover areas such as investment and competition policy that are not covered by the WTO.

### ***Future of WTO***

The WTO Ministerial Conference to be held in Bali at the end of the year just 2 months after the APEC leaders' meeting comes at a critical juncture. All regional and global institutions are undergoing a period of review and reform in response to a changing world, none more so than the WTO. Without some concrete deliverable in Bali there is a widely shared concern that the WTO's negotiating function will be permanently impaired while it would remain an important judicial institution and provider of data.

The litmus test of success for the Bali Ministerial is the trade facilitation package. If it is absent, it will be extremely difficult to revitalize the negotiating function of the WTO. Other than trade facilitation the other issues on the table pale in comparison in terms of commercial relevance. One exception to this, not part of the putative Bali package is the Trade in Services Agreement (TISA). Services now account for close to 50% of world trade but the global rules governing their trade date are out of date. How the WTO relates to TISA is a critical systemic issue that the region should be thinking about it.

### ***Aligning Economic and Technical Cooperation and Regional Economic Integration Goals***

During its formative period APEC took an innovative approach by adopting economic and technical cooperation (Ecotech) as its third pillar along with trade and investment facilitation and liberalization. Since then, subsequent trade agreements between developed and emerging economies have included some element of development cooperation. APEC can take great credit for this and giving confidence to emerging economies to participate in the globalization and integration process. However, along the way, APEC's Ecotech efforts have become unfocused and disconnected from its main objectives.

Ecotech is a crucial component of regional integration. Regional integration is about narrowing development gaps and bringing about equitable development and generally improving the economic well-being of the people.

### ***Capacity Building Critical for Supporting Integration***

The argument for development cooperation is not just for lesser developed economies to continue to be part of the integration and to reduce disparities. It is more than that. If the capacity building goal does not succeed, there will be very weak support for further economic integration. Policymakers will not continue to liberalize if benefits are not passed on to the wider population.

### ***Time for a Rethink?***

While APEC has had almost 2,000 ecotech projects, the impacts of such projects are either minimal or just unknown. To ensure that capacity building is effective and not just a list of projects, there should be timelines and deadlines to achieve specific goals. In all current trade agreements, it is necessary to ensure capacity building is effective and pragmatic and really addresses what the lesser developed economies really need.

### ***Weaknesses of Past Ecotech Initiatives***

Despite Leaders' repeated calls to intensify efforts on Ecotech, results thus far have been unsatisfactory. One conceptual problem with Ecotech is in being seen as a separate pillar rather than an effort to ensure that all regional economies benefit from integration. Another reason cited for this is the lack of focus from APEC's members, priority areas change as different priorities come from year to year. This lack of focus also resulted in a high incidence of duplication of effort so initiatives did not work well and were not implemented effectively.

### ***Mindset Change regarding Capacity Building***

The major impediments to integration today are behind the border issues such as regulations, customs and administrative measures. For developing economies to address these issues and benefit from the integration process they require much more capacity building and political will to institute changes in these areas. Projects designed in the past focused on capacity building as a supporting tool to realize liberalization and facilitation. It is timely to have a different mindset. If the disparity of development between and within APEC economies cannot be reduced, support for continued economic integration will be much reduced. Once the framework is set, more specific programs on how to actually achieve capacity building with timelines and targets can be set.

A holistic and comprehensive approach to capacity building is critical. It is necessary to think carefully about the desired objectives and set in place an action plan over a three year period with a monitoring system in place. It is important to monitor and measure the effectiveness of the programs, and check if the desired effects are achieved. Assessing the effectiveness is core, especially for future projects.

### ***Engaging Businesses in Capacity Building***

Businesses in the region face the challenge of remaining competitive while adjusting to the reality of the need for higher incomes for their employees. In many cases the answer lies in continuing innovation and upgrading of skills for the workforce. In the

past the solution to rising salaries and therefore costs was to move somewhere else, today companies are looking at increased productivity as the answer.

Critical to engaging the business sector in capacity building activities is awareness. Some member economies are more effective in informing stakeholders about APEC's work but a proactive approach is required so that the larger community, especially small and medium enterprises (SMEs) can learn about initiatives and contribute to them.

### ***Engaging Civil Society in APEC's Development Cooperation Work***

While engaging the business community in APEC's ecotech work is critical, so is engaging civil society. Numerous examples exist of how the business community and civil society organizations are working together such as in microfinance. Civil society organizations are often much closer to the ground and able to give a better sense of how initiatives are impacting the lives of citizens and what works and what does not.

### ***Ecotech: Time for a Name Change?***

Making ecotech effective is a big challenge. Efforts are underway by the APEC Secretariat to undertake assessment on the effectiveness of ecotech projects, however, a big part of the effectiveness of ecotech is communication. The term ecotech evokes images of ecology and technology – as important as these issues are – the fundamental objectives of bridging development gaps, capacity building and inclusive growth are not well captured by this term.

### **Regional and Global Cooperation: APEC, ASEAN, East Asia Summit and the G20**

The phenomenal growth of the Asia-Pacific has been based on its openness to trade and investment both among the economies of the region as well as the rest of the world. The openness of economies allowed them to benefit from the development of regional production networks and supply chains driven by changes in business practices and technological development. This integration process has been supported by the building of regional institutions and processes including APEC.

The Asia-Pacific region faces a number of challenges over the next few years, international cooperation can play a major role in ensuring that those challenges are overcome. Amongst those challenges are: slow progress of the post crisis recovery; no progress in the WTO Doha Development Agenda; and a fragmentation of the rules-based system due to the dominance of free trade agreements/regional trade agreements (FTA/RTAs) in the world trading system

To maintain the dynamism of the Asia-Pacific, economies need to continue their efforts at liberalization, focus on new engines of growth especially domestic demand and as part of that build equitable economic structures that promote inclusive growth.

### ***Need for Greater Coordination between Regional and Global Organizations***

There has been a proliferation of international processes and institutions addressing economic cooperation. For all of these organizations to be effective there is a need for them to not only coordinate activities with each other but to also identify what is the best role for each of them. The following criteria should be considered:

- Subsidiarity: it may be more efficient to leave to the lower level, things that do not need to be done at the general global governance level
- Comparative advantage: what is the natural advantage of different tiers of organization
- Complementarity: the different activities should complement one another

APEC's focus on open regionalism served it well during its early period, since then it has lost clarity on this concept and needs to find a way to regain its momentum if it is to play the role expected of it. ASEAN at the same time has been at the core of regional integration and cooperation processes, if it is to maintain its centrality it needs to continue on its path to integration and lead the way for the rest of the region.



## **Acknowledgements**

The PECC, SINCPEC and INCPEC are grateful to all who have contributed in one way or another towards the successful publication of this report.

In particular, the organizers would like to thank all contributors and participants of the event who have helped make the event a huge success.





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## Conference Programme

### PECC-INCPEC-SINCPEC CONFERENCE ON “Asia-Pacific Economic Integration and Connectivity: Pathways for Resilient and Inclusive Growth” 22-23 February 2013

DAY 1: 22 February 2013	
Opening Session	
0900-0915	<p><b>Welcome Remarks</b></p> <ul style="list-style-type: none"> <li>• <b>Associate Professor TAN Khee Giap</b> <i>Chair, Singapore National Committee for Pacific Economic Cooperation (SINCPEC) &amp; Co-Director, Asia Competitiveness Institute; Associate Professor of Public Policy, Lee Kuan Yew School of Public Policy, National University of Singapore</i></li> </ul> <p><b>Opening Remarks</b></p> <ul style="list-style-type: none"> <li>• <b>Ambassador Donald CAMPBELL</b> <i>Co-Chair, Pacific Economic Cooperation Council (PECC)</i></li> </ul>
0915-0945	<p><b>Keynote Address by Guest-of-Honour</b></p> <ul style="list-style-type: none"> <li>• <b>Hon Mr Hatta RAJASA</b> <i>Coordinating Minister for Economic Affairs, Coordinating Ministry for Economic Affairs Indonesia</i></li> </ul>
0945-1005	<p><b>Launch of “Competitiveness Analysis and Development Strategies for 33 Indonesian Provinces” by:</b></p> <ul style="list-style-type: none"> <li>• <b>Hon Mr Hatta RAJASA</b> <i>Coordinating Minister for Economic Affairs, Coordinating Ministry for Economic Affairs Indonesia</i></li> </ul> <p>This book is written by the Asia Competitiveness Institute at the Lee Kuan Yew School of Public Policy, National University of Singapore.</p> <p><b>Facilitated by:</b></p> <ul style="list-style-type: none"> <li>• <b>Professor Kanti Prasad BAJPAI</b> <i>Professor and Vice Dean (Research), Lee Kuan Yew School of Public Policy, National University of Singapore</i></li> </ul>
1005-1015	Coffee Break
1015-1215	<p><b>Session 1 – An Asia-Pacific Agenda for Financial Cooperation</b></p> <p><i>The global economic crisis has its origins in the financial sector. In response to the crisis, a new set of regulations are being implemented, however it is not clear that the Basel 3 Accord will do much to meet the developing Asia-Pacific’s financial requirements. APEC has agreed to establish an Asia-Pacific Finance Forum (APFF) as a platform for public-private sector collaboration in the development of robust financial markets across the region; the convergence of financial standards,</i></p>

1015-1020	<p><i>regulations and practices; connectivity for facilitating cross-border financial flows, to create dynamic and integrated financial markets that will support the region's sustained rapid growth; and shaping global financial regulatory reforms in support of the region's financial development goals, through coordination of views on agreed areas of common regional concern and ensuring that these concerns are adequately reflected in global financial standards and regulations.</i></p> <p><i>This session will provide an overview of the current state of play and latest thinking about the development of financial systems in the region as well what regional economies can do to contribute to the building of a global financial architecture that would help the development of the financial sector in the region.</i></p> <p><b>Session Chair:</b></p> <ul style="list-style-type: none"> <li>• <b>Mr Hon CHEUNG</b> Managing Director, Official Institutions Group, State Street Global Advisors Singapore</li> </ul>
1020-1035	<p><b>Keynote Speaker:</b></p> <ul style="list-style-type: none"> <li>• <b>Hon Mr Mahendra SIREGAR</b> Vice-Minister, Ministry of Finance Indonesia</li> </ul>
1035-1040  1040-1125	<p><b>Panel Discussion</b></p> <p><b>Moderated by:</b></p> <ul style="list-style-type: none"> <li>• <b>Mr Vikram KHANNA</b> Associate Editor, Business Times</li> </ul> <p><b>Panel Discussants:</b></p> <ul style="list-style-type: none"> <li>• <b>Mr Gerald CHAN</b> Managing Director, Fixed Income, Currencies &amp; Commodities, UBS Singapore</li> <li>• <b>Dr Reza SIREGAR</b> Senior Economist, ASEAN+3 Macroeconomic Research Office (AMRO) Singapore</li> <li>• <b>Dr Jesus ESTANISLAO</b> Chairman, Institute of Corporate Directors Philippines</li> </ul>
1125-1215	<b>Question and Answer Session</b>
1215-1400	<p><b>Lunch</b></p> <p><b>Distinguished Luncheon Speaker:</b></p> <ul style="list-style-type: none"> <li>• <b>Ambassador Donald CAMPBELL</b> Co-Chair, Pacific Economic Cooperation Council (PECC)</li> </ul> <p><b>Introduced by:</b></p> <ul style="list-style-type: none"> <li>• <b>Dr David HONG</b> Chair, Chinese Taipei Pacific Economic Cooperation Committee (CTPECC) &amp; President, Taiwan Institute of Economic Research (TIER)</li> </ul>

1400-1600	<p><b>Session 2 – Regional and Global Cooperation: APEC, ASEAN, East Asia Summit and the G20</b></p> <p><i>The last time Indonesia hosted APEC, the organization was newly formed and just recently raised to the summit level. Almost 20 years on, APEC has been joined by the East Asia Summit and the G20. This session will discuss how regional and global processes should interact to improve coordination and cooperation between them.</i></p>
1400-1405	<p><b>Session Chair:</b></p> <ul style="list-style-type: none"> <li>• <b>Mr John BALLINGALL</b> <i>Deputy Chief Executive, New Zealand Institute of Economic Research</i></li> </ul>
1405-1420	<p><b>Keynote Speaker:</b></p> <ul style="list-style-type: none"> <li>• <b>Professor ZHANG Yunling</b> <i>Director, International Studies, Chinese Academy of Social Sciences China</i></li> </ul>
1420-1425	<p><b>Panel Discussion</b></p> <p><b>Moderated by:</b></p> <ul style="list-style-type: none"> <li>• <b>Mr Jusuf WANANDI</b> <i>Co-Chair, Pacific Economic Cooperation Council (PECC)</i></li> </ul>
1425-1510	<p><b>Panel Discussants:</b></p> <ul style="list-style-type: none"> <li>• <b>Professor Ross GARNAUT, AO</b> <i>Vice-Chancellor's Fellow, The University of Melbourne Australia</i></li> <li>• <b>Dr Alan BOLLARD</b> <i>Executive Director, APEC Secretariat</i></li> <li>• <b>Professor Djisman SIMANDJUNTAK</b> <i>Chair, Indonesian National Committee for Pacific Economic Cooperation (INCPEC) &amp; Chair, Centre for Strategic and International Studies (CSIS) Foundation</i></li> </ul>
1510-1600	<b>Question and Answer Session</b>
1600-1615	Coffee/Tea Break
1615-1815	<p><b>Session 3 – Infrastructure Development: Connectivity, Integration and Structural Reform</b></p> <p><i>Global economic growth continues to be anaemic even though East Asian economies are doing better than those in Europe and the US. As external demand from developed economies is not expected to recover, the region needs to identify growth engines to sustain aggregate demand at sufficient levels to create jobs and prevent mass unemployment and social instability. The ADB estimates that the region needs to invest \$750 billion per year from 2010-2020. Moreover, for economies to benefit from regional economic integration, they require world-class logistics, transportation and customs facilities to be able to effectively participate in regional and global chains. Investments of this nature would help economies currently lagging behind in benefitting from the globalization process.</i></p>



Day 2: 23 February 2013	
0900-1100	<p><b>Session 4 – Aligning Economic and Technical Cooperation and Regional Economic Integration Goals</b></p> <p><i>Economic and technical cooperation is the third pillar along with trade and investment liberalization and trade and investment facilitation for the achievement of APEC’s vision of a community of Asia-Pacific economies. The Ecotech goals are:</i></p> <ul style="list-style-type: none"> <li>• <i>To attain sustainable growth and equitable development in the Asia-Pacific region;</i></li> <li>• <i>To reduce economic disparities among APEC economies;</i></li> <li>• <i>To improve the economic and social well-being of the people; and</i></li> <li>• <i>To deepen the spirit of community in the Asia Pacific.</i></li> </ul> <p><i>Additional issues that need to be addressed in today’s environment include employment creation, equitable distribution of opportunities, social security and addressing impediments to small and medium enterprise development.</i></p>
0900-0905	<p><b>Session Chair:</b></p> <ul style="list-style-type: none"> <li>• <b>Mr Arto SURYODIPURO</b> <i>Director for Asia Pacific and African Intra-Regional Cooperation, Ministry of Foreign Affairs Indonesia</i></li> </ul>
0905-0920	<p><b>Keynote speaker:</b></p> <ul style="list-style-type: none"> <li>• <b>Dr Mari PANGESTU</b> <i>Minister, Ministry for Tourism and Creative Economy Indonesia</i></li> </ul>
0920-0925	<p><b>Panel Discussion</b></p> <p><b>Moderated by:</b></p> <ul style="list-style-type: none"> <li>• Ambassador Laura DEL ROSARIO <i>Undersecretary for International Economic Relations, Department of Foreign Affairs Philippines</i></li> </ul>
0925-1010	<p><b>Panel Discussants:</b></p> <ul style="list-style-type: none"> <li>• <b>Datuk Dr Supperamaniam MANICKAM</b> <i>Distinguished Fellow, Institute of Strategic and International Studies Malaysia</i></li> <li>• <b>Dr Michael PLUMMER</b> <i>Eni Professor of International Economics, The Johns Hopkins University, SAIS-Bologna, Italy &amp; Senior Fellow, East-West Center, United States of America</i></li> <li>• <b>Professor ZHANG Yunling</b> <i>Director, International Studies, Chinese Academy of Social Sciences China</i></li> </ul>
1010-1100	<b>Question and Answer Session</b>
1100-1130	Coffee/Tea Break



1130-1315	<p><b>Session 5 – The New Environment for Trade Policy</b></p> <p><i>The appetite for unilateral and multilateral trade liberalization has significantly diminished since the Bogor Goals were set. The Doha Development Round is stalled and the prospects for a breakthrough are bleak. However, there is still momentum in regional deals especially the ASEAN Regional Comprehensive Economic Partnership Framework (RCEP) and the Trans-Pacific Partnership (TPP).</i></p>
1130-1135	<p><b>Session Chair:</b></p> <ul style="list-style-type: none"> <li>• <b>Dr Wook CHAE</b> Chair, Korea National Committee for Pacific Economic Cooperation (KOPEC) &amp; President, Korea Institute for International Economic Policy (KIEP)</li> </ul>
1135-1150	<p><b>Keynote Speaker:</b></p> <ul style="list-style-type: none"> <li>• <b>Dr M Chatib BASRI</b> Chairman, Investment Coordinating Board Indonesia</li> </ul>
1150-1155	<p><b>Panel Discussion</b></p> <p><b>Moderated by:</b></p> <ul style="list-style-type: none"> <li>• Mr Simon LONG Banyan Columnist, The Economist Singapore</li> </ul>
1155-1240	<p><b>Panel Discussants:</b></p> <ul style="list-style-type: none"> <li>• <b>Ambassador Yoshiji NOGAMI</b> Chair, Japan National Committee for Pacific Economic Cooperation (JANPECC) &amp; President, Japan Institute of International Affairs</li> <li>• <b>Dr Gary HUFBAUER</b> Reginald Jones Senior Fellow, Peterson Institute for International Economics United States of America</li> <li>• <b>Dr ZHANG Jianping</b> Director, Department of International Cooperation, Institute for International Economic Research, National Development and Reform Commission China</li> </ul>
1240-1315	<p><b>Question and Answer Session</b></p>
1315-1445	<p><b>Lunch</b></p> <p><b>Distinguished Luncheon Speaker:</b></p> <ul style="list-style-type: none"> <li>• <b>Mr PNG Cheong Boon</b> Chief Executive, SPRING Singapore</li> </ul> <p><b>Introduced by:</b></p> <ul style="list-style-type: none"> <li>• <b>Ambassador ZOU Mingrong</b> Executive Vice Chair, China National Committee for Pacific Economic</li> </ul>

	Cooperation (CNCPEC)
1445-1645	<p><b>Session 6 – Engaging Stakeholders in Ecotech: Towards Inclusive Growth</b></p> <p><i>APEC's Ecotech activities have been criticized for a lack of focus and effectiveness. This session will discuss how to better engage the business community and civil society groups to help design effective economic and technical cooperation programs.</i></p>
1445-1450	<p><b>Session Chair:</b></p> <ul style="list-style-type: none"> <li>• <b>Mr Ian BUCHANAN</b> Chair, Australian Pacific Economic Cooperation Committee (AUSPECC) &amp; Senior Executive Advisor, Booz &amp; Company</li> </ul>
1450-1505	<p><b>Keynote Speaker:</b></p> <ul style="list-style-type: none"> <li>• <b>Ms Marjorie YANG</b> Chairman, Esquel Group Hong Kong Special Administrative Region, China</li> </ul>
1505-1510	<p><b>Panel Discussion</b></p> <p><b>Moderated by:</b></p> <ul style="list-style-type: none"> <li>• <b>Mr Endy BAYUNI</b> Senior Editor, The Jakarta Post Indonesia</li> </ul>
1510-1555	<p><b>Panel Discussants:</b></p> <ul style="list-style-type: none"> <li>• <b>Ambassador TENG Theng Dar</b> Director, Business Compass Consultancy Singapore</li> <li>• <b>Dr Tim PHILIPPI</b> Executive Director , Singaporean-German Chamber of Industry and Commerce</li> <li>• <b>Dr Federico MACARANAS</b> Professor, Washington SyCip Graduate School of Business, Asian Institute of Management Philippines</li> </ul>
1555-1645	<b>Question and Answer Session</b>
1645-1655	<p><b>Closing Remarks</b></p> <ul style="list-style-type: none"> <li>• <b>Mr Jusuf WANANDI</b> Co-Chair , Pacific Economic Cooperation Council (PECC)</li> </ul>

## **1. Welcome & Opening Remarks**

### **1.1 Welcome Remarks**

Associate Professor TAN Khee Giap  
Chair, Singapore National Committee for Pacific Economic Cooperation (SINCPEC);  
Co-Director, Asia Competitiveness Institute;  
Associate Professor of Public Policy, Lee Kuan Yew School of Public Policy  
National University of Singapore

Since 2009, Singapore National Committee for Pacific Economic Cooperation (SINCPEC) has been sponsoring and organizing the annual Pacific Economic Cooperation Council (PECC) conference to help shape the APEC agenda. Under the dynamic leadership of the Co-Chair system introduced in 2008, PECC members have also become much more active in the effort to stay relevant in looking after the wider interests of PECC economies.

Since 2009, not only is there more intense interests of participation from senior government officials, senior private sector business individuals and the academics, there is also much closer linkages between PECC and APEC in agenda shaping. This conference is a classic example of close consultation between PECC members and the APEC host country for 2013, Indonesia.

In order to ensure effectiveness, members have agreed that PECC must continue to serve as a Track II platform for APEC, and possibly also beyond APEC, to discuss and explore pertinent policy themes affecting APEC economies with sustained policy actions, at least over the horizon of three years. It is in this context, members are looking forward to closer collaboration especially amongst the next three APEC hosts including Indonesia, China and the Philippines for 2013, 2014 and 2015 respectively.

SINCPEC would appeal to the Singapore government to continue to fund the PECC-SINCPEC Conference so long as members find it useful in furthering the wider interest of APEC economies.

## **1.2 Opening Remarks**

Ambassador Donald CAMPBELL  
Co-Chair, Pacific Economic Cooperation Council (PECC)

The subject matter of this conference is a very important one. One of the major challenges in the region and globally, is inclusive growth. The agenda of the conference revolves around inclusive growth.

The discussion on financial cooperation and the role for APEC and PECC as the catalyst is a very profound one.

## **2. Keynote Address**

Hon Mr Hatta RAJASA

Coordinating Minister for Economic Affairs, Coordinating Ministry for Economic Affairs  
Indonesia

We are all concerned with the weak outlook for the global economy although there are encouraging signs of recovery in major economies. The forecast for world output is an increase of 3.5% in 2013, which is a slight increase over the 3.2% estimated for 2012.

The economic crisis is not over yet and there is much that needs to be done to put the global economy on a sustainable growth path and create opportunities for the persistent high level of unemployment in several advanced economies.

The recent report by the G30 – a group of leading global financiers and academics from the public and private sector – acknowledged that, to achieve even moderate levels of economic growth, the world badly needs to find better ways to increase long term investment. This needs to increase from current levels of around US\$12 trillion a year to close to US\$19 trillion by 2020 to support global growth and bring down unemployment. This is a serious challenge in the years ahead.

The Asia-Pacific region has shown remarkable resilience in weathering the global slowdown in recent years. At the APEC Leaders' Summit in Vladivostok last year, President Susilo Bambang Yudhoyono remarked that 'the world is looking to APEC as the engine of global growth' to steer the global economy towards a more sustainable and inclusive growth path.

These words are significant judging by the contribution of the Asia-Pacific economies in supporting global economic growth. The APEC Region now accounts for more than 44% of world trade, 54% of global GDP and is home to 40% of the world's population.

Trade between APEC economies continues to grow strongly. Intra-APEC merchandise trade has grown from US\$1.7 trillion in 1989 to US\$9.9 trillion in 2010. APEC economies are three times more likely to export to a fellow member than a non-member, and APEC economies enjoy a higher share of intra-regional trade than is the case in the EU.

The resilience of the APEC region and its continued vibrancy are providing the cornerstone for global growth. Hence, we have chosen for our theme for APEC 2013, 'Resilient Asia-Pacific, the Engine of Growth'.

Under this broader theme, we are working closely with APEC member economies to focus our efforts collaboratively on three key priorities. These are:

- Attaining the Bogor Goals
- Sustainable Growth with Equity
- Promoting Connectivity

## Attaining the Bogor Goals

Indonesia and APEC member economies are firmly committed to realize the 2020 Bogor Goals deadline. These goals were set when Indonesia last hosted APEC in 1994. Since then, considerable effort has been made by all member economies to support the multilateral trading system and facilitate regional economic integration. As a result, APEC economies have implemented concrete steps to break down barriers to free trade and investment and strengthen economic integration.

Average tariffs in the APEC Region have been reduced from around 17% in 1989 to less than 6% in 2010, and we continue to strive for further gains. The lowering of explicit barriers to trade has been a great achievement of APEC.

On the back of these gains, APEC's focus over the past decade has increasingly shifted to other, often unseen, hindrances to trade, investment and cooperation.

Indeed, this increasing emphasis on 'behind-the-border' issues has become central to APEC's work. Non-tariff barriers have been gradually reduced through APEC initiatives on trade facilitation that have been intended to make doing business across borders easier, cheaper and faster. This includes the achievements made in the delivery of APEC's Trade Facilitation Action Plans that have seen two successive 5% reductions in trade transaction costs.

We have successfully crossed the 2010 milestone and our attention has now turned to achieving free trade and investment across the APEC Region by 2020.

In this regard, we must recognize the range of bilateral and regional free trade arrangements that have been concluded or at different stages of discussion. There is ongoing consultation between economies to develop arrangements, such as the ASEAN Regional Comprehensive Economic Partnership and the Trans-Pacific Partnership.

In addition, substantial progress has already been made in the ongoing economic integration among ASEAN economies to realize the ASEAN Economic Community by 2015.

These are noteworthy achievements given the protracted delays in moving the Doha Round of WTO negotiations forward. We hope that efforts through the Geneva Caucus, together with the successful conclusion of the APEC Trade Ministers' Meeting in Surabaya in April, will add positive momentum for the WTO Ministerial Conference in Bali in December.

The Bogor Declaration was indeed visionary, and looked forward more than a quarter of a century. As Indonesia again hosts APEC, it is timely to again look at how member economies will be able to project APEC Region's trajectory over the next quarter of a century.

We should again re-dedicate our efforts to look at how we can best address the challenges of an increasingly integrated and innovative Asia-Pacific. We must look at how we can realize a stronger and more cohesive community that is based on inclusive, sustainable and balanced development. This brings us to the second priority.

## Sustainable Growth with Equity

The second priority is crucial for hundreds of millions of people in our region.

Our APEC economies are undergoing differing stages of economic development, and in this regard, Economic and Technical Cooperation is a crucial element of APEC's work. This is particularly the case when we consider the rate of change that we are experiencing in many areas that affect our economies. The speed of change for emerging economies is growing faster and we are placing strong emphasis on building the structures to help our people cope with change when it happens.

As the world experiences change in areas that include technology and the effects of climate change, we must continue to embrace the need for development cooperation.

APEC Leaders have embraced these efforts to cope with these challenges and continue to guide officials in implementing an ECOTECH program that enhances capacity and skills to meet the needs of the global economy. Alongside this, more attention is now paid to foster the development of our small and medium enterprises to seize the vast opportunities that lie in our region.

We will continue to promote economic growth but must ensure the gains from growth must be equitable and inclusive by focusing on

- Financial inclusion and women's role in the economy
- Food security by aligning farmers into the achievement of global food security
- Health by developing a model of a sustainable healthcare system

In addition, we must also be mindful of our need for corporate social responsibility and that growth must not undermine our concerns for environmental considerations.

To sum up, our efforts on Ecotech is to help the people of our region to reach their full potential anchored at the center of the APEC Indonesia 2013 priority of ensuring sustainable growth with equity.

## Promoting Connectivity

The third APEC Indonesia 2013 priority is particularly important for enabling great trade and investment in our region.

During the First Senior Officials' Meeting which took place in Jakarta earlier this February, APEC Senior Officials have endorsed Indonesia's proposal to develop an APEC Framework on Connectivity. This framework covers physical, institutional and people-to-people connectivity. It will be developed as a long-term multi-year plan and will focus on strengthening ongoing initiatives, which include

- Supply chain connectivity
- Trade facilitation
- Structural reform and good regulatory practices
- The higher education initiative
- Science and technology
- Tourism
- Movement of business people and professionals



- Women and youth

We are cognizant of the fact that this would be an enormous task for Indonesia and APEC as a whole, but we have to look to the future. This framework may serve as a blueprint to reinforce connectivity and further untap economic potentials throughout the Asia-Pacific rim.

Part and parcel of our third priority is promoting investment in infrastructure. We recognize that development of physical infrastructure and government capacity is crucial to unleash the tremendous economic opportunities in APEC economies. This calls for our collective efforts to seek resources and coordinate our infrastructural planning, and to improve our national physical linkages as well as cross border connectivity in areas such as energy, transport and communication.

The supply chains and other connectivity links that bind us together must be efficient, and movements unencumbered by reducing and streamlining government regulations that stymied efficient, reliable and seamless infrastructure connectivity.

Whilst there are different levels of infrastructure quality with APEC economies, there remain a large number of economies with infrastructure deficiencies including Indonesia, and that is hurting our competitiveness and inhibiting our growth potential. This is compounded by constraints in raising investment, accessing finance, regulatory barriers and legal uncertainties in some economies. This is an area that APEC economies could share experiences and coordinate policies to increase infrastructure investment and reduce barriers and improve economy's competitiveness.

Indonesia and many APEC economies are focusing on our third APEC 2013 priority – to promote national and intra-regional 'connectivity'. APEC economies must look to strengthen collaborative mechanism amongst member economies to share technical advisory exchanges and financing arrangements including public-private partnerships.

Indonesia has taken on a high priority in dealing with our infrastructure deficiency. At the core of our infrastructure development efforts is our Master Plan for the Acceleration and Expansion of Indonesia's Economic Development, or MP3EI.

The plan envisages the development of six economic corridors in our vast archipelago requiring an estimated US\$180 billion in investment to realize these plans. This will be financed through a mix of domestic and foreign investment, private-public participation (PPP) and from our national budget.

In particular, Indonesia is seeking to mobilize surplus private savings to finance regional infrastructure development through PPP vehicles such as infrastructure finance, capital markets, bonds and joint ventures.

Collectively, our economies are advancing a number of measures to enhance financial cooperation. This includes consensus on an Asia-Pacific Finance Forum (APFF), as proposed in conjunction with the APEC Business Advisory Council, to facilitate public-private sector collaboration that will then serve to develop robust financial markets across the region. We now look forward to the outcomes of the APFF Symposium in Sydney in April.

In support of APEC Leaders vision of a connected Asia-Pacific in the 21<sup>st</sup> century, Indonesia is further proposing opportunities for strengthening interaction between the APEC Senior Officials and the APEC Finance Ministers Process.

Through this process, we hope to develop an ‘Infrastructure Investment Framework for Connectivity’ that identifies infrastructure investment impediments. It is anticipated that this process will identify work streams that need to be undertaken to address these barriers to funding arrangements.

Associated with this process, we envisage the development of a set of ‘APEC Guidelines on Delivering Bankable Projects’. These guidelines are intended to cover the key stages of an infrastructure project cycle, from project preparation, funding, negotiation, risk management, public finance impact, and service delivery.

The ultimate result of these activities will be the enhancement of the physical, institutional, and people-to-people connectivity in our region.

### Concluding Remarks

The APEC Indonesia 2013 theme and priorities have been developed through consultation across all levels of Indonesia’s economy including public sector and the business community.

We recognize that hosting the APEC process is of course unique – different to hosting other forums. APEC is also not just about a summit. It is the end of a process that involves more than 150 meetings in several areas across our vast archipelago.

We will use our experience in hosting other events to ensure member economies get the most out of APEC Indonesia 2013. In 2011, Indonesia successfully hosted the 19<sup>th</sup> ASEAN Summit in Bali, and following the APEC Leaders’ Meeting in October, Indonesia will host the 9<sup>th</sup> WTO Ministerial Conference in Bali in December 2013. We see it as very important to use our presence in so many of these forums to strengthen regional integration amongst the various regional groupings.

When APEC was formed in 1989, there were comparatively few international forums for discussion and engagement.

Over recent decades, multiple forums have evolved. Certainly, this great tangle of interlinking forums and organizations can be confusing for the media, as much as it can be for the people of our own countries. However, the reality is that the current international architecture, driven by multilateral engagement, provides the greatest stewardship that has ever been seen in our global political history.

Each of these forums is in a continual state of evolution in which they are able to focus on their strengths for the benefit of their members, and the contribution they make to the multilateral global engagement.

Indonesia is in a fortunate position as the only economy to be a member and participant in the significant forums of the G20, the East Asia Summit, the WTO and ASEAN.

We will use our presence as a link between these forums, to build greater synergies and engagement between all of these important regional forums.

### **3. An Asia-Pacific Agenda for Financial Cooperation**

This session addressed the current state of play and latest thinking about the development of financial systems in the region as well what regional economies can do to contribute to the building of a global financial architecture that would help the development of the financial sector in the region.

#### **Session 1 Roleplayers:**

##### **Session Chair**

- Mr Hon CHEUNG, Managing Director, Official Institutions Group, State Street Global Advisors, Singapore

##### **Keynote speech:**

- Hon Mr Mahendra SIREGAR *Vice-Minister*, Ministry of Finance, Indonesia

##### **Panel Discussion**

##### **Moderator:**

- Mr Vikram KHANNA, *Associate Editor*, Business Times, Singapore

##### **Panellists:**

- Mr Gerald CHAN, *Managing Director*, Fixed Income, Currencies & Commodities, UBS, Singapore
- Dr Reza SIREGAR *Senior Economist*, ASEAN+3 Macroeconomic Research Office (AMRO)
- Dr Jesus ESTANISLAO *Chairman*, Institute of Corporate Directors, Philippines

It is appropriate for the first section of the conference to focus on financial cooperation. Having a sound financial structure is a prerequisite to ensuring that the other goals can be achieved. The need for financial cooperation is very clear. The highly intricate capital markets in the US and the Europe have created huge financial services companies. Following the global financial crisis, the key phrase is ‘too big to fail’.

In this region, the opposite challenge, ‘too small to succeed’, applies. Looking at the list of 29 global systemically important financial institutions published by the Financial Stability Board (FSB), 4 of them come from this region. Those 4 are there because of large domestic business rather than as a result of globally integrated financial services. Although this region dominates the world when it comes to trade, it lags far behind in financial services. In addition, the deleveraging solutions adopted in response to the global financial crisis run the risk of capital from developed economies drying up.

Apart from creating competitive scale for firms, financial cooperation is also a prerequisite for successfully recycling savings in this region. Greater financial cooperation is going to be critical for the success of Asia-Pacific. There is a need to improve the basic functions of capital markets, to facilitate efficient financial intermediation between those who need to raise capital in Asia-Pacific and those with savings in this region.

The basic function of capital markets can be improved in this region. For instance, a bond cannot be easily structured in one jurisdiction and sold across Asia-Pacific. Neither can a collective investment product that is manufactured be easily offered to other investors in the region. However, such things can be easily done in Europe. By reducing these barriers in this region, the degree of efficiency can be improved.

Governments have recognized these shortcomings, and to their credit, they have done a lot to address it. In the past few years, there have been a number of initiatives to improve and enhance cooperation in this region. For example, there is the Asian bond fund that was created by the 11 EMEAP (Executives' Meeting of East Asia and Pacific Central Banks) central banks in Asia as a way to improve the access to local currency bond market in this region. ASEAN created exchange linkages as a way to allow investors within ASEAN to access each others' markets. APEC, too, is looking into an Asian Region Funds Passport as a way to allow investors to access each others' financial products. In addition, there is the ASEAN+3 Multi Currency Bond Issuance Framework (AMBIF) which permits issuers in this region to offer the product to institutions within the region as well.

Governments have done a very good job in terms of building up the infrastructure for cooperation. Definitely, more can be done. One of these initiatives is the Asia Pacific Finance Forum (APFF). This is the latest initiative in APEC to try to further enhance financial cooperation in this region. There was a forum held in March 2012 by APEC and other affiliated organizations, attended by senior representatives from government financial authorities and other international bodies. As a result of that forum, a number of key issues were identified. The key summary is that the community in Asia-Pacific will benefit from an overarching framework for enhancing regional public-private collaboration. These goals will be achieved by having an effective complementary system for ongoing regional initiatives to help develop sound and efficient integrated financial markets. Specifically, the APFF collaborative framework is intended to cover the convergence of financial standards, regulations and all other practices. Again, the key aim is connectivity for facilitating cross-border financial flows.

The financial cooperation in this region is far behind the trade and investment spheres. The latter, though, is very much reliant and tied to developed economies' value chain. Although the raw material, energy resources and huge production base have been built in the Asia-Pacific region, the final consumers are mostly in the advanced nations. Such a model is fragile and unsustainable, since it was based on growing unsustainable debt of the advanced nations – debt of the governments, private sector and consumers.

With European economies' recovery uncertain, and political stalemate in the US affecting its recovery, the growth model has to be transformed toward more reliance on domestic and intra-regional economic demand. A decade ago, such a transformation was not possible as the regional economy was too small then. However, in many of the economies in the region, the growing middle class group has now become the engine of growth and would continue to grow for another 10-20 years. If the transformation succeeds, then Asia economy will grow to 52% of global GDP in 2050, and Asia will contribute about 60% of global growth in the next 4 decades. The key challenges that many emerging Asia economies face are to:

- Avoid the middle income trap
- Improve good governance in many of the economies
- Promote inclusive growth
- Address financing challenges

### Regional Economic and Financial Integration

The following describes where the region is today with regard to regional economic and financial integration.

#### (a) Liberalization Agenda

The regional economic and financial integration is very much driven by the liberalization agenda, especially in ASEAN and ASEAN++ forum. In the financial sector, the Roadmap for Monetary and Financial Integration of ASEAN (RIA-Fin) indicates that financial integration in ASEAN will be accomplished through Financial Services Liberalization, Capital Account Liberalization and Capital

Market Development. Despite some success, neither the region's self-reliance on its own financing resources, nor its resilience from the global crisis, has improved.

(b) Improving Resilience

The Chiang Mai Initiative Multilateralization (CMIM) and the ASEAN+3 Macroeconomic Research Office (AMRO), established in March 2010 and May 2011 respectively, have made substantial headway. However, despite the rapid progress, a series of fundamental questions have been raised, particularly about the size of the CMIM facility. Although the CMIM funding was doubled to \$240 billion since May 2012, the swap amount has frequently been criticized as insufficient. Another fundamental issue that still needs to be agreed upon is CMIM's role and how it fits in among existing regional and global regional financial cooperation.

(c) Asia-Pacific Finance Forum (APFF)

The APEC Business Advisory Council (ABAC) is proposing the formation of the Asia Pacific Finance Forum (APFF) to APEC Leaders and Finance Ministers. The main objective behind the APFF is to promote greater financial market deepening within regional economies and greater market connectivity and integration across the region.

The sharp fall in credit flows to the region, especially in trade and project finance following the default of Lehman Brothers, had a very significant impact on the macroeconomic performance of a number of Asian economies. Those events highlighted the strong macro-financial linkages between regional economies and key financial centers in the US and UK.

Those linkages are not undesirable, but they were nevertheless partly a by-product of structural imbalances within the global economy. The flow of excess savings from the Asia-Pacific to safe-haven assets in the US played an important role in financing the US credit bubble and the subsequent collapse of that bubble reverberated across all economies.

It is important to ask how and why those structural imbalances developed. Why did regional savings flow to safe haven assets offering low yields when high-yielding investment opportunities existed in the Asia-Pacific region?

The answer in part lies in the fact that financial markets in the Asia-Pacific region are not sufficiently developed to efficiently and effectively intermediate between savings and investment needs in the region. The APFF will seek to address those weaknesses. It is critical that those issues be addressed urgently. The efficiency and cost effectiveness with which regional financial markets intermediate between savings and investment has an important bearing on how well regional financial markets perform in meeting the momentous economic and social challenges that economies in the region will face in the long term.

Indonesia's contribution during its Chairmanship is to promote a couple of issues including

- Infrastructure financing. Indonesia would like to see some guidelines or framework on infrastructure and best practice database especially promoting the public-private partnership. If possible, it will also be good to have project models or pilot projects identified.
- Financial inclusion. ASEAN has been heavily promoting financial inclusion and liberalization. Many Asian economies, including Indonesia, have seen their Gini coefficients worsen.

Apart from the above two important topics, Indonesia will also like to see the Finance channel streamlined to the other channels of APEC.

Financial Cooperation Approach

One point was raised on whether the region would favor a multi-track approach to financial cooperation in terms of issues such as capital account liberalization and bank regulation. It was

agreed that a multi-track approach is a must, seeing that some ASEAN economies have yet to even have capital markets and capital markets regulatory agencies. The multi-track approach should provide the most attention on such economies, since financial architecture has to start mainly from the bottom. Here, corporate governance also comes into the picture, since properly governed corporations tend to provide higher returns and lesser risk.

There are lessons to be learnt from the EU, above and beyond the obsession with a single currency. The EU also experienced its multi-track issues, as some of the economies did not have the necessary infrastructure or capital market requirements to deal with free flow of capital. The infrastructure readiness of each economy differs, and the divergence between economies in Europe is less so than that of Asia. As such, there is a need to be very careful in the pursuit of a common market size that is big enough, lest unintended outcomes are created.

Another support from the multi-track system stems from the lack of a standardized system. Different economies have different measures of liquidity and economies are not comparable in their measure of the Basel III capital adequacy ratio. Understanding the impact of Basel III is critical since measures of say leverage and liquidity will have an impact on trade and project financing which are big chunks of financing needed to support growth.

A related observation raised is that the issue of sources of capital not being matched to those who require it, is not unique to Asia or ASEAN. It applies too, to the advanced economies like Europe and US, particularly the small and medium enterprises (SMEs) sectors. In these advanced economies, pension funds are investing in emerging markets but the local SMEs are lacking credit and capital.

#### APEC & Financial Cooperation

Whilst it was noted that financial cooperation can help to channel global rebalancing, there was the concern that there is a lot of pressure on Asia emerging economies to rebalance by pushing up domestic demand. In doing so, it creates inflationary pressure and one can see that in the property prices which are becoming unaffordable. As such, the question is how cooperation between APEC economies can address these problems.

This question shows the link between the financing problem and the overall global imbalance issue. Inclusive growth as well as financial access will allow economies to increase domestic demand many folds. In order to avoid the income distribution problem and sustainability issue, there is a need to address the constraints which include the supply of goods and services and more importantly, infrastructure.

As such, the issue of infrastructure financing has to be addressed to unleash many of the supply related constraints in a more effective way. Apart from financing, other problems include governance, quality of project design and project management. Though there are many other issues apart from financing in the infrastructure issue, financing is key. A comprehensive discussion within APEC and APEC related meetings to cover all of the issues is required. Not only can APEC then address the issue of sustainable growth, but at the same time contribute to the formation of global balanced growth.

#### ‘Too Small to Succeed’

Another topic of discussion was whether ‘too small to succeed’ applies to banks in this region.

It is argued that the banking system in the region is no longer domestic, but is becoming globalized, and at least regionalized. Domestic banks may not be big in terms of assets, but its relative size to GDP is huge. If there is problem with the financial system, the question is how much the economy can sustain. In some economies in Europe, the size of the banking liability became an issue relative to the GDP.

Domestic banks may be small in terms of the landscape of the global banking system, but relative to economy, they are huge. Most of the region's banking systems are 'too big to fail' in their domestic definition.

It is also mentioned that size is not the sole criteria determining bank failure or success. The critical variable in all past crises is credit growth, and more importantly, how it is financed.

### Credit Growth

There were a lot of similarities between what happened in Europe in the last several years, to what happened in Asia in the Asian crisis, and now these similarities are observed in Asia.

In certain economies in Europe, credit growth accelerated dramatically. If the regulators and authorities had paid attention and learnt the lesson of Asia, they would have seen that, prior to the Asian crisis, the same thing happened in Asia. Rather than 'what lessons can ASEAN and Asia learn from EU?', it is more 'what lessons did the EU not learn from ASEAN and Asia during the crisis?'. What is particularly pertinent in ASEAN and Asia now is the pace of credit growth.

In terms of credit-to-GDP, the credit-to-GDP of Asia excluding Japan, and even Asia excluding both Japan and China, is now above the 1997 pre-crisis peak. The difference this time is that the corporations are relatively well managed in terms of their debt.

As for credit growth, the credit growth in some countries in ASEAN shows a great degree of similarity to that of Spain before the crisis. However, top line details can be misleading. In the case of Indonesia, credit is significantly financed by deposits while in Spain it relies on much wholesale funding.

The danger is looking at simplistic measures without understanding where the liability side funding is coming from. While the size of balance sheet (assets) is important, so is the way it is funded. It is important to look at the details and not just aggregates.

One of the big mistakes that the authorities and regulators made in Europe was to look at aggregate EU data which looked very balanced. Within the aggregates, Northern Europe was running significant current account surpluses, while some of the southern economies were running significant deficits. The lesson Asia can learn from this is, within aggregates, there are potential for divergences. For Asia and ASEAN, some of the warning signs are currently showing.

### Policy Instruments to Combat Credit Growth & External Inflows

In terms of credit growth and external inflows, governments face policy constraints in dealing with these as interest rate policies only serve to worsen the situation. Seeing that Asia faces a real danger of pre-1997 type credit explosion/bubble, the discussion is on what policy instruments governments in the region have to deal with the problems at this stage.

It is acknowledged that not all sectors experience credit growth, and policies should be targeted at affected sectors. The importance and relevance of good national policies should not be underestimated in combating credit bubbles. Nevertheless, national regulations can be effected by the flow of international capital, and the prudential regulation implemented by each economy is insufficient since corporations are becoming regional, say banks. As such, cross-border supervision is required and a banking resolution should be created should any bank fail.

It is also pointed out that, in a globalized world, inflation is not much of a problem. Inflation exist where there is a mismatch between supply and demand. Asia has no problems importing due to its huge reserves. A strong Japanese and US economy is good for the entire world. Likewise, if regional financial architecture is established, the supply capability of developing economies will be raised, and this will lead to balanced and inclusive growth.



For the regional financial system, rules and regulations are absolutely important. Certain code of ethical behavior and social responsibility conduct in the region has to be emphasized, for every sector in the economy. APEC is in the best position to see that these codes of conduct are embedded into the economic cooperation agreements.

#### CMIM & the IMF

The size, practicality and flexibility of CMIM are debated. In addition, there is the question of when CMIM might be used, and whether the effort put in developing the CMIM may be better directed at reforming the IMF.

CMIM should not be looked at as a substitute for the IMF. It is smaller, and is intended to be flexible so that it can be activated quickly during a crisis and provide timely funds. It is not an Asian version of IMF, but can be viewed as an additional source of funds that can be deployed by Asia. CMIM is more for short-term liquidity, unlike the IMF. As such, both CMIM and IMF can co-exist, but it will be better to coordinate them.

#### **4. Regional and Global Cooperation: APEC, ASEAN, East Asia Summit and the G20**

The last time Indonesia hosted APEC, the organization was newly formed and just recently raised to the summit level. Almost 20 years on, APEC has been joined by the East Asia Summit and the G20. This session will discuss how regional and global processes should interact to coordination and cooperation between them.

##### **Session 2 Roleplayers:**

###### **Session Chair**

- Mr John BALLINGALL, Deputy Chief Executive, New Zealand Institute of Economic Research

###### **Keynote speech:**

- Professor ZHANG Yunling, Director, International Studies, Chinese Academy of Social Sciences, China

###### **Panel Discussion**

###### **Moderator:**

- Mr Jusuf WANANDI, Co-Chair, Pacific Economic Cooperation Council (PECC)

###### **Panellists:**

- Professor Ross GARNAUT, AO, Vice-Chancellor's Fellow, The University of Melbourne, Australia
- Dr Alan BOLLARD, Executive Director, APEC Secretariat
- Professor Djisman SIMANDJUNTAK, Chair, Indonesian National Committee for Pacific Economic Cooperation (INCPEC) & Chair, Centre for Strategic and International Studies (CSIS) Foundation

##### **Economic Integration: Review**

Asia-Pacific is the most successful dynamic region benefiting from globalization after the Second World War, and a strong supporter of the multilateralism process. The key reason behind its success is because it is an open region.

Economic dynamism and integration in the Asia-Pacific in the past relied on:

- Market based flow of trade, investment and service supported by official opening policy and business friendly policy
- Production network and supply chain networking based on industrial reallocation with more participating economies and a supply (East Asia)-demand (North America) intra-regional balance
- Institutional building supporting the regional integration (PECC, APEC Bogor goal)

However, the dynamic integration process has been weakened due to:

- The concerted efforts on integration replaced by FTAs in bilateral and sub-regional levels
- The balance of supply-demand structure was broken between North America and East Asia
- The credibility of APEC's role in promoting regional integration and reducing the gaps has been questioned

## Meeting Challenges

To regain the dynamism of the Asia-Pacific economies, the following efforts are needed:

- Continuing effort on liberalization of the market
- Rebuilding the supply-demand chain by rebalancing efforts from North America (cleaning its own house) and East Asia (reducing dependence on external market and increasing demand from both internal and external)
- Moving toward new and sustainable economic dynamism by developing green technology, energy saving economic sectors
- Building the equitable eco-social structure by adopting the exclusive development policy and socially responsible entrepreneurship
- The competitive driven FTAs need coordination and cooperation
- TPP led by the US covering 12 economies (may be more) is liberalization-focus aiming at rebuilding the competitive balance but excluding major emerging economies which will be the main potential markets
- RCEP initiated by ASEAN covering 16 economies seems to consolidate five '10+1' FTAs and to be development-focus aiming at creating the new dynamism and new space for East Asia
- Still many other initiatives, like CJKFTA, CKFTA, US-ASEAN initiative
- FTAs have shown limited effect on trade; trade, FDI and service activities are highly effected by competitive factors, market potential, business capacity and policy
- APEC should play a more important role in bringing the Asia-Pacific region together

The Asia-Pacific is an integrated part of the global economy. The major challenges to the global economy include:

- Slow progress of the post crisis recovery and governance
- No progress of WTO Doha Development Agenda
- Divided efforts on bilateral or plural FTAs or arrangements (including service agreement initiative) by major economies, especially US and EU
- The Asia-Pacific region stands in the center place to meet the above three challenges
- Chinese economy is experiencing the restructure and rebalance-moving toward domestic led and sustainable development model; the Chinese economy shows downturn curve, but still keeps relatively high growth rate
- China pays high interests to participate and promote CJK FTA and RCEP, though not in TPP, and to play an active role in constructing the infrastructure network and new production network
- As the Chinese economy needs an open global market and system, China intends to play an active role in supporting multilateral system and global governance; however, as a developing economy, China's role as a leader is not expected.

## Future of APEC

There is a proliferation of international fora for discussing economic cooperation. It becomes important now to identify the respective best roles for each of these organizations, such as whether they should be at the regional or sub-regional level and what should be handled at the different levels. The following criteria should be considered:

- Subsidiarity: it may be more efficient to leave to the lower level, things that do not need to be done at the general global governance level
- Comparative advantage: what is the natural advantage of different tiers of organization

- Complementarity: the different activities should complement one another

In addition, the right modality of cooperation at different levels must be decided:

- Binding formal agreements (where there is high degree of similarity of objectives)
- Concerted unilateral cooperation (economies move together and take account of what each of the others are doing)
- Sharing of ideas (important in ensuring convergence overtime)

The early history of APEC was a very successful one, and it took large steps towards the objective agreed in Bogor – free and open trade and investment in the Asia-Pacific region by 2010 for industrialized economies and by 2020 for developing economies.

Thereafter, the idea of open regionalism lost clarity, and the Asia-Pacific region embarked on a proliferation of preferential trading agreements across and within the Pacific. The high tide of liberalization in the Western Pacific reached its high point and began to recede in 2001, coinciding with the proliferation of preferential trading arrangements. The Asian Financial Crisis was a significant factor in weakening the international roles for some time.

The good news is that the preferential trading areas are of limited use. In the world of fragmented trade, no country makes the whole of a product. As such, the rules of origin are so difficult to meet in a highly structured agreement that it becomes redundant. However, it is not entirely redundant and some do get in the way of internationalization. The proliferation of preferential arrangements has stopped the momentum in concerted unilateral liberalization, in support for liberalization through the global system.

In addition, the global financial crisis changed a heap of things, in quite subtle ways that economies are just beginning to understand. Economies in the region used to very strong growth are now expecting only subdued growth. Moreover, the G20 could be raising barriers to financial services and trade. Trade imbalance and rebalancing around domestic demand and regional demand is going to bring about a lot of things in place.

It will be good for APEC to be led back to the high tide of liberalization in the Asia-Pacific region which provided exceptional prosperity and trade expansion for the region. This would be made better if the ASEAN community can commit to being a genuinely free and open trading region without discrimination against outsiders.

The APEC process of non-binding, open regionalism has avoided a lot of political distractions and allowed a more comfortable way forward for a lot of economies. One challenge for APEC going forward is, can it deal with Doha not going anywhere?

In addition, governments have increasingly turned to binding agreements, which makes APEC somewhat less important in the future regional arrangements. Nevertheless, APEC has a fundamental role in terms of regional integration.

TPP and RCEP appear to be the main frameworks for the region going forward, but they are somewhat interconnected since some members are in TPP and some are in RCEP. As such, APEC's role can be to make these two frameworks complementary rather than competitive.

According to APEC leaders, ASEAN+3, ASEAN++6 and TPP and the likes are all stepping stones to the vision of liberalization in the region. In addition, the vision of leaders for RCEP is towards modern, comprehensive, high quality agreements. As such, RCEP and TPP can be

complementary and need to be, for the interests of all economies and for regional economic integration in the Asia-Pacific.

In addition, one of the key issues concerning the future of Asia-Pacific is the China-US economic relationship. China is not expected to be a member of TPP in the near future. As such, APEC can think of how the two economies can work together.

Another issue that deserves some thought is how APEC can connect with G20 in the future, seeing that G20 is going to be an important institution worldwide. In addition, with regards to East Asian regionalism, APEC can look at how it can be strengthened given that similar things are happening in East Asia.

Moreover, APEC can also play its part in bringing about equitable, sustainable, inclusive, balanced growth. Over the years, the role of Ecotech has been progressively reduced in terms of importance vis-à-vis trade and investment liberalization. For APEC to be relevant in the years ahead, Ecotech plays a critical role. Unless and until the lesser developed economies are able to participate in the evolving system, there is little community building.

As for the value of APEC looking into the area of financial issues, the challenge is how to package the financial cooperation issue together with other issues in the agenda of APEC given that there are many other institutions for various matters. APEC can aim to integrate the financial issues into the other elements of its other programs.

APEC still has a role to play to create integration of the region. APEC could be a very useful instrument to pave the way for better cooperation and understanding which otherwise could be lacking in some instances. In the Asia-Pacific there are new tensions arising which can be better met if there are better regional institutions that could overcome this.

### Future of ASEAN

Since its founding in 1967, ASEAN has gone through a number of unique transformations, and is extremely resilient. ASEAN cannot be taken in isolation from the rest of East Asia; it is hard to conceive an East Asian Community without the leadership of ASEAN.

However, ASEAN is struggling to deliver the leadership role community building in the region due to:

- The divide between TPP economies and non-TPP economies. At present, there is no open conflict but may be possible in the future. If TPP economies agree on the agenda of TPP, there seems little point in negotiating an RCEP which is likely to have less quality than TPP.
- ASEAN has been slow in adapting its institutions. While economies have grown in size, ASEAN has remained the same. There is the question of whether this type of institutional setting is adequate.
- ASEAN is equipped with limited resources – in both financial and human resources. ASEAN has always depended on external support; it is about time ASEAN rediscover itself. ASEAN should rely more on its own resources rather than relying excessively on external resources.

For ASEAN to improve its leadership role in the context of the East Asian Community, it requires a more balanced agenda. The far reaching progress made in trade and investment

liberalization in every economy in Asia-Pacific is known to all, and all have benefited from the liberalization. Nevertheless, a lot remains to be done, particularly when it comes to services. It is thus about time that attention is placed on inclusion issues.

Rebalancing is a key priority in recent years. If ASEAN centrality is to be maintained, ASEAN has to come up with a more balanced agenda. A fair attention has to be placed on issues of inclusion so that less developed economies can benefit from the liberalization initiatives that have been pushed forward. A triangular agenda is proposed: liberalization, facilitation, capacity building.

It is important that ASEAN should not stop on its path towards liberalization. The biggest trade barriers in the world right now are not in the area of goods but in services. In services, ASEAN still has a huge amount left to be done, and the barriers are so high that there are tremendous gains to be achieved. The gains are more than just benefits to productivity and efficiency and GDP. ASEAN has to focus on the services agenda, or they will fall further and further behind modern comprehensive trade agreements, particularly for members involved in the TPP. A recent report by the World Economic Forum and the World Bank released in 2013 showed the gains to be realized in the world economy by bringing down logistic barriers which include barriers to transport and telecommunications. Without entirely eliminating barriers, but by bringing barriers only halfway to the level of world's best practice together with improving border administration, GDP would increase 6 times more than eliminating all the tariffs in the world. Attention should be on removing those barriers that count the most for businesses, and ASEAN should look into that.

However, it is hard to agree on a binding commitment on capacity building. Moreover, there is unlikely to be any substantial change in ASEAN between now till 2015. ASEAN is likely to continue with rotational chairmanship of ASEAN and with its ASEAN Secretariat which is limited in resources. Nevertheless, institutional strengthening of ASEAN is essential if ASEAN is to realize ASEAN Economic Community 2015. There are thoughts that, unless and until the ASEAN Secretariat is empowered, results are unlikely.

A stronger Track II involvement in the formulation of agenda or in the preparation of detailed concepts is likely to improve the institutional setting in ASEAN, so it can deliver more and expect to retain its centrality in community building in ASEAN.

### FTAs and APEC

It was suggested that a bottom-up approach towards liberalization is possible, with FTAs facilitating the structural reform. FTAs can be a building block towards global integration, since they force developing economies to achieve a certain level of structural reform in order to meet the competition from foreign competitors. This step-by-step approach is reasonable and APEC can aid in monitoring the FTAs and providing advice to governments so the FTAs can be more multilateral friendly and work towards achieving global integration.

Just like multilateralism, FTA is a way forward. It is suggested that the preferred option for developing economies is the multilateral route as it is transparent, predictable, simple and not limited to just one group of economies.

## **5. Infrastructure Development: Connectivity, Integration & Structural Reform**

Global economic growth continues to be anemic even though East Asian economies are doing better than those in Europe and the US. As external demand from developed economies is not expected to recover, the region needs to identify growth engines to sustain aggregate demand at sufficient levels to create jobs and prevent mass unemployment and social instability. The ADB estimates that the region needs to invest \$750 billion per year from 2010-2020. Moreover, for economies to benefit from regional economic integration, they require world-class logistics, transportation and customs facilities to be able to effectively participate in regional and global chains. Investments of this nature would help economies currently lagging behind in benefiting from the globalization process.

Pursuing these objectives would both provide a boost to the global economy and help individual economies meet their own needs for increasing the welfare and standards of living for their people.

### **Session 3 Roleplayers:**

#### **Session Chair**

- Dato LIM Jock Hoi, Chair, Brunei Darussalam National Committee for Pacific Economic Cooperation (BDCPEC) & Permanent Secretary, Ministry of Foreign Affairs and Trade, Brunei Darussalam

#### **Keynote speech:**

- Mr Wishnu WARDHANA, Chairman, APEC Business Advisory Council (ABAC) Indonesia

#### **Panel Discussion**

##### **Moderator:**

- Professor Christopher FINDLAY, Vice-Chair, Australian Pacific Economic Cooperation Committee (AUSPECC) & Executive Dean, Faculty of the Professions, The University of Adelaide

##### **Panellists:**

- Dr Masahiro KAWAI, Dean, Asian Development Bank Institute, Japan
- Dr Narongchai AKRASANE, Chair, Thailand National Committee for Pacific Economic Cooperation (TNCPEC) & Chairman, Steering Committee, Mekong Institute
- Mr Bert HOFMAN, Chief Economist, East Asia & Pacific, Director, World Bank Singapore, The World Bank Group

There is no doubt that PECC has been a major force in shaping Asia-Pacific economic cooperation over the last three decades. During this time, PECC has worked with ABAC both on reviewing progress in APEC and on bringing new initiatives to the table. PECC has been a valuable and natural partner for ABAC.

It is clear that a ‘business as usual’ approach is no longer possible in terms of future economic development in the APEC region. The traditional engines of the global economy, while improving, have many chronic problems that put growth at risk. These problems will be around for the foreseeable future. Even in the Asia-Pacific, where the prospects are much more positive, there is a slowdown observed in China’s and India’s growth.

However, the world is still looking at the Asia-Pacific region with great expectations.

In this difficult environment, many of the economies in this region are doing surprisingly well. Nevertheless, the capacity to maintain this resilience and develop as an engine of global growth has significant constraints and limitations. Trade is growing and intensifying and the opportunities for investment are expanding but the economic foundations and financial structures still remain fragile in many areas in the region.

One of the most important spring boards to future growth and development but also one of our weakest, is infrastructure. Without major action to build infrastructure across APEC, we are leaving ourselves at risk. This is of course an extremely challenging issue. At a regional and domestic level, it requires deep cooperation and real engagement between government, business and international organizations.

Indonesia has raised infrastructure development along with investment and connectivity to the centre of the APEC and ABAC agenda in 2013. This is a long term issue and Indonesia's goal is to give it impetus for the years ahead. Infrastructure development in particular, is believed to hold the key to delivering the benefits and inclusive development across APEC that was envisaged by the Leaders in the Bogor Goals. As the economy struggles with major structural challenges, infrastructure development can help drive strong and stable growth in APEC and beyond.

The infrastructure and funding requirements are massive. The OECD has estimated that the infrastructure requirement across the globe to 2030, including for climate change mitigation, will be 50 trillion dollars. This cannot possibly be met by public financing alone. There is a need to turn to, and compete for private investment in infrastructure, in APEC. Yet, private investment in most economies still only comprises 1.5% of all public infrastructures. There is a real challenge here.

This section will focus upon some of the key issues relating to infrastructure investment and particularly private sector investment. Some of the initiatives that ABAC is working on will also be shared.

As business people, infrastructure development is seen from three perspectives:

- Regulatory reform
- Funding for private sector investment
- Project readiness

Together, these issues must add up in clear business terms for the private sector to take a more significant role in infrastructure development. Most importantly, the first two in particular, must add up for the life of the project, which for infrastructure is likely to be decades.

### Regulatory Reform

It is fortunate that the World Bank, the ADB, the OECD and many others have been giving strong support to quality of regulatory reform.

Some APEC economies like Australia are very advanced in providing a certain regulatory environment for private sector investment in infrastructure. However, that did not happen overnight.



Developing economies like Indonesia are making significant advances with support from international agencies and from the experiences of others. From a business perspective, ongoing progress with a commitment to a clear trajectory for reform is required.

It is, after all, the developing economies of APEC who need massive infrastructure investment and whose public financing options are simply not large enough to meet these requirements.

The regulatory environment is the starting point for assessing the risk return equation for private sector investment in long term projects. Investors need significant certainty and clarity to be assured of a stable and viable stream of income over the long haul.

Having established the regulatory environment, the best option of course is to have independent regulators who are governed by a clear institutional mandate and process to minimize short term political interests. It is encouraging to see independent regulatory bodies in some sectors and we would like to see more institution building to increase this to other sectors. This will take time given the range of agencies and levels of government that are often involved in regulatory reform.

In short, regulatory reform is now on the map across APEC. However, APEC, ABAC and member economies can add value to the reform momentum and this hopefully, can be one of the outcomes in 2013.

#### Funding for Private Sector Investment

Now on the issue of funding infrastructure investment.

Investment in infrastructure is of course unique in investment terms. Typically, it yields a relatively low income stream over a long period of time. Public investment is geared to this but for private investment, there are very few instruments for funding.

It is the Multilateral Development Banks and national development banks which are taking a leading role in infrastructure funding. Closer to home, the ASEAN Infrastructure Fund (AIF), managed by the Asian Development Bank, is a welcome development to supplement these funds.

The challenge for those in business is that these bodies are mainly focused on funding public sector infrastructure development.

Perhaps it is time to work on the development of more creative options for funding. For example, whether it is possible to expand the role and place of the ASEAN Infrastructure Fund over time? Right now, the funds going into the AIF are from Governments and other official sources and the disbursements are largely directed to public sector infrastructure projects. However, as the credit rating of the AIF is established, the question might be: could the AIF be used as a vehicle to attract additional funding from commercial banks and, with that, could the AIF be a source of funding packages for both private and public infrastructure investment.

The mainstream banking sector could be a stronger source of funding but traditional commercial banks seem unwilling to fund private infrastructure investment in a significant way. The commercial banks have lucrative shorter-term lending options in the business sector and bankers are more equipped to assess the risk of this form of lending.

The bond market is possibly where one should look at for funding private investment. There is a lot of work still to do in the region to develop the bond market both in terms of instruments and in tapping investors. In some economies, there are large funds from institutional investors and pension funds which have a strong interest in bonds. In other economies and across the region, there is still the need to develop more mature financial markets to tap the very significant savings of the Asia-Pacific region as a source for boosting the bond market.

APEC Finance Ministers and ABAC have been working on these issue for some time now and PECC has also made valuable contributions.

The bottom line is that, to meet the demands of infrastructure investment, it is necessary to explore a range of options as well as maintain the momentum of maturing and developing the financial systems.

This is one of the reasons that ABAC proposed the idea of the Asia-Pacific Finance Forum to APEC Leaders and Finance Ministers. The Forum would bring together the major players from around the region from government, business, the academic sector, the financial system and international organizations to discuss and map out some options for reform and development. It would also help us to link more effectively with other major processes like the G20. It is good that the Australian Government has taken the initiative to hold a Symposium in Sydney in April to take a first look at how to develop the Asia-Pacific Finance Forum and to put some concrete actions on the agenda.

### Project Readiness

Project readiness is about getting all the relevant stakeholders lined up so they can sign off on the infrastructure project and get on with implementation.

In reality, this is probably the most challenging and difficult part of the process. It can take a lot of coordination and a lot of time. It requires common understanding and expectations about the risks, returns and responsibilities by all parties. It also requires a commitment to make and abide by decisions for the long term.

In a sense, the ability to get a project ready to the point of implementation depends on the weakest link. As the bankers and investors, the project operators and service providers and the regulators and all arms of government sit down together to check off a very extensive list of requirements, they must all be ready to sign on the dotted line. This is especially challenging in cases where parts of government are new to infrastructure development or even if financiers are new to assessing risk in a particular economy.

For example, if the financiers are not assured, if land acquisition is delayed, if environmental issues are not met, if the return on infrastructure services is not very clear or the real costs are not properly accounted for, all the boxes cannot be checked and implementation simply does not happen.

ABAC has recognized the complexity of this process and the importance of focusing more on project readiness. ABAC has nurtured the development of the Asia-Pacific Infrastructure Partnership (APIP) to support APEC economies in improving their capacity for project readiness.

APIP includes a core group of about 40 or more leading experts on various aspects of infrastructure development. They come from the financial sector, international agencies, project development and some are seasoned operators. At the invitation of interested governments, APIP brings this core group together in a closed door setting to discuss very frankly with different government agencies how to perform more effectively on infrastructure development and particularly project readiness.

The last APIP gathering was in Manila alongside the ABAC meeting and it was the second time APIP had been invited to meet with the government in the Philippines. Today, there is another APIP discussion underway in Bangkok. This is a very practical capacity building initiative by ABAC which is clearly in demand.

Among other things, ABAC is also working on a checklist for Infrastructure Preparedness which can hopefully contribute to the needs in APEC.

Developing our capacity in APEC to draw upon private sector investment in infrastructure development is really a long haul process. The scale of the infrastructure requirement, whether measured in:

- Trillions of dollars of investment
  - Opportunities for millions of more highly paid jobs for our people
  - Greater inclusion for SMEs in regional economic integration
  - More cost-effective trade facilitation and communications
- means that we must work hard in tapping all the potential we have for infrastructure development whether it is funded by public or private investment.

### Connectivity & Infrastructure

The relationship between connectivity and infrastructure, the benefits of infrastructure and the implications of a more connected region are discussed in this section.

There are 3 components to connectivity: physical, institutional (software) and people-to-people. Physical connectivity includes roads and railways, while the software part includes facilitation of trade and transport. Infrastructure connectivity is related to physical and institutional connectivity.

The Master Plan provides a good picture on the importance of connectivity. Some obvious benefits of connectivity is that the productivity and efficiency of businesses rise because it takes less time to do business, for them to commute and to send their product. In fact, farmers living along the major roads are known to be much richer than those without such access. If many more people and many more regions within and between economies are connected, the benefits of connectivity are bigger. Some economies of scale and network externality exist.

However, there is also the argument that infrastructure investment has different effects on diff groups (some see only dust). In addition, most economies have rather stringent environmental and social safeguards that make infrastructure development difficult.

Nevertheless, technical standards have to be harmonized to facilitate cross-border connectivity. In certain sectors like electricity, regulatory harmonization may be quite useful. Supporting arrangements including regulatory framework are important to ensure economies are connected in particular cross-border connectivity.

The costs of logistics far outweigh those of tariff barriers. The importance of infrastructure can be illustrated by an example concerning China. In 1993, China was investing close to 3% of GDP in infrastructure, and the World Bank advised an increase to 7-8% of GDP or China will not have enough infrastructure to sustain their growth rates of 10%. China increased the spending to 12% of GDP, and resulted in huge results in their growth.

Yet, connectivity is not sufficient. Connectivity does not necessarily mean convergence, and the latter is what we should work towards.

### Funding Challenges

Challenges in financing depend on the type of infrastructure project, and the degree of it being commercial. Infrastructure projects can be classified into three groups

- Energy: financing seldom an issue here
- Telecommunications: financing seldom a problem
- Transportation: very difficult to get financing, especially as charged fees are usually regulated making it less commercially viable

There is a huge demand for infrastructure, but the price and affordability is a question. With the right regulation and the right price level, it is possible to make infrastructure commercially viable. However, where it is not commercially viable, the budgetary financing is required. Globally, there is an issue with budgetary financing. Lots of budgets are stretched around the world especially developed economies. For Asian developing economies, their debt capacity is higher and there seems to be quite a lot of room for budgetary financing.

Infrastructure financing is affected in the near future as the Europeans who are good at that are currently tied down with their own problems. In addition, the Basel II revised regulations is likely to make long term financing less attractive for banks. Moreover, multilateral development banks may not have the necessary capital to support the financing.

Nevertheless, there remains a lot of financing that is available for up to 10 years. Finance becomes increasingly difficult for longer term loans due to the risks involved in infrastructure financing. Yet, the real riskiness in infrastructure finance is at the beginning of the project. Risks include the timing of availability of the land, the regulations, whether feeder roads for the highways are in place, as well as if the transmission lines for the power are in place. Three to four years since project commencement, these become going concerns. It is thus suggested that it is this time when private financing can come in, at a much cheaper rate.

One of the innovations possible is that the government takes that risk since most of it is in their control anyway. Bonds can be floated later on in the project's life to finance the remaining project. Such innovations could mobilize a lot of that money that would be needed to finance much more than currently ongoing.

The challenge is how private funding can be mobilized given that the public sector is involved. One of the successful public-private partnership (PPP) is the Greater Mekong Subregion (GMS) project. However, inter-governmental cooperation is not easy. Governments will rather spend on domestic infrastructure than on cross border projects, as cross-border infrastructure always seems to benefit the 'other economy' more. Few will think of the collective benefit. For the sub-regional project to be a success, it is necessary to

objectively assess each economy's share of benefits and costs. Here, the presence of a honest regional broker like ADB is essential.

A PPP which is publicly led privately operated makes the project more feasible due to sovereign financing being the cheapest source of funds. Another point to note is that project delays and cost overrun must be allowed for in assessing project costs. As for the right price for any infrastructure project, the market with multiple bidders in a transparent process, determines it.

### Project Readiness

Project readiness remains the biggest bottleneck of all. It is difficult to make projects bankable, and the risks involved as well as responsibility of the risks must be clearly defined. It is important that the right people are there from technical to legal, to make the project bankable.

For PPP projects, a huge amount of money is required to get lawyers involved to get the right division of risk responsibilities between the private and the public sector. In some economies, the legal environment not strong enough for PPP projects. In such cases, a publicly led privately operated model can be adopted instead.

One promising method is to create large scale infrastructure investment funds such as the ASEAN Infrastructure Fund which is legally very well structured with every stakeholder's roles and responsibilities clearly defined.

The Asia-Pacific region faces tremendous opportunities by strengthening both domestic connectivity for economies and cross-border connectivity. Potential investment needs are very high. Economies must undergo structural reform and improve their domestic investment climate. PPP is the way forward, and infrastructure investment funds should be set up in many parts of Asia.

## **6. Aligning Economic and Technical Cooperation and Regional Economic Integration Goals**

Economic and technical cooperation is the third pillar along with trade and investment liberalization and trade and investment facilitation for the achievement of APEC's vision of a community of Asia-Pacific economies. The Ecotech goals are:

- To attain sustainable growth and equitable development in the Asia-Pacific region
- To reduce economic disparities among APEC economies
- To improve the economic and social well-being of the people
- To deepen the spirit of community in the Asia-Pacific

Additional issues that need to be addressed in today's environment include employment creation, equitable distribution of opportunities, social security and addressing impediments to small and medium enterprise development.

### **Session 4 Roleplayers:**

#### **Session Chair**

- Mr Arto SURYODIPURO, Director for Asia Pacific and African Intra-Regional Cooperation, Ministry of Foreign Affairs, Indonesia

#### **Keynote speech:**

- Dr Mari PANGESTU, Minister, Ministry for Tourism and Creative Economy, Indonesia

#### **Panel Discussion**

##### **Moderator:**

- Ambassador Laura DEL ROSARIO, Undersecretary for International Economic Relations, Department of Foreign Affairs, Philippines

##### **Panellists:**

- Datuk Dr Supperamaniam MANICKAM, Distinguished Fellow, Institute of Strategic and International Studies, Malaysia
- Dr Michael PLUMMER, Eni Professor of International Economics, The John Hopkins University, SAIS-Bologna, Italy & Senior Fellow, East-West Center, United States of America
- Professor ZHANG Yunling, Director, International Studies, Chinese Academy of Social Sciences, China

The three pillars shaped subsequent trade agreements. To minimize disparities for the lesser developed economies, liberalization had to be accompanied by Ecotech. Trade frameworks since then have tried to build in capacity building into their agreements and the way they look at things.

A decade later after the birth of the Bogor Goals, ASEAN Economic Community (AEC) blueprint had four parts:

- Single market and production base
- Highly competitive economic region
- Equitable economic development
- Full integration to the global economy

AEC's pillar of developing a region of equitable economic development is similar to APEC's Ecotech pillar, which is about narrowing development gaps. ASEAN too faced similar problems as APEC with Ecotech, in terms of defining and making equitable ASEAN really work. Therefore, apart from RCEP, ASEAN also established the ASEAN Framework for Equitable Economic Development in 2011.

In terms of the ASEAN Framework for Equitable Economic Development, there are five principles:

- Inclusive growth between and within the members
- Connectivity
- Cohesive action: how to integrate capacity building with the other pillars
- Fostering inclusive growth: address vulnerable groups like SMEs
- Financing: private and public sources of financing

The argument for capacity building is not just for lesser developed economies to continue to be part of the integration and to reduce disparities. It is more than that. If the capacity building goal does not succeed, there will be very weak support for further economic integration. Policymakers will not continue to liberalize if benefits are not passed on to the wider population. Thus, capacity building must be more effective in APEC.

Since the mid-2000s, free trade agreements are now termed Comprehensive Economic Partnerships, and capacity building must be integrated into the agreements so the lesser developed economies can benefit. Making capacity building effective is a big challenge. APEC had almost 2,000 Ecotech projects, but the challenge is, in what way these projects help in achieving the Ecotech goals.

We are in a different world, and the way we view Ecotech must change. If not, the support for continued economic integration will be weakened. The way trade is carried out has also changed tremendously. The notion of the global value chain where production is much more fragmented enables lesser developed economies to leap-frog if they can address their supply constraints and if they can access intermediate goods and services. Impediments at and behind the border are also being reduced which are oftentimes more difficult politically, institutionally and requires much more capacity building.

The Bogor goals should be redefined as well. Here, the five principles of the ASEAN Framework for Equitable Economic Development principles can be applied.

To ensure that capacity building is effective and not just a list of projects, there should be timelines and deadlines to achieve specific goals. In all current trade agreements, it is necessary to ensure capacity building is effective and pragmatic and really addresses what the lesser developed economies really need. Although supply constraints are the general focus, there is a need to identify the needs of the developing economies.

#### Weaknesses of Past Ecotech Initiatives

Ecotech is a crucial component of regional integration. Regional integration is about narrowing development gaps and bringing about equitable development and generally improving the economic well-being of the people.

Despite leaders' repeated calls to intensify efforts on Ecotech cooperation, results are not satisfactory. A few reasons were provided on the weaknesses of past Ecotech initiatives.

One of the arguments is a lack of focus by APEC member economies. Initial priority areas of Ecotech were subsequently altered to different themes with different orientations. Certain initiatives have been altered to suit the liberalization and facilitation of trade and investment. The importance of Ecotech reduced progressively over the years. This lack of focus also resulted in a high incidence of duplication of effort so initiatives did not work well and were not implemented effectively.

Another reason suggested is that the extent of interest of participating economies directly influenced the effectiveness of the implementation of the Ecotech initiatives. Many of the initiatives are taken up in working groups, and participation by member economies is on a voluntary basis rather than a concerted effort by all member economies of APEC. Limited participation, as well as limited funds hampered the effectiveness of the implemented initiatives.

Yet there are those who feel that the criticisms of Ecotech are too harsh, and that there were already efforts in place to address duplication of work as well as the effectiveness of working group initiatives. Instead of being concerned about the overlap of projects within APEC, it was suggested that APEC be concerned about overlap of projects between APEC Ecotech and the work that is done by other institutions. Since APEC was established, there has been a large growth by other institutions. It is important for APEC to concentrate on where its comparative advantage lies rather than spread itself too widely.

Moreover, there is also the comment that APEC is not a development agency. An alternative view is that the aim of liberalizing trade is to bring economies to a new level. Moreover, it is important to distinguish development from development cooperation.

### Mindset Change regarding Capacity Building

There was a question on how mindset change can be effected from various other fora.

The new vision of APEC should not just focus on free trade, investment and liberalization; its renewed vision should be sustainable and inclusive growth. Within that vision, Bogor goals and the final objective of open trade and investment and economic integration within the region remains.

The agenda has moved from reducing the border impediments to behind the border such as regulations, customs and administrative measures. This is different from reducing tariffs or border barriers, but requires much more capacity building and political will and institutional changes. APEC is good with such agenda which are not negotiations. In fact, APEC started with the notion of capacity building as the third pillar, which other fora subsequently adopted in their negotiations and programs. Moving forward, APEC should be able to address similar challenges not addressed in other fora yet.

For behind the border measures, the best practices and principles of regulatory and institutional reforms can be explored, which hopefully can be translated into the actual programs of regulatory reforms. The deepening of integration is via regulatory and institutional reforms, and will benefit the business sector as well.

A related issue regarding mindset change is discussed. Here, the discussion focused on how Ecotech initiatives were viewed in the past and how it should be viewed going forward.



In the past, Ecotech initiatives were implemented as complementing liberalization and facilitation instead of being an integrated part of it. Projects designed in the past focused on capacity building as a supporting tool to realize liberalization and facilitation. It is timely to have a different mindset in terms of how to approach this development cooperation. In particular, one should think of what the capacity building should be, to ensure the lesser developed economies can enjoy the benefits of liberalization and facilitation. Such is the framework for sustainable growth in APEC. If the disparity of development between and within APEC economies cannot be reduced, support for continued economic integration will be much reduced. Once the framework is set, more specific programs on how to actually achieve capacity building with timelines and targets can be set.

Concerns were raised on the shift in focus, and that APEC still has unfinished business in the region on tariff issues. Some economies still have very high tariffs although on average the tariff figures are low. Moreover, with the global value chains, even very low tariffs can be magnified to very significant impediments as products cross and re-cross borders.

Nevertheless, it is important to note that a mindset change does not mean shifting the focus from liberalization and facilitation, to Ecotech. Developing economies want to liberalize, but they need some support in terms of capacity building. This linkage is extremely important, as liberalization cannot move independently of the ability of economies to assume those obligations and implement them.

One example on trade facilitation was quoted to illustrate what is meant by coherence and effective capacity building. A project by the World Bank in Africa resulted in lower than anticipated impact on trade flows and efficiency simply because connectivity of physical infrastructure was not sufficient; border administration was the bottleneck once the physical bottleneck is removed. Apart from physical infrastructure, border administration as well as institutional reforms must be addressed. In fact, a clear needs assessment exercise where all bottlenecks are identified is required. Such a move can also help attract the private sector finance, if they see the potential for participating.

Whilst private sector participation in capacity building is a great idea, some policy statement or principles should be established to mitigate the risk that private sector participants abuse the process for their own purposes. It is also useful to have a broker who can establish the relationships and monitor the implementation of projects.

### Outsourcing & Capacity Building

The extent of outsourcing in meeting some of the objectives of capacity building was questioned. The response is that outsourcing is an excellent way for SMEs and parts of the population which often get excluded from economic integration and the benefits of trade, to be included.

Economies which are not physically accessible but which are digitally accessible, can access the benefits as well. Reducing the digital divide can lead to greater inclusivity and ensure that more economies and regions are part of the global value chain. Investment in physical infrastructure (eg ports and roads), IT infrastructure and connectivity are thus very important capacity building and inclusive generating initiatives.

### Future of Ecotech

There is the view that Ecotech or capacity building is the 'how to' part in every aspect of APEC, and shouldn't be a separate pillar. However, there are contrasting views that having Ecotech as a separate pillar gives it the right emphasis and directly impacts its effectiveness.

World trade has changed, and the real barriers to trade are not tariffs but behind the border issues. APEC needs to rethink its Ecotech focus in the context of this changed world. Principles in regulatory practices should be developed in APEC but for it to be effective, it is necessary to help economies implement those principles on the ground to make sure they work. A three pronged approach is required – training individuals, strengthening institutions and reviewing regulations.

Capacity building is not about one-off seminars or workshops. It has to be on a sustained basis. Whilst training officials is important, equally so is the private sector. However, it is difficult to deliver training that is effective to multiple audiences. Business needs are different from government needs, and different economies want to achieve different levels in the training program. One suggestion is for an APEC region-wide connectivity or infrastructure initiative with consistent implementation across the region, rather than arranging workshops and training programs.

In summary, a holistic and comprehensive approach to capacity building is critical. It is necessary to think carefully about the desired objectives and set in place an action plan over a three year period with a monitoring system in place.

It is important to monitor and measure the effectiveness of the programs, and check if the desired effects are achieved. Assessing the effectiveness is core, especially for designing things in the future. Whatever initiatives adopted should be implementable, effective and lead to sustainable impact.

## **7. The New Environment for Trade Policy**

The appetite for unilateral and multilateral trade liberalization has significantly diminished since the Bogor Goals were set. The Doha Development Round is stalled and the prospects for a breakthrough are bleak. However, there is still momentum in regional deals especially the ASEAN Regional Comprehensive Economic Partnership Framework (RCEP) and the Trans-Pacific Partnership (TPP).

### **Session 5 Roleplayers:**

#### **Session Chair**

- Dr Wook CHAE, Chair, Korea National Committee for Pacific Economic Cooperation (KOPEC) & President, Korea Institute for International Economic Policy (KIEP)

#### **Keynote speech:**

- Dr M Chatib BASRI, Chairman, Investment Coordinating Board, Indonesia

#### **Panel Discussion**

##### **Moderator:**

- Mr Simon LONG, Banyan Columnist, The Economist, Singapore

##### **Panellists:**

- Ambassador Yoshiji NOGAMI, Chair, Japan National Committee for Pacific Economic Cooperation (JANPECEP) & President, Japan Institute of International Affairs
- Dr Gary HUFBAUER, Reginald Jones Senior Fellow, Peterson Institute for International Economics, United States of America
- Dr ZHANG Jianping, Director, Department of International Cooperation, Institute for International Economic Research, National Development and Reform Commission, China

There is no better time to examine the topic of the new environment for trade policy, given the recent development in the area of trade policy in the region.

It was only three months ago, in Phnom Penh, when the RCEP was launched. It serves as an ASEAN-centred proposal for a regional free trade area, which would initially include the ten ASEAN member states and those economies which have existing free trade agreements with ASEAN.

Seven years earlier, the TPP was agreed between Brunei, Chile, New Zealand and Singapore, and it has since been proposed to include many other Asia-Pacific economies.

Both of these frameworks share similar objectives: trade liberalization and economic integration between economies in the Asia-Pacific region. As the Doha Round is in limbo, these regional frameworks gain momentum as the channel to go to, to achieve integration.

While Asia-Pacific economies should support these regional frameworks, they should still strive for multilateral agreements under Doha. The skepticism towards Doha is not unwarranted, as we are faced with the political reality of the lack of leadership to guide its negotiations. Despite this, the developing economies, especially the Asia-Pacific economies,

stand to gain from moving the multilateral negotiation forward. There are several reasons for this.

First, as the emerging Asia-Pacific economies have higher levels of tariff compared to advanced economies, the Doha Round's tariff cuts will have an especially large pro-trade effect when it comes to trade among emerging economies. Since 1990, the average annual growth rate of trade between emerging economies has grown twice the growth rate of the world trade, while at the same time emerging economies' trade with each other is gaining larger share of their total trade. These trends set to magnify the pro-trade benefits of tariff cuts.

The second reason is that the completion of the Doha Round is crucial to set a benchmark for the 'WTO plus' negotiations of the many regional agreements. Many of the new regional arrangements, including the RCEP and the TPP, are 'WTO plus' as they cover areas such as investment and competition policy that are not covered by the WTO. Without completion of the Doha Round, the benchmark for 'WTO plus' will be out-of-date. The proliferation of regional agreements itself is not without concern. It may lead to problems of coherence, or the spaghetti bowl problem, which can result in higher cost of doing business. While regional trade agreements and bilateral agreements may push trade liberalization in some region or between economies, there are a number of issues that cannot be resolved regionally or bilaterally, including removal of subsidies and domestic support in agriculture.

Asia-Pacific economies should also recognize the influential role they can play in the Doha Round. Asia-Pacific trade accounts for one-third of the total world trade and this share is steadily increasing. Thus, not only do Asia-Pacific economies have much at stake in the completion of the Doha Round, they are also crucial actors in pushing the negotiation forward.

It is within this context that we see the important role of the Asia-Pacific Economic Cooperation (APEC) as the premier Asia-Pacific economic forum whose goal is to support sustainable economic growth and prosperity in the Asia-Pacific region. Asia-Pacific economies can only benefit from open trade if each economy can strengthen their economies, facilitated by stimulus coordination through APEC.

Indonesia as the host of this year's APEC Summit hopes to be able to facilitate a continued dialogue among Asia-Pacific nations to promote and accelerate regional economic integration.

The new environment for trade policy is simplistically summarized as, going from:

- Trading mainly with the west, to trading much more with the east
- Beyond border to close border or near border
- Intra-industry to inter-industry
- Merchandize to services
- Trade to get USD, to trade to avoid USD

### Future of WTO

At the moment, there is deep skepticism as to whether WTO can achieve anything and there are criticisms that it is too huge to achieve any objective. The discussants were asked to comment on whether the time spent on WTO is worth it given all this uncertainty.

No institution is looking for its direction more urgently than the WTO. There are those who feel that, should the WTO submerge as a negotiation institution, it will be a very regrettable world ahead. Nevertheless, it will be a bleak picture if trade facilitation doesn't come true at the WTP Bali Ministerial in 2013.

There are arguments that the litmus test of success in the Bali Ministerial is the trade facilitation package. If it is absent, it will be extremely difficult to revitalize the negotiating function of the WTO. Moreover, the WTO should move towards a more modern embrace, or its rules governing trade will be increasingly out of date, particularly the in the rules on services. The database released by WTO and OECD in January reveal that services represent close to 50% of world trade. At the moment, the services sector is highly divorced from actual trading activity and WTO should do something about it.

However, there is also the remark that the WTO focuses on trade liberalization issues rather than trade facilitation issues.

Nevertheless, it generally agreed that the Doha Round will not have obvious progress in the near future. Many developed economies are currently facing uncertain economic growth and heavy debt. In addition, they face the threat of losing out to some developing economies in terms of GDP. As such, they will tend to protect their trade and investment and it is probably with this spirit that the US and EU are exploring a free trade agreement negotiation. Hence, it is unlikely for the Doha Round to progress much in such a situation.

On the political level, there is a need to promote these negotiations. When world economic growth becomes more stable, the Doha Round can possibly achieve a breakthrough.

Whilst waiting for the economy to improve, there are things that can be done. For one, given that APEC already achieved the agreement on the liberalization of trade in environmental products, the Doha Round can possibly expand this. There is also a suggestion of a mini-Doha, to keep the spirit going till the political and economical environment is ready for the completion of the Doha Round.

### TPP: Strategic Instrument?

There is commentary in the Chinese press to the effect that TPP is a strategic instrument, part of US's effort to contain China by excluding it. The panel was asked to comment on this issue.

It is felt that developing economies (eg Vietnam and China) will face tremendous pressure were they to adopt TPP regulations by the end of 2013. As for the developed economies, they too have conflicts. For instance, the US, Australia and Switzerland still do not agree on trade surplus issues. Faced with all these conflicts, it is doubtful that the TPP negotiations will reach an agreement by the end of 2013.

One problem with the TPP negotiations is the lack of transparency. Many in the business circle do not know what future development and direction is discussed or negotiated by TPP, which is important for them as entrepreneurs. The lack of information about what is going on in the TPP discussions created at least 6 types of misunderstandings by Chinese scholars:

- Conspiracy viewpoint: TPP is designed by the US to constraint and regulate China.
- Pessimism viewpoint: other mechanisms in East Asia region (eg ASEAN+3) will disappear as TPP will dominate the regional economic cooperation process.

- Waiting viewpoint: China should just adopt a wait-and-see attitude as the gap between China and TPP is too huge.
- Disturbing viewpoint: given that the US wants to regulate China, China should ‘disturb’ the process.
- Opposing viewpoint: support RCEP against the TPP.
- Dominant viewpoint: each major economy wants to dominate a different institution (eg US dominates TPP, China dominates ASEAN+3)

Whilst it is true that the US is an advocate of TPP for geopolitical reasons, mainly to maintain US strong economic connections with Asia, it is hardly a containment strategy of China. Rather, the TPP is an attempt to establish the rules of the road for 21<sup>st</sup> century trade issues. It is hoped that China will see desirable features in some of these rules and eventually TPP will somehow merge with RCEP and lead to a free trade area of the Asia-Pacific which will lead to tremendous payoffs. While it can be argued that the US is trying to influence China, it is China who decides whether it is going to be influenced or not by the new rules.

There is agreement that China should examine if TPP’s regulation is better or worse in the near future for economies in the region. If the regulations are supported by many economies in the region, China will need further reforms to get into the right direction. Moreover, RCEP and TPP are both very good tracks in the Asia-Pacific region. While they can develop individually at this stage, they may possibly merge in the future. Lessons can be learnt from the EU here – economies in the region should work together to promote regional economic integration and trade investment liberalization and facilitation.

#### US vs China: Trade Environment A Decade Later

Whilst it is unlikely for the US to have a trade agreement with China or India at present, the mood can change a lot a decade later. In the future, Chinese trade surpluses can be a thing of the past, and the big issue is services where the growth lies. The US can sell a lot of services to China. At the moment, China is very protective of its services, and there is opportunity for big sales across a wide range of services such as education, medicine and consultancy. While the US and China does have geopolitical differences, both will benefit enormously in the economic sphere.

It is thus questioned if one would see significant liberalization of services in China over the next decade, and if that is feasible.

At the moment, China’s current economy is unsustainable and unbalanced. Its economic structure needs to be reformed. In the near future, China aims to improve its services sector contribution to GDP growth, and there was obvious progress in 2012 where the services sector’s contribution to GDP improved by 1%. It is predicted that China will be the largest consumption market in the world. As such, it is believed that China’s services trade will boom and contribute to China’s economic growth as well as the world economic growth.

#### CJK FTA, RCEP & TPP

It is argued that, if the CJK agreement were to go forward, ASEAN faces the threat of losing its position as the driver in RCEP as the CJK becomes the seat of economic momentum in RCEP. However, many are of the view that the political differences between the CJK

economies are enormous, making them an unlikely driver of RCEP. CJK negotiations will not make RCEP lose its driving force. On the contrary, because CJK economic factors (capital, technology, human) are different from those of other economies, it will be easier to promote RCEP negotiations.

RCEP and TPP are both complementary and competitive. In the political sense, TPP hastened the RCEP and the RCEP is giving pressure to TPP which is healthy. They are also complementary – the gains are additive in both groups, with two major economies in both tracks.

## **8. Engaging Stakeholders in Ecotech: Towards Inclusive Growth**

APEC's Ecotech activities have been criticized for a lack of focus and effectiveness. This session will discuss how to better engage the business community and civil society groups to help design effective economic and technical cooperation programs.

### **Session 6 Roleplayers:**

#### **Session Chair**

- Mr Ian BUCHANAN, Chair, Australian Pacific Economic Cooperation Committee (AUSPECC) & Senior Executive Advisor, Booz & Company

#### **Keynote speech:**

- Ms Marjorie YANG, Chairman, Esquel Group, Hong Kong Special Administrative Region, China

#### **Panel Discussion**

##### **Moderator:**

- Mr Endy BAYUNI, Senior Editor, The Jakarta Post, Indonesia

##### **Panellists:**

- Ambassador TENG Theng Dar, Director, Business Compass Consultancy, Singapore
- Dr Tim PHILIPPI, Executive Director, Singaporean-German Chamber of Industry and Commerce
- Dr Federico MACARANAS, Professor, Washington SyCip Graduate School of Business, Asian Institute of Management, Philippines

Ecotech is one of the three pillars of APEC and one of the five pillars of ASEAN. It is one of the hardest to make work, and it comes from two distinct motivators:

- Altruistic: that no one is left behind under inclusiveness
- Strategic enabler: enabler to push through the liberalization of investment and trade

Ecotech is more crucial than ever before, to drive the next wave of growth. Ecotech is an easier option compared to domestic productivity which is much tougher in terms of demand on political leadership and institutional capacity.

Ecotech has not been very successful in achieving the inclusive growth which it was set out to enable. For instance, within ASEAN, Singapore's per capita GDP is 55 times that of Myanmar. In 2012, the World Bank's Ease of Doing Business Ranking, Singapore was number 1 in the world while Laos was number 165. There is no inclusive growth within the region.

This section will discuss how to make Ecotech actually work and how to use it as an enabler of inclusive growth.



## **How the Private Sector Could Contribute to Making a Difference in the APEC Region**

In my presentation today, I would like to use my company as a case study of how the private sector can foster economic and technical cooperation and contribute to sustainable growth.

I run a company called Esquel which makes shirts. Our turnover is around USD 1.3 billion and we have 57,000 employees across the world – half of them in China and the other half spanning in Asia and Africa.

Around 20 years ago, we had an operation in Singapore and faced the challenge to automate and raise the productivity of our workers so that they could catch up with the living standards in Singapore. We couldn't do it then, but now we are embarking on that road. We realized that as countries become more prosperous, it becomes a must for us to change our management style in order to stay sustainably competitive.

Esquel was started 35 years ago, around the same time when China was opening up. In fact, it was started because entrepreneurs like my father had foreseen the huge opportunities brought about by the opening and emergence of the China's economy. At that time, the common strategy was to leverage the abundant and low-cost labor pool in China. But the availability of low-cost labor has deterred the ability and urgency to innovate and manage well. I do not want the cause of my career is to get rich by taking advantage of poor people and keeping them in poverty throughout my career.

The reform in China brought about better standards of living and a new generation of workers who demand more which is good news. For Esquel to stay competitive and keep growing, we have to continuously re-invent ourselves. The income of our workers must be raised, so we can get the cycle of domestic consumption working. But the income increase should be driven by productivity growth which in turn is led by technology innovation. Technology is a game changer that allows us to achieve the compounded annual growth of 10%.

I want to share an email hot off the press this morning:

'Esquel has around 43,000 workers worldwide at this moment. Every month, we have to inform each one of them how much they earn (total working hours, over-time hours, total pay, tax, insurance, administration deduction, net pay etc), currently via a piece of paper slip. We have to use thousands of A4 paper, cut them into tens of thousands of slips, and then distribute each piece to the individual workers. You can imagine how much work is involved every month.

Now with a high take-home pay, more and more workers can afford a smart phone (also thanks to Jobs inventing the smart phone and Google inventing Android to bring the smart phone's cost down, or course Margie to increase our worker's productivity). According to a survey done in Gaoming representing 30,000 workers in Esquel, currently around 40% of the workers have a smart phone and the percentage is surging. Now we have developed an Android App in-house so that our worker can download this information via their smart phones anytime, anywhere. With this App, this manual job can be simply eliminated and no single piece of paper needs to be printed. Now this App is already successfully implemented in the knitting factory in Gaoming and we plan to deploy it to the whole group within this year. Different versions will be developed in different countries, and it's really a wonderful experience to feel the variety of people, languages and cultures in different countries within the Esquel family.

We save time for our workers, reduce non-value added work and we also save TREES so we can hug them.”

Esquel is able to do the above because 10% of our 57,000 employees have university or equivalent degrees, many of them from top-tier universities. We look within this group for independent critical thinkers. They then become leaders. They make the difference, not me.

Our education system must provide more young people who are critical thinkers and willing to take on challenges. Those people would be the agents of change to lead and inspire other people to move away from the old way of doing things. It took Toyota five generations to invent the “Toyota way”; I hope we would be able to do it in Esquel in a shorter time.

Environmental conservation is another area where we need to work harder. Many of the problems we are facing are the remnants of the industrial revolution. The extensive use of chemicals improves efficiency but also damages bio-diversity and leaves behind a trail of social and environmental problems. This is where we could work harder so that ecology and technology can therefore bring us to Ecotech.

### Reasons for Lack of Engagement of the Private Sector

This section discusses the reasons for the lack of engagement of the private sector, given that APEC has made effort in engaging them.

One possible reason is due to the different abilities of member economies to inform stakeholders about APEC itself and its various activities. This is the problem of social marketing. A more proactive engagement is required so that a bigger community, particularly the SMEs, can hear about the projects themselves.

A second reason is the probable crowding out by government. Most projects are government initiated, so the private sector might be shy in coming in with their own engagement.

A third reason is a lack of leadership to truly lift the vision and mission of APEC to the level that the stakeholders can be engaged meaningfully. Here, a mindset change is required to address this issue.

### How APEC can Engage the Business Community

Proposals are made with regards as to how APEC can better engage the business community and together work towards the promotion of inclusive growth.

One suggestion is to proactively link all the different APEC incubation centres and business advisory centres that are currently operating in isolation in different economies. The argument is that SMEs can play a very effective role if these centres can be integrated in an APEC manner, so that businesspeople will believe it to be worth their time and resources to take the risk to go beyond.

Another suggestion is to tap on the current Singapore-Malaysian collaboration which will integrate APEC's business chambers within ASEAN+3 by June 2013. This collaboration allows SMEs to research about any location within ASEAN without the need to be physically present. Already, there is a Japan product centre in Singapore helping Japanese SMEs access to the ASEAN marketplace. The suggestion is to have an APEC platform and thus access to the APEC marketplace, instead of restricting it to ASEAN.

Essentially, businesses want to see APEC movement or initiatives that can deliver the impact to them. The majority of the business community is made up of SMEs, and currently only large enterprises are enjoying the benefits of FTAs. By providing the linkage, the pie can be expanded to allow SMEs to benefit as well. An APEC focus and process to bring about a positive change and to enable the APEC SME community to engage each other may see a quantum leap in terms of growth potential. This is a new growth opportunity for the APEC community.

Ecotech initiatives will fail if the proper infrastructure – in this case communication channels – are not in place. Currently, a top-down approach is used where the public sector is the one which decides what needs to be done. Only the representatives of the APEC Business Advisory Council which comprises important personalities go to once a year physical meetings with leaders. The industry is not aware of what was discussed and what proposals are made, and there is no consultation with the private sector.

The private sector is an important player in the APEC process and there has to be effective channels of communication. The role of the private sector is critical if we want to succeed in terms of regional integration. Effective channels of communication (and not just one-off discussions) where Ecotech project initiatives are discussed in the context of the general goals of regional integration, inclusive growth, equitable and sustainable development, should be established. Social media such as Facebook can be explored.

#### Private Sector & Civil Society Organization (CSO) Collaboration

The possibility of collaboration between the private sector and the CSOs are explored in this section.

There are plenty of examples of successful collaboration, including across ASEAN and APEC, between the private sector and the CSOs. It is very important that the issues of the environmental concerns be addressed forcefully. Global CSOs are working with regional CSOs and national CSOs in order to monitor and proactively suggest ways of jointly working with the private sector. The example of product partnership in the case of private drugs development shows that top multinational pharmaceutical firms have opened their arms to partnership with local enterprises, and this is mainly driven by civil societies and funded mostly by global CSOs.

In certain types of industries such as microfinance, it is important to involve the CSOs as there is a wealth of information that the CSOs can bring into the picture. It is imperative that their experience is shared across the membership for the inclusive growth agenda.

#### Ecotech: Ecology Too?

It is argued that Ecotech is not just economic and technology driven development; it is also ecology driven development. For instance, after the nuclear accident in Japan, Germany has decided to phase out all its nuclear power plants. This cost a lot of money as they have to build new infrastructure to enable other sources of energy.

Another example to illustrate that Ecotech includes ecology as well, is the Mekong Subregion example. While it is the government that has cooperated with the private sector, civil societies have belatedly come into the front, and that is a welcome suggestion as civil society proponents have best practices from elsewhere around the region and the world.

Increasingly, people and businesses want to do the right thing. If by doing the right thing businesses can still make money, SMEs and the business community can be influenced to get on board.

## **9. Lunch Speech Day 1**

### Distinguished Luncheon Speaker

Ambassador Donald CAMPBELL

Co-Chair, Pacific Economic Cooperation Council (PECC)

There have been many questions about Canada's declining role in Asia, a fact I will try to address. Canada has been absent or present sporadically in various fora over the last several years. This section will discuss Canada's previous involvement in Asia, as well as the future direction of Canada-Asia cooperation.

In the 19<sup>th</sup> century, a railway linking East and West Canada was built. The dual purpose of the railway was to open Canada up to the Orient, to open a trade route to Asia. Since then, for many years Canada was actively involved in serious and sustained engagement with Asia.

In 1997, the APEC conference was held in Vancouver. That was declared the year of Asia-Pacific for Canada. It turned out to be a year, not a new century of progress. The riots that took place at the conference and the police response to the riots left a bad taste in Canada-Asia relations.

In the last decade, two factors conditioned the Canadian engagement in Asia. The first was the landmark conclusion of the Canada-US NAFTA. Those were important agreements and had a profound impact in terms of the trading relationship, which was already an important one between Canada and the US in particular. About 75% of Canadian exports were going to the US then. That reached a height of around 89% by the year 2000. Canadian businesses became complacent. It was easier to do business north, south and next door, with economies that have similar culture and language. The Canadian business community was not looking at new markets and places when it should have been.

In the year 2006, Canada had a new government. This conservative government had been out of power for 13 years and had very little experience in governing and no experience in foreign policy in particular with Asia. There were voices of concern from people who had a lot of experience in Asia over the new government's early positions. The business community finally came to the table and started to concern itself with Asia again in a concerted manner.

A 3-year debate on the topic 'Conversations on Asia' was just completed in Canada. The irony is, during this whole period, Canada became much more Asia-centric and Asian oriented. The immigration policy of Canada is becoming more Euro-Asian, while the US is becoming more Euro-Latino. Vancouver is the most Asian city outside of Asia, with more than half of its population from Asia. The other interesting thing is, trade relationship with the US started to diminish. Whilst it is still growing in absolute figures, it is now as low as 68%-70%. The view is that there is a great need to diversify Canadian commercial and trade relationships.

The Canadian government is now in a fully committed mode. The relationship with Asia is in a totally different place it was previously. There were 77 ministerial visits to Asia in the last 3 years. Canada is back in a big, sustained way.

There are some natural synergies between Canada and Asia. A significant portion of Asia is looking for security of supply in terms of energy, food and agriculture. Canada is looking for

security of demand in terms of energy. Canada is an emerging energy superpower, with the third largest oil resources in the world. There is tremendous potential between Asia and Canada in natural resources. In the next ten years, around 800 billion investment in mining and energy is expected.

Canada is built around foreign investment, and is a net exporter of capital. Foreign direct investment outward from Canada is about 10-15% higher than inward investment, but inward investment is very important for the development of Canada's natural resources and the industrial sector of its economy. Canada is arguably the world leader in terms of public-private partnerships and can offer this model for development of infrastructure in Asia.

For Canada, full engagement with Asia is not a choice nor an option, it is a national imperative.

## 10. Dinner Speech Day 1

### Distinguished Dinner Speaker

Hon Mr LIM Hng Kiang  
Minister, Ministry of Trade and Industry  
Singapore

### Overview of Regional Economic Integration

As we face uncertain economic times, the vision of an integrated, prosperous and peaceful Asia Pacific region remains relevant.

- Closer trade, investment and financial ties through regional agreements increase the inter-dependence of regional economies.
- With falling transport costs and greater ease of communications, businesses are able to divide their value chains and locate activities in multiple countries where it can be executed most efficiently. This results in increased intermediate trade. Intraregional trade of parts and components now account for more than half of manufacturing trade in developing Asia and East Asia.
- This contributes to a vibrant and dynamic business environment, as supply chains compete in search of good suppliers and best practices. Investments will continue to pour in, in pursuit of opportunities in this part of the world. According to UNCTAD, global share of FDI inflow into East and Southeast Asia grew to 22% in 2011, up from 12% before the global financial crisis.
- Regional economic integration needs to catch up with these trends in production. Improvements in cross-border flows of capital, goods and people will make it easier for economies to adapt to changing patterns of comparative advantage, and allow for technology transfers across borders. Economies will therefore be able to compete globally, with their companies adapting and moving up production value chains more quickly.

Regional Economic Integration has been largely driven by the emergence of regional forums and institutions such as ASEAN, APEC and East Asia Summit.

- ASEAN Member States are now working towards the timely implementation of their commitments to achieve the goal of an ASEAN Economic Community (AEC) in 2015. This will establish ASEAN as a single market and production base with free flow of goods, services, investments. AEC will transform ASEAN into a region of equitable economic development, fully integrated into the global economy.
- Many economies in the Asia-Pacific region have also made steps to facilitate economic integration. Under the auspices of APEC, efforts remain devoted to enhancing supply chain connectivity and addressing new and emerging trade and investment issues towards a Free Trade Area of the Asia-Pacific (FTAAP).

### Development of RCEP and TPP

I want to touch on two significant developments in Regional Economic Integration that have captured our attention these past few years: RCEP and TPP.

- The Regional Comprehensive Economic Partnership (RCEP) aims to bring together ASEAN's individual FTAs with Australia, New Zealand, Japan, China, India and South Korea, into a single comprehensive agreement. It is envisioned to be one of the largest FTAs in the world. The RCEP could potentially transform the region into an integrated

market comprising over 3 billion people, which is more than 45% of the world's population. It would integrate an area with a combined GDP of about US\$ 17.23 trillion. This is about a third of the world's current annual GDP.

- These figures are staggering and one cannot understate the magnitude of RCEP. That said, RCEP's potential is certainly tied to our commitment to ensuring a high quality outcome in the negotiations. It is important that we strive to make the RCEP a modern, high quality and comprehensive agreement with significant improvements over our current ASEAN+1 FTAs. This will ensure our future growth and regional integration.

The other development is the Trans-Pacific Partnership (TPP).

- The TPP is an ambitious agreement from the outset. It is a comprehensive, high-quality trade agreement that will provide members with comprehensive duty-free market access to each other's goods markets, and lift restrictions on services, investment and government procurement. It will also reduce behind-the-border non-tariff trade barriers, as well as enhance regional connectivity by promoting consistency in regulation across member countries.
- In particular, the TPP's facilitation of cross-border supply-chains will expand the reach of innovative and competitive Singapore-based companies. This includes those with strong and integrated production networks in growing Asian markets, as well as, fast-growing emerging markets in Latin America and key markets such as the US.
- For small and medium enterprises, greater regulatory coherence across the broader Asia-Pacific region under the TPP will help them diversify their export destinations for enhanced growth and robustness.

#### On RCEP and TPP as Mutually Reinforcing Pathways to FTAAP

In our vision of the Free Trade Area of the Asia Pacific (FTAAP), we have to see RCEP and TPP as complementary efforts.

- The progress of one ensures that the other remains on track to achieve a high quality agreement. The TPP and RCEP are mutually-reinforcing parallel tracks for regional integration. The overlaps in membership between the two tracks will also make it easier to achieve an eventual FTAAP.
- Both the RCEP and TPP are ambitious FTAs and will involve complex negotiations involving multiple parties and sectors. As equally viable pathways to FTAAP, we should aspire to conclude high quality agreements in both instances. When both agreements are eventually completed, it will be one that we can all be proud of.

#### The Importance of the Multilateral Trading System

We must remember that even with the progress made on TPP and RCEP, they should not be seen as ends in and of themselves. Rather, success on those fronts should be seen as building momentum towards a longer term goal of reforming the multilateral trading system.

- As such, as we push new frontiers with these agreements, we cannot abandon the work at the WTO. The WTO remains our best insurance against protectionism. Its rules provide transparency and predictability for traders and businesses from all countries, small and large, developed or developing.
- We must ensure that WTO remains a credible institution. To this end, we cannot let progress that has been made in the Doha Development Agenda (DDA) falter.

#### Leveraging on APEC for an Outcome at WTO



This year, we find ourselves in a very unique and opportune place. Indonesia is playing a leading role in two important international economic for a – Chairmanship of APEC and host of the WTO 9<sup>th</sup> Ministerial Conference (MC9).

- We can, and should seek leverage on the work at APEC to articulate and influence the work at WTO.

What I am suggesting is not without precedent. As a non-binding forum, APEC allows for the socializing of ideas and discourse that can provide a positive momentum for the trade agenda at WTO.

- For example, as work is being done in Geneva on the expansion of the Information Technology Agreement (ITA), it is easy to forget that it was in APEC that such an idea was first socialized and formulated.
- From APEC, the ITA was eventually ported to the WTO, where membership has grown from the initial 29 economies to 70 economies. In the same breath, 2012 saw APEC Leaders endorsing the list of 54 Environmental Goods, surpassing by far, the progress on the same issue at WTO. These examples highlight the potential for good work to be done if we manage to find the right synergy between work at APEC and WTO.

We must look forward and think of new ways to reinvigorate the Doha Round and by extension, the WTO.

- We should not let the ghosts of past Doha Round negotiations dictate the future that we want to see. Synergies can and will be found between the work at APEC and WTO, hopefully leading to a credible outcome.
- Indeed, work has already begun on a strong statement of support for the WTO and DDA at the APEC Ministers Responsible for Trade (MRT) Meeting in Surabaya this coming April.

The PECC-SINCPEC-INCPEC Conference provides a platform for government officials and leading academics to exchange ideas and build discourse on trade related issues – and find new friends.

## 11. Lunch Speech Day 2

### Distinguished Luncheon Speaker

Mr PNG Cheong Boon

Chief Executive, SPRING Singapore

SMEs are an important component of any economy as they impact the economic, social and political aspect of any economy. APEC economies are paying a lot more attention in the development of SMEs within their economies.

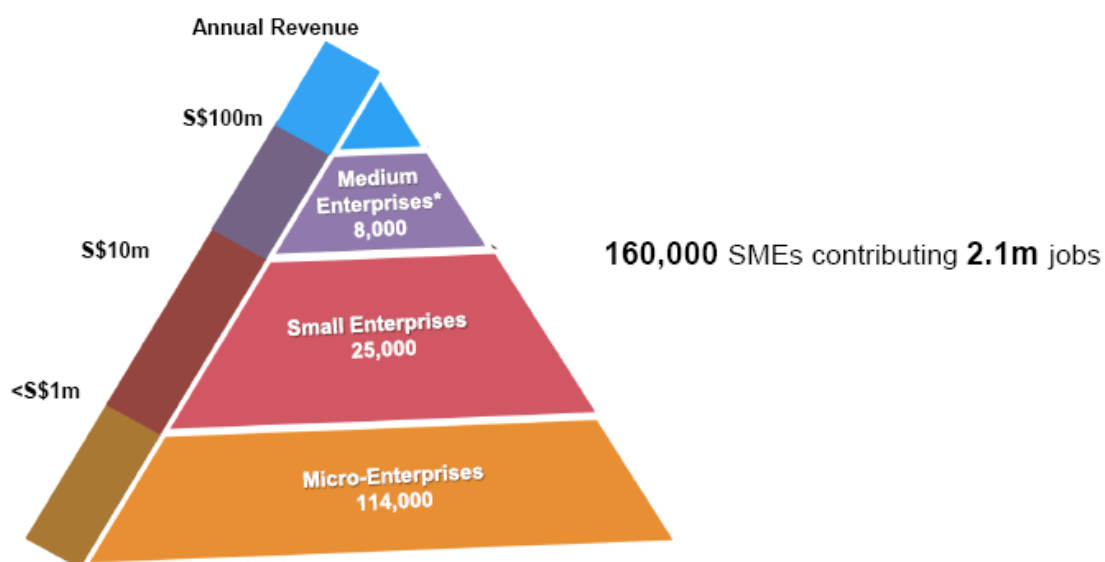
This section will discuss what is being done for SMEs in Singapore and what the APEC SME working group has been doing in the last few years to promote SMEs in economies.

90% of all businesses in the APEC region are SMEs. These SMEs employ 60% of the workforce and contribute to 30% of exports. In Singapore, SMEs account for 99.4% of all businesses, employ 70% of the workforce and overseas revenue contribute close to half of SMEs total revenue. As Singapore is a small economy, the market is small; in order for SMEs to do business and grow, they have to export. In fact, Singapore companies' investment overseas tripled in the last 10 years.

### SME Landscape in Singapore

There are slightly over 160,000 companies in Singapore, with approximately 160,000 SMEs employing more than 2 million people. Figure 1 shows SMEs in terms of annual revenue.

Figure 1: SMEs by Annual Revenue



Source : Computed by SPRING with data from EDB and DOS  
Includes manufacturing and services sectors only, excludes construction, mining, agriculture & fishing, utilities, etc.  
Medium enterprises include SMEs with more than S\$100m sales but less than 200 workers

There are companies with annual revenue of less than \$1 million. These are termed micro-enterprises. There are 114,000 micro-enterprises in Singapore, and these typically employ 5-7 people. These tend to have a stronger domestic focus.

The next category is 'small enterprises' with annual revenues between \$1 million and \$10 million. These typically employ 30-40 people. Singapore has 25,000 'small enterprises'.

The 'medium enterprises' has annual revenue between \$10 million to \$100 million; there are about 8,000 'medium enterprises' in Singapore which employ typically about 75-80 people. The small and medium enterprises tend to have an extensive international focus.

The SMEs are broken down in these segments as they have different characteristics and thus different strengths and weaknesses. As such, growth strategy for each segment is different. Four issues are considered: access to financing, markets, developing the capabilities, and the development and training of the leadership of these SMEs.

The Singapore SME development strategies include:

- Making the environment conducive for enterprise formation and growth
- Seed and nurture start-ups
- Develop competitive clusters
- Groom growth-oriented enterprises

SMEs in Singapore were supported through a series of programs as well as grants. Grants are subsidies to defray part of the cost of upgrading that is undertaken by SMEs. In 2012, SPRING Singapore extended grants to about 5,600 companies. That is about 20% higher compared to 2011. Through SPRING Singapore's partners, assistance was rendered to 117,000 companies in 2012. In terms of grants, the kind of upgrading assisted in, include

- Productivity improvements
- Human capital development
- Technology innovation
- Business capability enhancements

72% of the SMEs supported for upgrading projects were micro and small SMEs.

In the area of financing, a different approach was adopted. Singapore does not have a SME bank, but they have around 14 banks working with them to support the SMEs. SPRING Singapore will extend capital to the bank, or banks can choose to lend using their own capital. If banks choose to use their own capital, the loans extended to SMEs under SPRING Singapore's programs will be insured by SPRING Singapore at a rate of 50%. This means that 50% of any bad debts will be borne by SPRING Singapore. This has been practiced for the last 20 years or so. The percentage of insurance will increase to 80-90% during recessions or times of financial crisis.

Before the financial crisis, slightly less than a billion dollars of loans were made to SMEs annually. The mainstream financing programs in place are:

- Microloan Programme (MLP): working capital loans for micro enterprises
- Loan Insurance Scheme (LIS): for working capital and trade financing
- Local Enterprise Finance Scheme (LEFS): for purchase of equipment and assets

During financial crises, an additional program, the Bridging Loan Programme (BLP) will provide working capital loans in times of crisis. The bulk of financing needs for SMEs are taken care of by commercial lending. As such, the government intervenes only in cases where the loans are marginally not bankable. Loans are not extended to all companies, and the total government loan is typically 1-2% of total lending to SMEs.

SMEs have diverse needs. It is not possible for a single agency to be able to address all their needs. In Singapore, SPRING Singapore has many industry partners which provide support

to SMEs in various issues, such as the Enterprise Development Centres (EDCs) and the Trade Associations and Chambers (TACs). The EDCs provide services such as:

- 1-to-1 Business Advisory
- Workshops on productivity
- Outreach and education sessions for SMEs on Government Schemes

The TACs support industry-led initiatives that enhance industry and enterprise competitiveness.

In addition, SPRING Singapore sets up competency centres in the industry where SMEs can go to for help. To date, there are 6 Centres of Innovation (COIs) for different sectors; these are one-stop centres offering technology consultancy and advice. Specific centres dealing with productivity are also set up. These one-stop productivity centres offer productivity consultancy and advice, be it for food or manufacturing productivity.

Singapore works with many partners to offer as much help to SMEs as it possibly can.

### APEC SME Working Group

The APEC SME Working Group (SMEWG) was set up in 1995, to promote SME development and enhance the effectiveness of APEC work. Since then, there were a few major initiatives that is being undertaken by the APEC SMEWG.

In 1997, the framework for SME activities was developed and in 1998, the Integrated Plan of Action for SME Development (SPAN) was set up to drive the focus of the SMEWG. In 2009, a new 4-year plan for SME development was implemented, the SMEWG Strategic Plan 2009-2012. The working group just embarked on the next 4-year plan, the SMEWG Strategic Plan 2013-2016. The activities of the working group are largely guided by the series of strategic plans.

The SMEWG Strategic Plan 2009-2012 had 6 priority areas, and specific economies were appointed to lead the first five areas:

- Improve business environment (champion economies: Malaysia and Mexico)
- Build management capability and promote entrepreneurship (champion economies: Chinese Taipei and Thailand)
- Improve market access and internationalization (champion economies: Singapore and China)
- Foster innovation (champion economies: Korea, Peru and USA)
- Increase access to financing (champion economies: Indonesia and Japan)
- Raise awareness of sustainable business practices

The SMEWG Strategic Plan 2013-2016 priority areas are:

- Build management capability, entrepreneurship and innovation
- Improve business environment, market access and internationalization
- Increase access to financing

Internationalization and market access will remain a very critical component. With RCEP and TPP, it will become much easier for companies to internationalize. It is important for SMEs to access the global market to sustain their businesses in view of the uneven growth in the global economy. However, small companies do not have the resources required to internationalize. This is one area within APEC economies that both the government as well as the private sector can do more together to help the SMEs internationalize.

Going forward, some ideas are:

- SMEWG must continue to promote policy best practices amongst APEC economies
- Consider developing a common benchmarking tool to measure effectiveness of SME policies and performance of SMEs in each economy. Such information would enable policy-makers to fine-tune policies to address SMEs' needs. This benchmarking tool could be driven by universities or leading research institutions such as Asia Competitiveness Institute (ACI).
- SMEWG should encourage economies to organize networking and business matching activities for SMEs from various economies to facilitate market access and foster partnerships amongst SMEs.
- SMEWG could support initiatives to train SMEs and their executives on market knowledge and doing business in specific markets. This is similar to the International Business Fellowship programme (conducted by International Enterprise Singapore) and the APEC Business Fellowship programme (conducted by Singapore in 2010).

## 12. Closing Remarks

Mr Jusuf WANANDI

Co-Chair, Pacific Economic Cooperation Council (PECC)

I would like, first of all, to profusely thank all of our supporters that made it possible for the 2013 PECC Conference to convene in Singapore:

- The Singapore Government for its generous financial support
- SINCEC for organizing the conference under Tan Khee Giap's leadership
- PECC Secretariat under Secretary General Eduardo Pedrosa who had done an excellent job in proposing the excellent role players
- INCPEC under Djisman Simandjuntak for his efforts to get a wonderful set of government speakers, business people, scholars and media representatives from Indonesia

Secondly, I would like to profoundly thank the keynote speakers, panelists, and moderators for their respective roles in the excellent discussions of substance during the two-day conference. Thirdly, I would like to thank all chairs of the National Committees who had been very helpful to get their members to come and participate actively in the excellent discussions. Fourthly, I would like to thank all participants for their substantive contribution in the discussions.

We, the PECC leadership, think that this conference was one of the best conferences we had ever organized, where discussions were very open and frank with various aspects of the issues discussed. Throughout, it had been a courteous forum, with quality exchanges. The session format of having a sole keynote speaker, a well-prepared moderator, and three or four panelists had been very effective for in-depth discussions where participant were able to express their views and raised questions within approximately 60 minutes.

The government of Indonesia extended its support by sending its best top officials to the conference whom we could not thank enough:

- Mari Pangestu, Minister of Tourism and Creative Economy, who delivered her speech and entertained questions and answers through Skype from Moscow at 5am local time
- Mahendra Siregar, Vice Minister of Finance
- Chatib Basri, Chairman of the Investment Coordinating Board
- Luky Eko Wuryanto, who presented the keynote address of the Coordinating Minister for Economic Affairs, Hatta Rajasa

These officials had given their presentations on the salient issues Indonesia is to propose at the APEC Summit in Bali, such as the infrastructure and connectivity, and SMEs as part of the Ecotech which for inclusivity of the emerging economies has to be highlighted and to become part of trade liberalization and facilitation.

The PECC Conference in Singapore was one of the series of three conferences in support of the three APEC Summits: Indonesia, China and the Philippines, because we are aware that these proposed new items may need a three-year period to get acceptance.

Related to this, PECC is also going to have a General Meeting in Vancouver on June 3-5, 2013 to deepen and widen some of the topics already discussed in this conference. The idea is that all the results of the Vancouver General Meeting will be delivered by PECC at the

APEC Summit in cooperation with ABAC. PECC will also seize the opportunity to announce the 2013 State of the Region (SOTR).

## Appendix: Abbreviations

ABAC	APEC Business Advisory Council
ADB	Asian Development Bank
ADB I	Asian Development Bank Institute
AEC	ASEAN Economic Community
AFTA	ASEAN Free Trade Area
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
AUSPECC	Australian Pacific Economic Cooperation Committee
CEPEA	Comprehensive Economic Partnership for East Asia
CNCPEC	China National Committee for Pacific Economic Cooperation
CTPECC	Chinese Taipei Pacific Economic Cooperation Committee
EAS	East Asia Summit
ERIA	Economic Research Institute for ASEAN and East Asia
EU	European Union
FTA	Free Trade Agreement
FTAAP	Free Trade Area of the Asia-Pacific
GDP	Gross Domestic Product
GNI	Gross National Income
IMF	International Monetary Fund
INCPEC	Indonesian National Committee for Pacific Economic Cooperation
IPS	Institute of Policy Studies
JANCPEC	Japan National Committee for Pacific Economic Cooperation
KOPEC	Korea National Committee for Pacific Economic Cooperation
NZPECC	New Zealand Committee of the Pacific Economic Cooperation Council
OECD	Organization for Economic Co-operation and Development
PECC	Pacific Economic Cooperation Council
RCEP	Regional Comprehensive Economic Partnership
SEA	Southeast Asia
SINCPEC	Singapore National Committee for Pacific Economic Cooperation
TILF	Trade & Investment Liberalization & Facilitation
TNCPEC	Thailand National Committee for Pacific Economic Cooperation
TPP	Trans-Pacific Partnership
UN	United Nations
US	United States
USD	United States Dollar
WTO	World Trade Organization