

ASIA-PACIFIC NEWS BRIEF

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INTELLECTUAL PARTNER AND TECHNICAL COORDINATOR OF THE NCC APR



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FOREWORD

RUSSIA IN THE ASIA-PACIFIC REGION

Current state of play

Stretching from the Baltic Sea in the West to the Pacific Ocean in the East, Russia belongs both to Europe and Asia-Pacific. However, defined by many historical choices Russia's economy is integrated with European countries much deeper than with the Asia-Pacific ones as statistics on trade and investment flows demonstrate. Thus, in 2014 the EU — Russia trade amounted to 48.5% of Russia's total trade turnover, while Russia's trade with the APEC economies reached 26.9% — only about a half as much.¹ According to the UNCTAD 2012 statistics Russia's inward investment from APEC member economies constitutes only 3.7% of the total foreign direct investment into Russia, with Russia's investment into the APEC countries amounting to 6.7% of the country's outward FDI.² In 2013 China was one of the top 10 countries investing into Russia.³ Among the Asia-Pacific countries, only the United States made it to the top 10 countries destination of Russia's foreign investment in 2013.⁴

The data on investment inflows and outflows prompt that a lot of work is in store for Russia to achieve a balanced integration with its western and eastern neighbors, “to increase the Asia-Pacific countries share in its total trade to 40 percent and expand the geography of Russian exports and increase the share of non-raw materials and high-tech goods”⁵. Working in partnership with business in established multilateral and new initiatives will be the key to success.

Why Asia-Pacific?

There are at least five good reasons for businesses to crave for the Asia-Pacific markets. First, the region is projected to remain the global growth leader over the

¹ Russia's foreign trade by main countries and groups of countries. January–November 2014. http://www.customs.ru/index2.php?option=com_content&view=article&id=20361:-2014-&catid=125:2011-02-04-16-01-54&Itemid=1976 (accessed 3 June 2015)

² Inward and outward foreign direct investment flows, annual, 1970–2013, APEC. UNCTAD. <http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx?ReportId=88> (accessed 5 June 2015)

³ Foreign investments by main investor countries. http://www.gks.ru/bgd/regl/bl4_l3/lssWWW.exe/Stg/d04/24-22.htm (accessed 3 June 2015)

⁴ Russia's investment into main foreign countries http://www.gks.ru/bgd/regl/bl4_l3/lssWWW.exe/Stg/d04/24-24.htm (accessed 3 June 2015)

⁵ APEC CEO Summit. 10 November 2014. <http://en.kremlin.ru/events/president/news/46988> (accessed 3 June 2015)

medium term with growth at 5.6 percent in 2015 and 5.5 percent in 2016⁶. Second, the unique combination of countries presents a diversity of opportunities to challenge. Third, many of the emerging Asian countries are net commodity exporters, coupled with continued growth, this implied demand for Russia's traditional export goods. Fourth, the new pattern of production in the region resulting in sixfold increase of trade in intermediate goods and fourfold increase in final goods⁷ creates windows of opportunity for entering the markets with high value goods. Fifth, increasing interconnectedness and trade liberalization reinforced by the 144 enforced Free Trade Agreements (or approximately 53 percent of the global number of FTAs)⁸ encourage trade. These of course are not the only reasons. Steady pursuit of a Free Trade Area of the Asia-Pacific (FTAAP), advancement of value chains development and strengthening of physical, institutional and people-to-people connectivity by the regional integrational groupings such as ASEAN and APEC contribute to the region's growing economic weight and attractiveness. Reaping the benefits of these advantages businesses need to be highly competitive, built into value/supply chains and well organized to advance their interests and influence investment environment.

Strengthening the Voice of Business

Business has a long history of working together to make its voice heard nationally through associations, confederations or other types of arrangements. Bilaterally businesses work through various councils and dialogues. At the regional level promotion of interests is a much greater challenge due to the number of stakeholders and diversity of national priorities. An important vehicle for advancing business agenda in the Asia-Pacific region is the APEC Business Advisory Council (ABAC) established in 1995 by the APEC leaders to seek advice from their business communities on the multiple issues of the Forum agenda. Russia joined the Asia-Pacific Economic Cooperation (APEC) in 1998.

In compliance with the general provision of ABAC formation three Russian companies nominated by the President are members of the ABAC. The formula of a limited representation has the benefit of enabling a dialogue among the CEOs of the APEC economies, crafting consensus recommendations and acting with a shared position in engagement with the leaders. The shortcoming of the formula is that restricted participation in absence of a smoothly functioning system of

⁶ Regional Economic Outlook: Asia and Pacific Stabilizing and Outperforming Other Regions. IMF. April 2015, Chapter I. <http://www.imf.org/external/pubs/ft/reo/2015/apd/eng/areo0415.htm> (accessed 5 June 2015)

⁷ Ibid, Chapter 2

⁸ Key Trends and Developments relating to Trade and Investment Measures and their Impact on the APEC region. APEC Policy Support Unit. May 2015. http://publications.apec.org/publication-detail.php?pub_id=1631 (accessed 5 June 2015)

national consultations does not allow the troika to represent the interests of the country's broader business community. To facilitate such consultations the National Coordination Center for Developing Economic Cooperation with the Countries of Asia-Pacific Region was established by RSPP in partnership with interested Russian companies, business associations and governmental authorities following the Prime Minister of the Russian Federation instruction of May 12, 2014 and RSPP Board Decision of June 18, 2014. The Center is also committed to facilitating Russia's private sector engagement in the APEC highlighting opportunities for private sector input in APEC.⁹

Importantly, the Philippines APEC 2015 Presidency in the spirit of inclusiveness planned for a greater interaction with private sector supplementing ABAC regular dialogue with the leaders with special CEOs round-tables linked with Ministerial meetings, as well as private sector participation in APEC experts meetings. Given that one of the Philippines Presidency priorities is to foster SMEs' participation in the regional and global economy, the APEC SME summit is scheduled for November 17, 2015 at the Green Sun in Makati City, Philippines. The summit discussion will focus on inclusive innovation. The SMEs from Russia and other APEC economies are invited to present at the event their vision and share their innovating experience. These opportunities to influence APEC decisions on regional integration processes should not be wasted by the business. The Philippines Presidency is commended for the initiatives, which hopefully will be further consolidated by the APEC future presidencies, including Peru, Viet Nam, Papua New Guinea, Chile, Malaysia, New Zealand and Thailand who are to host APEC in the years of 2016, 2017, 2018, 2019, 2020, 2021 and 2022 respectively.¹⁰

⁹ The center's web-site is available at <http://aprcenter.ru/en/>. This is the first issue of the Center newsletter, which will be published and circulated electronically bi-monthly

¹⁰ The 22nd APEC Economic Leaders' Declaration — Beijing Agenda for an Integrated, Innovative and Interconnected Asia-Pacific. 11 November 2014. http://www.apec.org/Meeting-Papers/Leaders-Declarations/2014/2014_aelm.aspx (accessed 5 June 2015)

THE ASIAN INFRASTRUCTURE INVESTMENT BANK

What is Asian Infrastructure Investment Bank?

The Asian Infrastructure Investment Bank (AIIB) is an international financial institution proposed by the government of China. The main objective of the AIIB to provide financing for infrastructure projects in the Asia region. Given a significant gap between the region's infrastructure financing needs and the financial resources available from existing multilateral and bilateral development institutions, AIIB establishment will help increase the pool of multilateral development support available to regional economies for infrastructure development and improvement.¹¹

History

Chinese President Xi Jinping and Premier Li Keqiang announced the initiative of establishing the AIIB in October 2013, defining the goals of the Bank as promotion of interconnectivity and economic integration in the region and cooperation with existing multilateral development banks. The United Nations has addressed the launch of the AIIB as an opportunity for “scaling up financing for sustainable development”.¹² However, some experts and policy makers express concerns with regard to the expected division of labour between MDBs and consider the AIIB as a rival for the World Bank, the IMF and the Asian Development Bank.¹³ Concerns on the AIIB governance have also been raised related to the China's leading role in the AIIB, restraining some countries' desire to join the Bank.¹⁴

Following the announcement, bilateral and multilateral discussions and consultations on core principles and key elements of the AIIB activities were held. On 24

¹¹ The Asian Infrastructure Investment Bank (AIIB). Frequently Asked Questions, AIIB. <http://aiibank.org/Faq-Preface.html> (accessed 5 June 2015).

¹² World Economic Situation and Prospects 2015, United Nations 2015. http://www.un.org/en/development/desa/policy/wesp/wesp_archive/2015wesp-ch3-en.pdf (accessed 5 June 2015)

¹³ Support for China-led development bank grows despite US opposition, The Guardian 14 March 2015. <http://www.theguardian.com/world/2015/mar/13/support-china-led-development-bank-grows-despite-us-opposition-australia-uk-new-zealand-asia> (accessed 5 June 2015)

¹⁴ Japan Shouldn't Join AIIB for Time Being, LDP Panel to Tell Abe, Bloomberg 1 June 2015. <http://www.bloomberg.com/news/articles/2015-06-01/japan-shouldn-t-join-aiib-for-time-being-ldp-panel-to-tell-abe-iadgkly9> (accessed 5 June 2015)

October 2014, 21 Asian countries signed a Memorandum of Understanding (MOU) to establish the AIIB and Beijing was selected to host its headquarters. Representative of China Mr. Jin Liqun was appointed as the Secretary General of the Multilateral Interim Secretariat.

Membership Status

Discussions among Prospective Founding Members (PFMs) on the establishment of the AIIB took place in Kunming, China on 27-28 November 2014. The second meeting in Mumbai, India on 15-16 January 2015 was devoted to the proposed Articles of Agreement. The third Chief Negotiators' Meeting was held in Almaty, Kazakhstan on 30-31 March 2015. The participants declared that the AOA would be finalized and open for signature by PFMs by mid-2015. The AOA is expected to enter into force and the AIIB to be fully established by the end of 2015.

As of May 2015, there were 57 PFMs. These include 37 Asian countries (including 21 MOU signatories) and 20 PFMs outside the region, namely: Austria, Brazil, Denmark, Egypt, Finland, France, Germany, Iceland, Italy, Luxembourg, Malta, the Netherlands, Norway, Poland, Portugal, South Africa, Spain, Sweden, Switzerland and the UK¹⁵. The form of Hong Kong's participation in the AIIB will be determined once the consultations are completed. Hungary and Chinese Taipei have applied for ordinary membership, the latter being rejected to become a PFM. North Korea was rejected to join the AIIB due to its failure to provide detailed information on the economic and financial market conditions in their country. Several other countries from various regions of the world are considering their participation as PFMs or ordinary members. Thus, almost all Asian countries, except Japan dominating the Asian Development Bank, and most major economies outside Asia, except the US and Canada, have joined the AIIB. Initially hesitant, Russia finally announced its decision to become a PFM in March 2015.¹⁶

AIIB Perspective

The AIIB Interim Secretariat has declared that the Bank “will work with its members, multilateral and bilateral development partners, the private sector and civil society” to improve access to basic services, including a reliable electricity supply, efficient transport systems, clean water supply, sanitation services, and modern telecommunications. AIIB financing will complement and supplement the efforts of

¹⁵ About Us, AIIB. http://aiibank.org/yatouhang_04.html (accessed 5 June 2015)

¹⁶ Russia Joins China's Asian Infrastructure Bank, But Doubts Its Power Against IMF, Forbes 29 March 2015. <http://www.forbes.com/sites/kenrapoza/2015/03/29/russia-joins-chinas-asian-infrastructure-bank-but-doubts-its-power-against-imf/> (accessed 5 June 2015)

existing MDBs and other development partners in the abovementioned areas, as well as in rural infrastructure and agriculture, environmental protection, urban development and logistics, and other sectors considered appropriate.¹⁷

The AIIB will have an authorized capital of USD100 billion, and it will also be able to borrow from capital markets to increase its funding. Initially, it was planned that the subscribed capital will equal USD50 billion, half of which will be provided by China. Later on it was declared that the authorized capital will be fully subscribed. It has also been decided that all members will pay in 20% of their share capital over a 5-year period.¹⁸ China's stake in the capital, according to different estimates, could reach 30% to 50%. However, while China's capital share will be dominant initially, it has committed to its further reduction. At the same time, China has not limited the Bank's capital to the lowest common denominator, as BRICS countries did in case of the New Development Bank (NDB). Greater flexibility in terms of capital and voting power is expected to help the AIIB get off the ground quickly compared to the NDB: according to a baseline scenario its equity will likely reach USD15 billion, with a loan portfolio of USD60 billion in 7 years. If the AIIB succeeds in building reserves from different sources similarly to the established MDBs and maintains the comparable equity-to-loan ratio (approximately 20%), as well as actively recruits new members, its portfolio can exceed USD100 billion by 2025.¹⁹

The establishment of the AIIB represents a major step towards changing the existing system of multilateral development finance. However, the AIIB is likely to face a number of challenges concerning membership, capital and governance inherent to the established MDBs. Thus, the AIIB's success in achieving the main objective of increasing the pool of finance available for infrastructure projects in the Asian region will depend on its ability to draw on the lessons and experience of existing MDBs.

¹⁷ The Asian Infrastructure Investment Bank (AIIB). Frequently Asked Questions, AIIB. <http://aiibank.org/Faq-Preface.html> (accessed 5 June 2015)

¹⁸ India to Have Second-Largest Shareholding in China-Led Bank, The Wall Street Journal 4 June 2015. <http://www.wsj.com/articles/india-to-have-second-largest-shareholding-in-china-led-bank-1433403000> (accessed 5 June 2015)

¹⁹ Chris Humphrey. Developmental revolution or Bretton-Woods revisited? ODI working paper 418. April 2015. <http://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/9615.pdf> (accessed 5 June 2015).

APEC TRADE AGENDA

Trends in APEC Trade

The economic situation in the APEC member economies is characterized by uneven growth rates (from 0.7 to 8 percent in 2014), influenced by falling oil prices, with private consumption remaining the primary driver of economic expansion in 2015-2016 backed up by sound macroeconomic fundamentals. Despite disadvantaged conditions of weak external demand in the world economy, APEC members exported USD9.1 trillion worth of goods in 2014, an increase of 2.0 percent over the 2013, while imports reached USD9.3 trillion, growing by 0.3 percent. The APEC economies are actively involved in the free trade agreements and the volume of trade between them is increasing. As of May 2015 there were 144 free trade agreements (FTAs) implemented between the APEC members, which is roughly 53 percent of the total number of existing FTAs. However, there remains a potential for improvement in this field, as evidenced by the analysis of top 20 intra-APEC trading partners, which revealed that 11 out of 20 pairs were not covered by a trade agreement. Moreover, the findings of the APEC Policy Support Unit research indicate that regional and bilateral FTAs can affect international trade and output both positively and negatively.²⁰

'Key Trends and Developments Relating to Trade and Investment Measures and their Impact on the APEC Region' issued in the run-up to the meeting in May 2015 focused on the free trade agreements' impact on world trade and economic outcomes. The research reveals that in order to maximize positive influence while minimizing the negative side effects, the number of FTA partners should be increased, as regional FTAs are clearly shown to have more positive impact on the members' economic outcomes than bilateral ones. Other measures to this end include enhancing complementarity between FTA partners and improving the quality of FTA through easing trade inhibiting regulatory measures.²¹

The 2015 Meeting of APEC Ministers Responsible for Trade

²⁰ Key Trends and Developments Relating to Trade and Investment Measures and their Impact on the APEC Region, May 2015. http://publications.apec.org/publication-detail.php?pub_id=1631 (accessed 5 June 2015)

²¹ Ibid

On 23-24 May 2015, the APEC member economies' ministers responsible for trade convened in Boracay, Philippines, for their 21st meeting. The meeting was attended by high-level representatives of the World Trade Organization (WTO), the APEC Business Advisory Council (ABAC), the Pacific Economic Cooperation Council (PECC), the Association of South-East Asian Nations (ASEAN), the Pacific Islands Forum (PIF) and the APEC Secretariat.

After the two days' work the ministers produced a Joint Statement²² and a separate Statement on Supporting the Multilateral Trading System,²³ once again reiterating their support to the WTO-led international trading system, and expressing their commitment to work towards the successful outcome of the Doha round. The APEC trade ministers also committed "to promote trade and investment liberalization and facilitation and strengthen economic and technical cooperation to achieve inclusive growth and attain the common goals of development, prosperity and progress".

The Joint Statement, reflecting the 2015 APEC trade ministers' agenda, was focused on several key issue areas:

Regional Economic Integration

The trade ministers committed to achieving the Bogor Goals, adopted in 1994 to facilitate open trade and investment in the Asia-Pacific, and pledged to work towards elimination of the remaining barriers. The ministers also instructed relevant officials to report by the APEC Ministerial Meeting (AMM) in 2016 on the progress of the Collective Strategic Study, undertaken to advance the implementation of the Beijing Roadmap for APEC's Contribution to the Realization of the Free Trade Area of the Asia Pacific (FTAAP), adopted in 2014.

Another important issue touched upon by the ministers was transparency and openness of regional and bilateral free trade agreements (RTAs/FTAs). The APEC trade ministers affirmed their position that "regional economic integration should not create unnecessary barriers between economies and lead to fragmentation of trade and investment flows".

The ministers confirmed their objective to reduce by the end of 2015 applied tariffs to five percent or less on the items in the APEC List of Environmental Goods, approved in 2012. The results of the 2nd Public-Private Partnership on Environmental Goods and Services (PPEGS) as well as the constructive exchange between private sector representatives and government officials on key non-tariff barriers to trade in

²² 2015 Meeting of APEC Ministers Responsible for Trade Statement. 24 May 2015. http://www.apec.org/Meeting-Papers/Ministerial-Statements/Trade/2015_trade.aspx (accessed 5 June 2015)

²³ APEC Ministers Responsible for Trade Meeting Statement on Supporting the Multilateral Trading System. 24 May 2015. http://www.apec.org/Meeting-Papers/Ministerial-Statements/Trade/2015_trade/2015_mts_standalone.aspx (accessed 5 June 2015)

environmental goods were noted with appreciation by the ministers.

Supply chains, being one of the key features of today's world economy, were also discussed by the APEC top trade officials, who reaffirmed the 2010 goal, set by the leaders, to achieve "a 10 percent improvement in supply chain performance" by the end of 2015. The ministers encouraged the APEC members to move forward with the implementation of the Customs 3M Strategic Framework (Mutual Recognition of Control, Mutual Assistance of Enforcement and Mutual Sharing of Information), in order to simplify and harmonize customs procedures and enhance supply chain connectivity in the region.

The ministers committed to move towards implementation of the APEC Connectivity Blueprint for 2015-2025, instructing relevant officials to finalize the arrangement for the monitoring, review and implementation of the Blueprint; report on the Study on Infrastructure Investment in the APEC Region and Peer Review and Capacity Building to Advance Cross-Sectoral Issues on Physical Connectivity; as well as provide a report on the progress of initiatives under the 2013 APEC Multi-Year Plan on Infrastructure Development and Investment.

The meeting's agenda also included the next generation trade and investment issues, internet and digital economy, intellectual property rights, structural reforms and regulatory coherence and cooperation.

SMEs' Participation in Regional and Global Markets

Recognizing the role of the SMEs as one of the key drivers of economic activity and trade among nations, the APEC trade ministers decided to spearhead the Boracay Action Agenda to Globalize MSMEs, to address the barriers faced by small and medium sized enterprises and promote their participation in international trade. This initiative provides, among other things, for simplifying rules of origin procedural and documentary requirements, streamlining customs-related rules and regulations, providing timely and accurate information on export and import procedures and requirements, and expanding SMEs internationalization opportunities.

The ministers also discussed the SMEs integration into global value chains, welcoming the initiatives and work plans under the SMEs' Participation into Global Value Chains work stream, and mandating appropriate officials to continue their work in this regard.

Human Capital Development

The APEC trade ministers emphasized "the importance of better access to quality education, training and information" as cornerstones of human capital

development and accumulation. They pledged to strengthen cross-border education cooperation between the APEC countries through enhancing academic mobility. The ministers also acknowledged the role of women in “the economic prosperity of the region”, and committed to “take concrete policies and innovative measures to further enhance women’s economic empowerment through improved access to capital, assets and markets, as well as to innovation and technology, educational and health services, and promoting women’s leadership in public and private sector”.

Sustainable and Resilient Communities

Within this area the ministers addressed several issues, critical for a general well-being of the region’s inhabitants, such as resilience and security of cross-border value chains, infrastructure development, fossil fuel subsidy reform, urbanization, and counter-terrorism. The ministers took note of and expressed support to a number of crucial initiatives being moved forward by the APEC structures, other international institutions and national bodies to tackle problems in these areas.

Economic and Technical Cooperation

Driven by the intention to assist developing countries in closing the development gap, and achieving the Bogor Goals by 2020, the trade ministers decided to establish several sub-funds under the APEC Support Fund, namely, the FTAAP and GVC sub-fund; innovative development, economic reform and growth sub-fund; and connectivity sub-fund. The participants also approved of the continued cooperation with ABAC and other stakeholders, and instructed officials to develop and strengthen cooperation with both regional and global institutions, as well as a broader range of stakeholders.

APEC Support of the Multilateral Trading System

The WTO Director-General Roberto Azevêdo thanked the ministers for their support to the WTO and the multilateral trading system and pointed out several key issues and directions for further work. Mr. Azevêdo reminded the ministers of the need to engage constructively on the implementation of all the decisions reached at the Bali Ministerial Meeting in 2013, including the necessity to agree upon the work program to resolve the remaining Doha Development Agenda issues by July 2015. He specified three criteria of the successful work program — in his view it must be substantive and meaningful, provide guidance on how to conclude the negotiations, and, it must create conditions for a successful outcome of the 10th WTO Ministerial Conference in Nairobi in December 2015.

The second important issue raised by the Director-General was the advancement of the Information Technology Agreement and the Environmental Goods Agreement. He underscored that APEC's role is crucial in this regard and mentioned that "less than a handful of APEC members" can play a major role in the ultimate success of the appropriate negotiation processes, with major stakeholders not being limited to the Asia-Pacific countries.²⁴

The findings and recommendations by both Mr. Azevêdo and the APEC Policy Support Unit served as a valuable input for the Ministers' meeting, providing guidance for their work through 2015 and beyond. So far, the ministers' decisions, made at their 21st Meeting in Boracay are generally in line with the advice, as evidenced by their drive towards deepening regional economic integration, including through reducing customs procedures and formalities, promoting harmonization of trade rules and supply chains connectivity, as well as their commitment to work towards successful outcome of the Doha Development Agenda.

The Russian Federation was represented at the trade ministers' meeting by the Deputy Minister of Economic Development Stanislav Voskresensky, who informed his colleagues of Russia's progress on the commitment to reduce tariffs on environmental goods, made in 2012. Mr. Voskresensky also expressed satisfaction with the way the work on the Beijing Roadmap implementation was being carried forward.²⁵

²⁴ Azevêdo cautions APEC ministers to be realistic on work programme as July deadline looms. 23 May 2015. https://www.wto.org/english/news_e/spra_e/spra59_e.htm (accessed 5 June 2015)

²⁵ Dvizhenie k Aziatsko-tihookeanskoy zone svobodnoy trgovli nabiraet oboroty. 25 May 2015. http://economy.gov.ru/minrec/press/news/20150525_04 (accessed 5 June 2015).

WHAT DOES THE SILK ROAD ECONOMIC BELT PROMISE TO THE EURASIAN CONTINENT?

The Chinese initiative “One Belt One Road (OBOR)”, comprising the “Silk Road Economic Belt” and the “21st Century Maritime Silk Road” was unveiled by Chinese President Xi Jinping in September 2013. A little over a year later, the Initiative is rapidly turning into reality and the Chinese government has drafted and published the **Vision and Actions on Jointly Building Silk Road Economic Belt (SREB) and 21st-Century Maritime Silk Road**.

China emphasizes that the SREB should be jointly built through consultations to meet the interests of stakeholders, and efforts should be made to integrate the development strategies of the countries along the Belt and Road. As outlined in the Vision the intention is:²⁶

- to build jointly the Belt and the Road, embracing the trend towards a multipolar world, economic globalization, cultural diversity and greater IT application;
- to uphold the global free trade regime and the open world economy in the spirit of open regional cooperation;
- to promote orderly and free flow of economic factors, highly efficient allocation of resources and deep integration of markets;
- to encourage the countries along the Belt and Road to achieve economic policy coordination and carry out broader and more in-depth regional cooperation of higher standards;
- to create an open, inclusive and balanced regional economic cooperation architecture that benefits all.

The milestones of China’s “Belt and Road” Initiative:

September 2013. The Silk Road Economic Belt concept was introduced by Chinese President Xi Jinping during his visit to Kazakhstan. It was the first time the Chinese leadership mentioned the strategic vision.

²⁶ Vision and Actions on Jointly Building Silk Road Economic Belt and 21st Century Maritime Silk Road. 28 March 2015. http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1249618.shtml (accessed 4 June 2015)

October 2013. President Xi proposed building a close-knit China-ASEAN community and offered guidance on constructing a 21st Century Maritime Silk Road to promote maritime cooperation. In his speech at the Indonesian parliament, Xi also proposed establishing the Asian Infrastructure Investment Bank (AIIB)²⁷ to finance infrastructure projects in the Asia-Pacific Region and promote regional inter-connectivity and economic integration.

February 2014. Xi and his Russian counterpart, Vladimir Putin, reached a consensus on construction of the Belt and the Road, as well as its connection with Russia's Euro-Asia Railways.

October 24, 2014. Twenty-one Asian countries willing to join the AIIB as founding members signed the Memorandum of Understanding on Establishing AIIB²⁷. The initial subscribed capital of AIIB will be \$50 billion and is planned to be increased to \$100 billion. With the establishment of AIIB Silk Road partners expect to see even more money flowing into the region to shore up infrastructure capabilities.

November 2014. President Xi announced that China will contribute 40 billion U.S. dollars to set up the Silk Road Fund. During the Beijing APEC meetings, Xi announced that it will be used to provide investment and financing support for infrastructure, resources, industrial cooperation, financial cooperation and other projects in countries along the Belt and Road.

March 28, 2015. The National Development and Reform Commission, Ministry of Foreign Affairs and Ministry of Commerce jointly released an action plan on the principles, framework, and cooperation priorities and mechanisms in the Belt and Road Initiative (Boao Forum for Asia).

April 14, 2015. Russia officially becomes a one of the founding members of the Asian Infrastructure Investment Bank (AIIB). It means Russian companies can take part in infrastructure projects in the Asia-Pacific region, and could attract foreign investment into Russia.

May 8, 2015. Russian President Vladimir Putin and Chinese President Xi Jinping signed a Joint statement on cooperation on linking the construction of the joint Eurasian Economic Union (EEU) and the Silk Road projects.²⁸

May 22, 2015. Founding members of AIIB finalized the Articles of Agreement (AOA), with the signing scheduled for the end of June in Beijing. Chief negotiators

²⁷ Asian Infrastructure Investment Bank. <http://www.aiibank.org/html/aboutus/AIIB/> (accessed 4 June 2015)

²⁸ Sovmestnoe zayavlenie Rossijskoj Federacii i Kitajskoj Narodnoj Respubliki o sotrudnichestve po soprazazheniju stroitel'stva Evrazijskogo jekonomicheskogo sojuza i Jekonomicheskogo pojasa Shelkovogo puti. 8 May 2015. <http://www.kremlin.ru/supplement/4971> (accessed 4 June 2015); Press statements following Russian-Chinese talks. 8 May 2015. <http://en.kremlin.ru/events/president/transcripts/49433> (accessed 4 June 2015)

held five rounds of meetings since the signing of MoU on establishing the AIIB in October 2014.

The potential for cooperation is indeed immense, as each of the countries along the Belt and Road has its own resource advantages and their economies are mutually complementary.

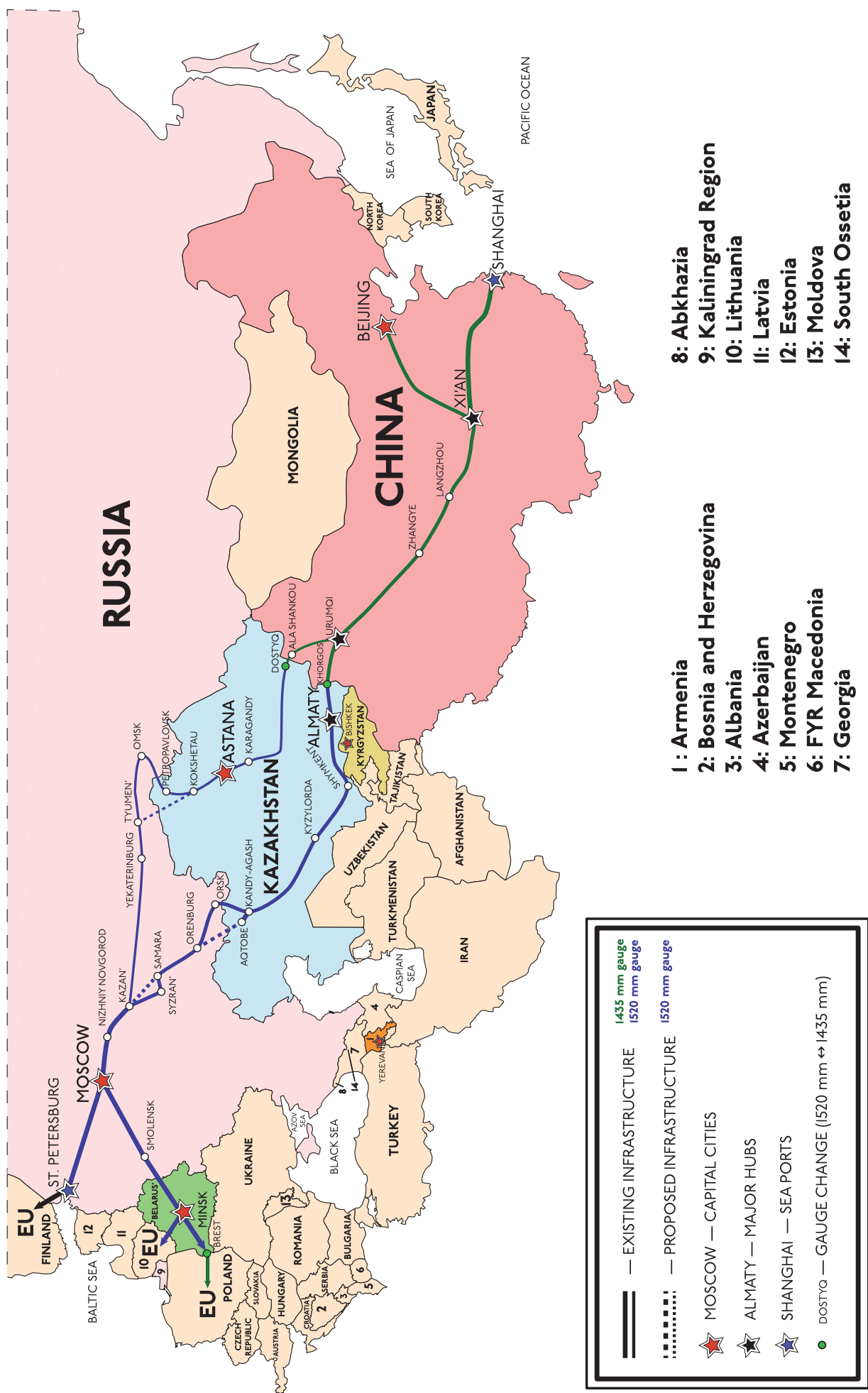
The Economic Belt along the Silk Road is in the shared interests of China and Russia and complementary to the ongoing process of the Eurasian Economic Community. It may therefore become a drive for the China-Russia comprehensive strategic partnership.

Russian-Chinese cooperation: key benefits within the framework of new infrastructure projects

- Increasing bilateral economic cooperation in a wide range of sectors including trade of goods and services, financial cooperation, energy, industry, tourism and cultural exchange;
- establishment of mechanisms to facilitate trade and optimize trade structure;
- expanding bilateral investment cooperation;
- encouraging development of transportation infrastructure and regulation of the transport and logistics segments: transportation network, electricity facilities and telecommunications;
- also, some existing cooperation projects, such as oil and gas pipelines, Chongqing-Xinjiang-Europe railway, West China-West Europe highway, and China's participation in the development of Russia's Far East and Eastern Siberia, can very well be integrated with the building of the Economic Belt along the Silk Road.

The SREB-EEU complementarity is offering partners the unique opportunity for connection of logistical and production hubs by developed transportation infrastructure, thus contributing to their five major goals of promoting policy coordination, facilities connectivity, unimpeded trade, financial integration and people-to-people bonds.

SREB focuses on bringing together China, Central Asia, Russia and Europe. Its implementation can contribute to modernizing the cargo transportation routes more effectively. Many routes are explored, we will not review all the routes being offered, but focus on the one we consider the most appropriate: “Xi'an — Almaty — Moscow — Minsk” (particularly because it goes through the member states of the Eurasian Economic Union). **See the map on page 18.**



First of all this route is the only one that is already in operation, and most of the existing transit flows run along this. Also, an important advantage is the need to cross only one customs border between China and Kazakhstan. However the main problems connected with this route are its limited traffic capacity, infrastructure modernization needs (implementing new technologies, particularly Almaty-Moscow route section) and short cuts constructions. Through modernization the SREB initiative will contribute to strengthening the competitiveness of all economies and businesses involved in the project.

The SREB and the EEU interests: key benefits of linking the two projects:

- Harmonization of international trade, rules of infrastructural projects implementation, capital and labor markets regulation, development of environmental law and employment protection rights;
- Convergence of regulations and quality standards of goods and services as a means of protecting the national markets. The EEU countries that provided their territories for the planned implementation of major investment projects will be able to secure their interests (in terms of compliance with environmental and labor standards);
- the SREB will provide the EEU countries with an influx of new investment in the industrial and transportation sectors, as well as in services and infrastructure. Its modernization/creation will in turn strengthen mutual trade between the EEU countries, as well as enhance their attractiveness to investors;
- improving the economic situation, reducing social tensions and strengthening political stability through jobs generation.

The SREB initiative, by linking countries of the Eurasian continent, will contribute to greater connectivity and complementarity across the sub-regions, and help the establishment and improvement of supply chains, industrial chains and value chains, thus bringing cooperation of the regional governments and business communities of these regions to a new level.

Regional cooperation for joint infrastructure development and systemic innovation can help improve business environment in relevant countries and the region as a whole, facilitate orderly and unimpeded flow of production factors and their improved distribution, support development of landlocked countries and the remote

BUSINESS CONTRIBUTION TO THE APEC

areas of various countries, lower the costs of trade and investment barriers, and serve as a driver for reform and opening-up in the countries involved.

Asia-Pacific Economic Cooperation (APEC) traditionally values business opinion. APEC “blessed” the APEC Business Advisory Council (ABAC) establishment in 1995. So far ABAC is the most known “business voice” institution in the Asia-Pacific region. Over the whole period of its history ABAC provided the APEC Leaders with recommendations reflecting business community interests. ABAC recurrent message to the APEC Leaders and Ministers is that trade and investment environment for goods and services should be open, predictable and transparent, and business climate should provide all sectors and communities with an access to broader economic opportunities. Since 1995 the APEC Leaders regularly affirmed in their declarations the central role of the business sector in the APEC process, welcomed the ABAC initiatives and often mandated the APEC Ministers to implement them. The most known business initiatives which were adopted by the APEC Leaders are the APEC Business Travel Card (ABTC) and the Free Trade Area of the Asia-Pacific (FTAAP). The latter though is still very much work in progress.

In general, ABAC presents its priorities in a structured fashion in accordance with the APEC agenda. The ABAC annual reports to the APEC Leaders on the one hand include endorsement and support of APEC work and initiatives favorable for business and communities, on the other side propose new initiatives to be implemented by the APEC members to improve business climate, boost economic growth and ensure sustainable development of the APEC community. This year is no exception.

Business recommendations for the APEC Leaders summit in Manila in November 2015

The Philippines APEC presidency priorities announced in December 2014²⁹ focus on enhancing regional economic integration, fostering SMEs’ participation in the regional and global economy, investing in human capital development and building sustainable and resilient communities.

Within the Philippines presidency ABAC has emphasized the same four

²⁹ Senior Officials Set APEC’s 2015 Agenda Priorities. 10 December 2014. http://www.apec.org/press/news-releases/2014/1210_priorities.aspx (accessed 31 May 2015)

priority topics as the APEC with some fine-tuning:³⁰ advancing regional economic integration and services agenda; strengthening and facilitating SMME entry into global markets; maximizing innovation and human capital potential; and promoting livable, sustainable cities and resilient communities.

It could be expected that this year ABAC in its report to the APEC Leaders will support the following APEC members' commitments:

Regional economic integration

- to implement the WTO Trade Facilitation Agreement (TFA), thus reducing costs and increasing efficiency in the movement of goods and provision of services;
- to expand participation in the Trade in Services Agreement (TiSA);
- to build more effective global value chains (GVCs), e.g. to strengthen the resilience of GVCs to enable business to navigate the challenges of economic crises;
- to address the gaps in infrastructure investment;
- to enhance supply chain connectivity;

Fostering SMEs' participation in the regional and global economy

- to strengthen and facilitate SMME entry into global markets thus providing them with new business opportunities;

Building sustainable and resilient communities

- to enhance women economic empowerment, e.g. to provide integration of women-owned businesses into the global supply chain;
- to promote good regulatory environment which is crucially important for business;
- to uphold the Rule of Law because open and transparent government, absence of corruption, fundamental rights and security are the guarantee for sound business environment;

Investing in human capital development

- to improve the movement of labor in the region to address labor shortages.

The ABAC recommendations to the APEC Leaders this year are expected to include among others monitoring and assessing macroeconomic developments and developments in the international financial system; improving valuation standards and practices in APEC.

Opportunities for strengthening the dialogue with the APEC Leaders

³⁰ The 2015 Work Program. <https://www.abaconline.org/v4/content.php?ContentID=22610251> (accessed 31 May 2015)

ABAC proved its effectiveness in dialogue with the APEC Leaders projecting business interests. However, aligning its work with the APEC agenda has both the advantages and shortcomings. One of the minuses of this approach is that the ABAC in fact follows the APEC steps, and though it increases the chances to be heard, it also reduces the opportunities to promote the proposals which could add value to the APEC agenda. ABAC could certainly enhance its influence by developing an “outreach” mechanisms bringing into consultations national business associations and interested companies which are not presented in the ABAC, thus reflecting interests of a broader business community in the APEC documents.

The Philippines APEC presidency provides an opportunity for a broader dialogue with the business through engagement of private sector in APEC ministerial and expert meetings as well as traditional APEC CEO Summit which brings together state and business leaders and APEC SME Summit aimed at sharing of knowledge and information between SMEs in the Asia-Pacific region.

Key APEC meetings with business participation and business meetings within APEC Philippines presidency:

- 10 — 13 August 2015: Third ABAC meeting
- 9 — 11 September 2015: Finance Ministerial meetings
- 8 — 10 October 2015: Transportation Ministerial meetings
- 12 — 14 October 2015: Energy Ministerial meetings
- 13 — 16 November 2015: Fourth ABAC meeting
- 17 November 2015: APEC SME Summit

CONSIDER RUSSIA

16 — 18 November 2015: APEC CEO Summit

18 November 2015: ABAC Dialogue with APEC Leaders

Russia has always been perceived with a degree of caution in the world: too specific, too unpredictable, and too big. Events last year have rendered this perception even stronger. At the same time, however, many investors have opted to look beyond the current geopolitical situation, economic downturn, and long-standing structural inefficiencies, and to focus on the strong fundamentals of the Russian market.

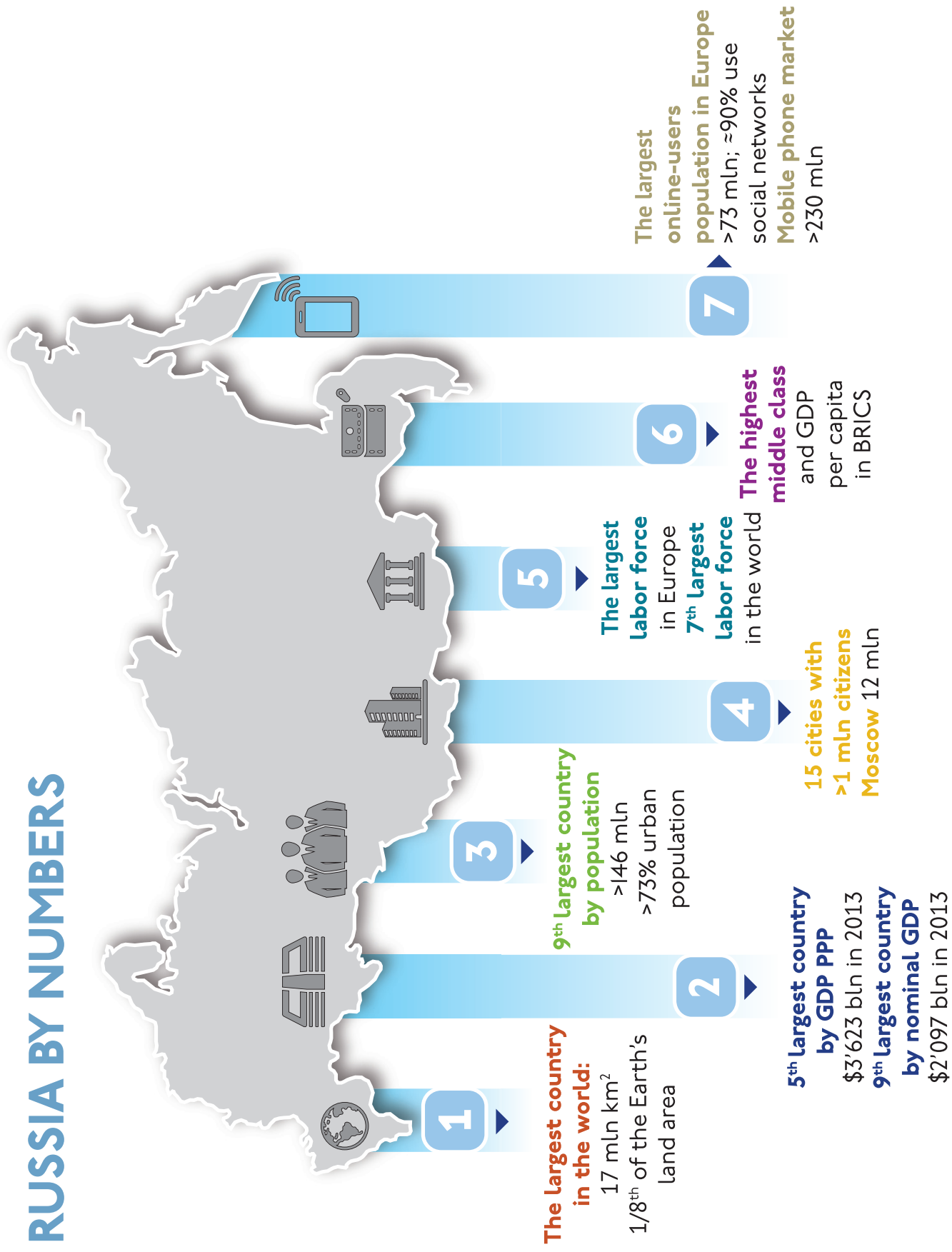
Over the past 25 years Russia has witnessed extensive growth: the country's development needs were funded by oil & gas revenues. The recent sanctions and slump in oil prices are forcing Russia to focus on the economic challenges curbing growth:

- Low level of competitiveness. SMEs account for only 20 percent of Russian GDP, compared to more than 50 percent in the USA and close to 70 percent in the EU.
- Low productivity. Currently productivity is under half of the level in Germany and just 28 percent of the figure for the USA. At the same time, however, there is growing recognition that this has to change. Russia has set itself the goal of improving productivity by 50 percent between 2012 and 2018.
- Red tape and corruption. Corruption, still high in Russia, burns a significant proportion of the country's capacity. According to Transparency International's Corruption Perception Index 2014, Russia ranked 136 (out of 175). Industrial and commercial efficiency is also hampered by bureaucracy. However, Russia has moved up the World Bank Ease of Doing Business ranking, leaping from 112th in 2012 to 62nd by 2015. Again, the goal is to reach the lofty heights of 20th overall by 2018.

Despite these and other structural challenges, the underlying potential of the world's largest country remains strong. For European investors in particular, Russia represents by far the biggest "neighboring" market. The Eurasian Economic Union, consisting of Russia, Kazakhstan, Belarus, Armenia, and soon Kyrgyzstan, is a market of 180 million consumers, the world's 7th largest consumer market. The share of the middle class in Russia is the highest among the BRICS countries and has tripled over the past five years.

Notwithstanding the sanctions, the federal and regional governments are striving to make life easier for foreign investors, establishing special economic zones offering incentives for industry, technology, transport and logistics, and tourism and recreation sectors, with dedicated regional advisory teams offering assistance.

RUSSIA BY NUMBERS



In spring 2015, US financier Jim Rogers argued that the time was ripe to invest in Russia — and not just to take advantage of bargain basement stock pickings. Speaking to Reuters, he observed that: “Something has happened over in the Kremlin. The old ways of doing things in Russia have changed in my view.” He added: “I am very optimistic about the future of Russia”. Another renowned US investment expert, Mark Mobius, is equally optimistic about Russia’s longer-term prospects. His Franklin Templeton fund has several Russian holdings, and he has commented that Russian companies are “...very well run and have excellent management.”

We often hear from foreigners, who are considering investing in Russia, the valid point about the high political risks that are involved. At the same time, however, according to the Survey by the Foreign Investment Advisory Council more than 70% of foreign investors who have invested in Russia are happy about their decision, while 82% are convinced that the large domestic market, burgeoning consumer finance sector, the growing level of savings and personal income provide attractive investment opportunities. In addition, 72% of investors rate highly the economic policy and legislative changes introduced by the Russian government to improve the investment climate. In other words, investors say that when doing business in Russia, you just need to follow the rules, as is the case in any other country. Once these rules are mastered, they are economically viable.

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