



APEC Business Advisory Council
Report to APEC Economic Leaders
Lima, Peru 2008

Mind the Gap: Making Globalization an Opportunity for All





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Mind the Gap:

Making Globalization an Opportunity for All

Report to APEC Economic Leaders
Lima, Peru 2008



APEC Business Advisory Council



His Excellency Dr. Alan Garcia

Chair, Asia-Pacific Economic Cooperation
President of the Republic of Peru
Lima, Peru

Your Excellency:

Our report is written against the background of a regional economy much less buoyant than it was last year. Businesses throughout the region are feeling the dampening effects of market instability, rising inflationary pressures, declining demand, and constraints on liquidity. Efforts to close the income and development gaps within and between economies are at risk. In addition, the recent suspension of the Doha Round is a deep disappointment for the business community. This letter focuses on the issues that in our view deserve your immediate attention.

Accelerating Regional Economic Integration. We urge Leaders to encourage further efforts to secure the progress achieved and a balanced agreement in the Doha negotiations. At the same time, the suspension of the DDA does present an opportunity for APEC to focus on steps to strengthen and deepen trans-Pacific regional integration. ABAC reiterates its belief that the Free Trade Area of the Asia-Pacific (FTAAP) represents a practical means to achieve convergence among RTAs/FTAs, advance regional liberalization, and achieve the Bogor Goals. ABAC has undertaken work in areas that can serve as building blocks towards the FTAAP. We propose that work on an FTAAP be accelerated by completing the current studies on regional economic integration and exploring all options to achieve the free flow of goods, services, capital and labor within the region.

Addressing the Global Credit Contraction and Inflationary Pressures. To avoid future financial disruptions in the wake of the current global credit contraction, ABAC urges policymakers to improve confidence in the credit and capital markets through consistent and prudent fiscal and monetary policies and timely liquidity mechanisms and to change the emphasis of regulation from entity-based to activity-based. ABAC further recommends coordinated action among the central banks and regulators both within the region and globally. These policy actions, however, must be appropriately balanced with the risk of inflation that has begun to emerge in some APEC economies.

Enhancing SME Development, including Micro-Enterprises. Acknowledging the vital role that SMEs play in APEC economies, ABAC held the first session of the Second ABAC SME Summit in Hangzhou, China in August 2008. A second session is being organized in Lima, Peru in November 2008. We urge Leaders to continue to give importance to SME development by implementing special support programs on technological infrastructure, financing capacity building, and training.

The associated comprehensive report contains our detailed comments and recommendations on other issues including trade and investment facilitation, food security, energy security, climate change, international labor mobility, ICT-enabled growth, structural reform and intellectual property rights.

We look forward to discussing the above recommendations with you during our dialogue in Lima in November.


Sincerely,

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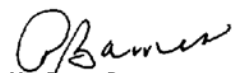


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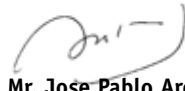


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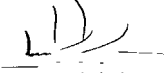


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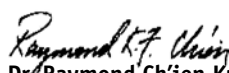


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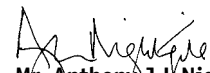


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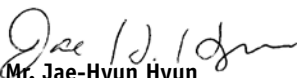


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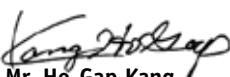


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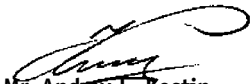


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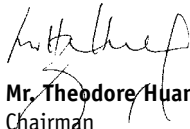


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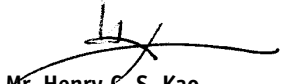


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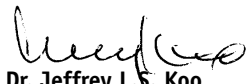
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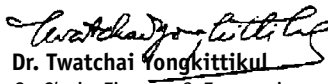
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Executive Summary



Executive Summary

The following is a summary of the recommendations that are put forward in this report:

- 1. Responding to the Suspension of the Doha Development Agenda (DDA) Negotiations.** ABAC has been consistent in providing support to the WTO system, including the DDA negotiations. The recent suspension of the Doha Round is a deep disappointment for the business community. The business community urges Leaders to continue to drive liberalization in international markets and particularly in the Asia-Pacific. We urge Leaders to encourage further efforts to secure the progress achieved and a balanced agreement in the Doha negotiations.

The suspension of the DDA does present an opportunity for APEC to focus on steps to strengthen trans-Pacific regional integration.

- 2. Accelerating Regional Economic Integration.** ABAC welcomes the Leaders' decision to accelerate efforts to promote further economic integration in the Asia-Pacific region. ABAC reiterates its belief that the Free Trade Area of the Asia-Pacific (FTAAP) represents a practical means to achieve convergence among RTAs/FTAs, advance regional trade and investment liberalization, and achieve the Bogor Goals.

ABAC has undertaken work in a number of areas that could serve as building blocks towards the FTAAP. These include the development of model chapters, the assessment of high quality RTAs/FTAs in order to identify the core elements of regional integration, and a study on rules of origin. We propose that work on an FTAAP be accelerated by completing the current studies on regional economic integration, exploring all options and other measures to achieve the free flow of goods, services, capital and labor within the region.


- 3. Addressing the Global Credit Contraction and Inflationary Pressures.** In light of

the *global credit contraction* sparked by the sub-prime mortgage crisis and write-downs by various international banks, ABAC urges policymakers to help avoid future financial disruptions by: improving confidence in the credit and capital markets through consistent and prudent fiscal and monetary policies and timely liquidity mechanisms; changing the emphasis of regulation from entity-based to activity-based; implementing measures to improve transparency in credit derivatives and highly leveraged markets so that counterparty risk can be clearly understood and established.

ABAC further recommends that high priority be given to *coordinated action* among the central banks and regulators within the region and globally. Rapid communications, multilateral decision-making and forceful and timely action by regulators and central banks on the dissemination of timely and transparent information would do much to mitigate remaining problems and will facilitate a rapid return to stability and liquidity in the APEC capital markets.

ABAC recommends that policymakers find a balance between allowing sufficient liquidity for corporate and personal investment necessary to maintain growth, while keeping downward pressure on inflation that has begun to emerge in APEC economies. In the current situation, ABAC advises to avoid excessive liquidity which may lead to worsening inflation. In addition, to promote market stability amongst economies, ABAC recommends enhancing cross-border regulatory cooperation aimed at improving and disseminating data on short-term capital flows.

- 4. Enhancing SME Development, including Micro-Enterprises.** Acknowledging the vital role that SMEs play in APEC economies, ABAC held the first session of the Second ABAC SME Summit in Hangzhou, China in August 2008. A second session is being organized in Lima, Peru in November 2008. We urge Leaders to continue to give importance to SME development by



implementing special support programs on technological infrastructure, financing capacity building, and training.

ABAC welcomes the revised work plan to accelerate activities under the **APEC Private Sector Development program** for SMEs. The associated workshop schedule should be expanded to include new themes identified by the World Bank as relevant benchmarks. ABAC seeks the appropriate opportunity to provide a regional business perspective on planned new regulations to help address these issues, and will collaborate with relevant APEC agencies in capacity building program on better regulatory and business practices for SMEs.

5. **Responding to Food Supply and Price Issues.** ABAC remains convinced that efforts to increase productivity and ensure the freer flow of foodstuffs and production technologies are the key means by which APEC should address these challenges. We urge APEC Leaders to renew the commitment they made in 1999 to bring the **APEC Food System (AFS)** into effect, and to instruct officials to review and update the AFS and develop policies and programs required for its effective implementation. We also urge Leaders to renounce the use of embargoes or export restrictions as a means of addressing food shortages.

6. **Facilitating Investment Flows.** Regional economic integration will be facilitated by measures which improve transparency and make the rules for investing – by both domestic and foreign investors – simpler and clearer. Unnecessary impediments to cross-border investment flows should be avoided and internationally agreed rules for the fair treatment of investments maintained. ABAC strongly commends the advent of the **Investment Facilitation Action Plan** and will provide recommendations on indicators to measure progress under the plan.

ABAC recommends that priority be given to the promotion of measures to reduce impediments to FDI flows in the region and to remove “behind-the-border” barriers to investment in financial services. Further, in the WTO negotiations, ABAC urges APEC to utilize the checklists it produced in 2006 on goals and best practices for **financial services liberalization**. This year, ABAC has also revised the financial

services checklist to reflect best practices and goals for the securities industry. We recommend that APEC Leaders instruct officials and WTO negotiators to review and use them to further their deliberations in financial services in the securities sector, and implement the goals and best practices in the domestic policy framework for investment in securities services in APEC economies.

7. **Facilitating Trade Flows.** Removing impediments which impact on the efficient movement of goods at the border is critical to business in the region. Regional business favors a border regime that has minimal impact on the flow of goods and people but with maximum penalties for those who do not comply. A single-entry for all regulatory requirements and seamless data-sharing would help constrain compliance costs, supporting the growth of regional supply chains and economic integration. To that end, ABAC urges the acceleration of the implementation of the **“Single Window”** approach across the Asia-Pacific region with adherence to recognized international instruments and uniform standards which increase international interoperability.

ABAC fully supports the implementation of APEC’s **Second Trade Facilitation Action Plan (TFAP II)**, and the use of **Key Performance Indicators (KPIs)** for measuring savings in time and transaction costs resulting from actions taken under the Plan. ABAC has provided what it sees as suitable KPIs to particular APEC sub-fora whose work is directly related to business.

Excessive proliferation of trade security schemes in recent years would hinder the smooth flow of legitimate trade. However, enhanced **trade security** can and must be compatible with improved facilitation. APEC economies should work closely with regional business to establish reliable and effective risk management systems with a holistic approach to trade security measures.

Business mobility is crucial to promoting trade and investment. APEC should continue to encourage transitional and non-participating economies to fully join the APEC Business Travel Card scheme, and also improve the operation of the

scheme and capacity building facilities in participating economies.

ABAC is building momentum towards the harmonization of standards across the region, to advance an APEC-wide initiative on **emergency management standards** for security of critical infrastructure. The outcomes from this project, to be available in November, will be reviewed as to their possible value as a template for future work in other sectors.

8. **Implementing Structural Reform.** Regional economic integration and sustained economic development are underpinned by **structural reform**. The APEC Ministerial Meeting on Structural Reform agreed to an on-going work program on issues such as competition policy and regulatory reform. ABAC endorses the outcomes of the Ministerial Meeting and recommends them to Leaders.
9. **Ensuring Access to Labor.** With intensifying globalization and accelerating demographic changes, increased **international labor mobility** have played a pivotal role in the economic transformation of the Asia-Pacific region benefiting both origin and receiving economies. ABAC has undertaken a study with PECC to assess the economic and business implications of this issue, and has identified common challenges as well as possible cooperative responses. ABAC urges APEC to include, in its 2009 Agenda, a work plan to address related international labor mobility issues that would significantly enhance the benefits to APEC economies.
10. **Boosting Innovation.** Faster approval of high quality patents will accelerate innovation and increase competitiveness. We urge that APEC economies take steps to harmonize application formats and to share the results of patent searches and examinations in order to create **highly efficient patent approval processes**, and to support legislation/regulation to prevent copiers from using the safety and efficacy data of the originator to gain marketing approvals of patent infringing products.

Collaboration between private sector and IPR enforcement authorities is essential to effectively crackdown on increasingly globalized and sophisticated

counterfeiting and piracy activities. ABAC urges APEC Leaders to encourage the establishment of a platform to collect and analyze IPR infringing cases and share such information through public-private partnership within each economy, and to promote the establishment of a framework for information sharing among economies to take more effective measures.

Protection of digital content is important for purposes of information security, privacy protection and rights management. We urge APEC to develop an action plan to give effect to its 2007 Ministerial Declaration regarding theft of satellite and cable broadcast signals through measures such as the development of best practices and capacity building through public-private sector workshops.

11. **Promoting ICT-Enabled Growth.** Effective utilization of ICT increases productivity and will continue to be encouraged. However, access to, and adoption of, ICT are not sufficient to close the digital divide. The focus should shift to the creation of digital dividend, to reduce poverty in line with the United Nations Millennium Development Goals (MDGs), through effective development programs that aid the growth of new economic opportunities for future ICT markets. To this end, the elimination of tariffs on ICT products and devices by the WTO Information Technology Agreement (ITA) should be maintained. ABAC also encourages APEC to support the ICT/Electronics and Electrical Products sectoral talks under the WTO DDA.
12. **Ensuring Energy Security.** Expansion of, and access to, all energy resources, including traditional oil and gas as well as renewable and alternative sources, will be necessary to achieve long-term energy security. As an initial step, each APEC economy should formulate its goals and action plans for improving **energy efficiency** towards achieving APEC's "aspirational goals of a reduction in energy intensity of at least 25 percent by 2030" set by Leaders in 2007.
13. **Mitigating Climate Change.** An effective Post-Kyoto framework should satisfy the following three conditions: (a) participation of all major emitters; (b) each economy setting and implementing equitable and

fair targets for greenhouse gas emissions reduction; and (c) acceptance of diverse approaches. In formulating goals and monitoring results, verifiable and objective data and indicators of major industrial sectors should be shared.

Also important are: (a) public and private partnerships in developing new energy technologies; (b) pursuing sectoral approaches to improve energy efficiency in major greenhouse gas emitting industries; (c) market-based technology transfer to developing economies; (d) mobilization of private funds through various incentives and through eliminating impediments; (e) the establishment of clear legal and regulatory frameworks; and (f) trade liberalization of environmental goods and services.

14. **Deepening and Strengthening Capital Markets.** Continued efforts by APEC economies to *deepen and strengthen capital markets* will help dampen market volatility and allow economies to withstand future financial shocks by providing a diverse and broad supply of liquidity to those entities seeking funds. ABAC therefore recommends specific areas of capacity building initiatives on local bond markets in the region, investment facilitation in financial services, commercializing microfinance, and fiscal reforms to encourage capital market development.

ABAC recommends the launching of a policy initiative in APEC to promote *financial inclusion* focused on providing an enabling legal, policy and regulatory environment for microfinance. Noting the value in the sharing of *bond market development* experiences, ABAC proposes the continued holding of the APEC Public-Private Sector Forum on Bond Market Development.

ABAC proposes the establishment of a *Regional Infrastructure Dialogue* among representatives from government, private sector and host communities to strengthen planning capabilities, promote best practice governance arrangements, and support capacity building initiatives. With regard to *strengthening regional financial stability*, further efforts are needed to help deepen understanding by regulators and financial market players of changes in the financial environment.

We recommend support for measures being developed by international agencies in response to the rapid growth of *sovereign wealth funds* and to activities relating to other flows which may impact on security or national interests.

ABAC recommends promoting greater participation by data furnishers in a private consumer *credit reporting system* and the use of full-file and comprehensive credit reporting to provide increased and more equitable access to credit, while also effectively addressing concerns about privacy, identity and restricted distribution of confidential data.

ABAC continues its collaboration with other regional institutions to promote effective implementation of Basel II and *governance in banking systems*. ABAC recommends continued participation of banking supervisory agencies in the annual regional public-private dialogue on Basel II implementation hosted by SEACEN.

APEC economies, both developed and developing, are facing a variety of new challenges related to disproportionate population ageing and the funding and management of retired workers' *pensions*. ABAC believes that pay-as-you-go social security structures have inherent weaknesses and should be replaced over time with some form of funded mechanisms. It is essential that governments urgently attach importance to the significance of social security systems.

15. **Promoting Corporate Social Responsibility.** ABAC agrees that *Corporate Social Responsibility* (CSR) is an important and wide ranging issue. It is strictly a business activity, driven by corporate values and circumstances unique to each company and the communities in which they operate. It must be voluntary and not mandated or legislated. ABAC has undertaken further work on CSR, including a showcase of best practices in CSR currently underway in APEC economies, a compendium of examples of CSR practices, and an inventory of CSR principles, standards, codes of conduct, and definitions.

Main Report



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6. Capacity Building in Financial Services
 - a. Bond Market Development
 - b. Infrastructure Public-Private Partnerships
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- B ABAC Letter to APEC Ministers Responsible for Trade (Interim Report)
- C ABAC Letter to APEC Ministers Responsible for Trade on Food Shortages and Price Inflation
- D ABAC Letter to APEC Finance Ministers on the Global Credit Contraction
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Main Report

Introduction

Over the past twelve months, we have witnessed a dramatic decline in the economic well-being of the regional economy. Its resilience is being sorely tested. All APEC economies, developing and developed, are feeling the dampening effects of market instability, rising inflationary pressures, declining consumer demand, and constraints on liquidity. Businesses are acutely aware of these negative trends and very few have escaped their impact, regardless of size or location.

It is important that the prospect of a regional recession is addressed with resolute action and that all economies resume the growth performance in production and trade in services and manufactured goods. It is essential to respond to the challenges in ways that will provide renewed opportunities for growth and development and avoid backsliding that will negate the advances made in recent years.

As business people, ABAC members fully accept their responsibilities to face up to problems as they arise and make decisions that will allow them to maintain viable businesses. We believe business people throughout the region are committed to contributing to identifying solutions. In the global economy, however, governments must act together to establish conditions within which business can operate with confidence.

In this report, we seek to set out practical responses which governments of APEC member economies should take to address the challenges noted above. The proposals are consistent with the basic tenets that have guided APEC since its inception, and relate to the three core pillars of APEC – liberalization, facilitation and capacity building. We recommend them to Leaders in the belief that they will assist in ensuring that the APEC economies can continue to show leadership on the global stage in dealing with common problems, and demonstrate how economies working together can achieve outcomes of mutual advantage and benefit to all their peoples.

A. Responding to the Suspension of the Doha Development Agenda Negotiations

ABAC has been consistent in providing support to the WTO, including the Doha Development Agenda (DDA) negotiations. The recent suspension of the Doha Round is a deep disappointment for the business community. The business community urges Leaders to continue to drive liberalization in international markets and particularly in the Asia-Pacific.

That being said, the suspension of the DDA does present an opportunity for APEC to focus on steps to strengthen and deepen trans-Pacific regional integration.

A stronger, fully committed and free trade oriented APEC is the best contribution we can make to the WTO under the current situation.

Recommendations

- Promote a more integrated and developed trans-Pacific regional integration through APEC;
- Encourage further efforts to secure what has been achieved to date in the Doha negotiations as well as to secure a balanced final Doha agreement; and
- Support the accession of Russia to the WTO.

B. Accelerating Regional Economic Integration

ABAC welcomes the Leaders' decision to accelerate efforts to promote further economic integration in the Asia-Pacific region. ABAC reiterates its belief that the FTAAP represents a practical means to achieve convergence among RTAs/FTAs, advance regional trade and investment liberalization, and achieve the Bogor Goals.

ABAC has undertaken work in a number of areas that could serve as building blocks towards the

FTAAP. These include the development of model chapters, the assessment of high quality RTAs/ FTAs in order to identify the core elements of regional economic integration and a study on rules of origin.

Recommendation

- Mandate APEC Ministers to accelerate the work on an FTAAP by completing the current studies on regional economic integration and exploring all options or other measures to achieve the free flow of goods, services, labor and capital within the region.

C. Addressing the Global Credit Contraction and Inflationary Pressures

The current global credit contraction sparked by the sub-prime mortgage crisis and write-downs by various international banks has had a serious and significant impact on the regional economy. ABAC therefore proposes recommendations for policymakers to help avoid future financial disruptions.

ABAC further recommends that high priority be given to coordinated action among the central banks and regulators within the region and globally. The systemic risk economies face from the credit/liquidity contraction is serious and far from over. Rapid communications, multilateral decision making and forceful and timely action by regulators and central banks on the dissemination of timely and transparent information would do much to mitigate the remaining problems and will facilitate a rapid return to stability and liquidity in the APEC capital markets.

ABAC recommends that policymakers find an appropriate balance between allowing sufficient liquidity for corporate and personal investment necessary to maintain growth, while keeping downward pressure on inflation that has begun to emerge in APEC economies. In addition, to promote market stability amongst economies, ABAC recommends enhancing cross-border regulatory cooperation aimed at improving and disseminating data on short-term capital flows.

Recommendations

- Improve confidence in the credit and capital markets by promoting consistent

and prudent fiscal and monetary policies and timely liquidity mechanisms;

- Begin immediately to change the emphasis of regulation from entity-based to activity-based. The latter can be achieved through informal collaboration among the various regulatory bodies both within and across economies; and
- Implement measures to improve transparency in credit derivatives and highly leveraged markets so that counterparty risk can be clearly understood and established.

D. Enhancing SME Development, including Micro-Enterprises

A constant theme in ABAC Reports to APEC Leaders has been the high level of dependence every economy has on the contribution of its micro, small and medium enterprises. ABAC has made repeated calls for the reduction or removal of regulatory obstacles to SME growth, and to improving access to finance, information and technology, and training. This focus has been mainly on fostering the role of SMEs in domestic economies. In the past two years, there has been increased ABAC attention to ways of enabling SMEs to succeed in overseas markets. Under the general theme "ease of doing business," ABAC has highlighted "behind-the-border" issues that influence the opportunity for SMEs to establish their presence offshore and perform successfully.

Recommendations

- Implement a Technological Infrastructure Program by providing appropriate Information Communication Technology (ICT) services and technological infrastructure for SMEs' development in all APEC member economies by 2020. Detailed actions include, but are not limited to: establishing and improving the ICT social support, service and safeguard systems for SMEs by harmonizing all administrative and social resources; enhancing targeted financial support for ICT use by SMEs; promoting the introduction of programs which assist SMEs to protect their intellectual property; encouraging ICT R&D and utilization capability of SMEs; developing systems and methods for improving SME productivity, especially the use of evolving new technologies; and

supporting the development of business transformation mechanisms to help SMEs deal with major challenges to their business.

- Implement a Financing Capacity Building Program by carrying out comprehensive capacity building programs to reinforce SME financing capability of all APEC member economies. Detailed actions include, but are not limited to: establishing micro-credit and loan systems and sound financing legal frameworks by APEC member economies; establishing venture investment funds for SMEs; establishing governmental financing guarantee and re-guarantee institutions for SMEs; promoting the establishment of Internet-based lending systems; and promoting new capital markets for trading high risk equities, aimed specifically at SMEs, and especially on-line systems that ensure extreme transparency in investee companies.
- Implement a SMEs Training Program through the following actions: establish day-to-day cooperation and exchange mechanisms among APEC economies; fully utilize and exploit a full range of educational resources, strengthen coordination among relevant international and domestic training institutions; establish Special Fund to support SME management education under appropriate APEC economic and technical cooperation schemes; and consider whether SME management education could, as appropriate, be pursued as an APEC Collective Action.

E. Responding to Food Supply and Price Issues

There is widespread concern among regional business regarding the impact of shortages in the supply of basic food products and subsequent marked increases in prices. These problems are due to a number of factors, notably increased global demand for food products, as well as energy-related challenges including oil price rises. In some economies, defensive measures are being taken, including imposition of export restrictions to retain supplies for domestic markets, which cause adverse consequences for other economies. In addition to avoiding such unhelpful short-term measures, it is essential that the underlying long-term problems be

addressed. Within APEC, there is an established framework for guiding policy decisions in this area - the APEC Food System (AFS) developed by ABAC and adopted by Leaders in 1999.

As set out in the 1998 and 1999 ABAC Report to APEC Leaders, the AFS visualizes a regional food system built on the guiding principles of rural development and capacity building, technology development and sharing, and trade and investment liberalization in food products. As APEC's main vehicle for addressing food security issues, the AFS seeks to create an environment based on a vision of a regional food system where: consumers have access to the food they desire at affordable prices; the productivity of the food sector is enhanced through region-wide availability of food-related technological advances and through efficient resource use; supply security is improved through cooperation and interdependence; the vitality of rural communities is enhanced through improved infrastructural development and through access to viable non-farm employment and industry. The AFS includes specific programs to pursue the vision. Those programs have direct relevance to the situations faced today. We recognize and applaud the fact that much work has been done in many economies to try and implement the System. Nevertheless, we feel that much more can be done within APEC to fully embrace the AFS. ABAC stands ready to work closely with APEC on this issue and plans to put special emphasis on the AFS and food issues from now through the 2009 Leaders' Meeting.


Recommendations

- Renew the commitment entered into by APEC Leaders in 1999 to bring the AFS into effect, and to instruct officials to review and update the AFS and develop policies and programs required for its effective implementation; and
- Renounce the use of embargoes or export restrictions as a means of addressing food shortages.

F. Facilitating Investment Flows

1. Investment Facilitation Action Plan

Enhancing investment flows in APEC economies is critical to growth and



economic integration. As these goals are central to successful business growth across the region and reflected in the newly agreed Investment Facilitation Action Plan (IFAP), ABAC strongly endorses the Plan. In implementing the plan, emphasis should be placed on improving transparency in investment rules and decision-making, in simplifying processes and in making doing business in the region easier. ABAC applauds the far-sightedness shown by Leaders in convening the first Ministerial Meeting on Structural Reform to implement LAISR by 2010 and to securing the objective of regional economic integration. We endorse work on core elements of bilateral investment agreements and efforts to develop model investment chapters in RTAs and FTAs. Our support for and engagement in the work of the Investment Experts Group and the Economic Committee demonstrates ABAC's commitment to enhancing investment flows in the region.

Measurable and realistic targets and indicators of progress will be integrated in the IFAP and ABAC will propose effective indicators to measure implementation progress and the real business benefits of IFAP actions. ABAC is impressed by the support being given by the World Bank, UNCTAD, the OECD and the International Law Institute in promoting and facilitating investment in the region.

Recommendations

- Ensure that investment facilitation actions under the IFAP focus on improving transparency in rules and decision-making, simplifying processes and in making doing business in the region easier, and on model measures to promote the convergence of investment chapters in RTAs and FTAs between regional economies;
- Place emphasis on critical linkages which occur between the IFAP and measures arising from the Ministerial Meeting on Structural Reform in securing regional integration; and
- Continue to collaborate with major international agencies in promoting and facilitating investment.

2. Investment Facilitation in Financial Services

Financial services are growing rapidly in the region and liberalizing services is critical to achieving the Bogor Goals. In 2006, ABAC presented to Ministers and Leaders a series of checklists of goals and best practices to be used in the WTO negotiations on financial and other services. These checklists were a guide or benchmark to judge offers made or received by economies and were also highly relevant to domestic policy decision-making to improve investment flows. Building upon the 2006 "Checklists", this year, ABAC has reviewed the financial services checklist to reflect best practices and goals for the securities industry.

Recommendation

- Review the checklist and consider instructing WTO negotiators to use them to further their deliberations in financial services in the securities sector, and implement the goals and best practices in the domestic policy framework for investment in securities services in APEC economies.

G. Facilitating Trade Flows

1. Movement of Goods

APEC economies prosper through profitability of their export sectors. As the region becomes an increasingly dominant global economic force, the challenge to reconcile border management regimes and trade growth assumes higher priority.

Removing impediments which impact on the efficient movement of goods at the border is therefore critical to business in the region. Regional business cannot maximize the benefits of improved market access and reduced tariffs, without efficient and cost effective border management regimes that enhance the ease and speed of moving goods and services among APEC economies.

Regional business favors a border regime that has minimal impact on the flow of goods and people but with maximum penalties for those who do not comply. A single-entry point for all regulatory

requirements and seamless data-sharing would help constrain compliance costs, supporting the growth of regional supply chains and economic integration.

Recommendation

- Accelerate the implementation of the “Single Window” approach across the Asia-Pacific region with adherence to recognized international instruments and uniform standards which increase international interoperability.

2. TFAP II and KPIs

Given that the objective of the Second Trade Facilitation Action Plan (TFAP II) is to facilitate trade, ABAC has promoted the value of utilizing Key Performance Indicators (KPIs) for measuring savings in time and transaction costs of the actions under TFAP II. ABAC has provided what it sees as suitable KPIs for particular APEC sub-fora whose work is directly related to business and will work with the sub-fora in the implementation of KPIs.

Recommendations

- Ensure that TFAP II outcomes are relevant to actual business practices; and
- Incorporate the business perspective in assessments of TFAP II implementation.

3. Trade Security

ABAC is concerned about a sudden and an excessive proliferation of trade security schemes in recent years which may have hampered smooth customs processes. While recognizing the importance of trade security, ABAC considers that enhanced trade security can and must be compatible with improved facilitation. Therefore, in order to balance the need to maintain secure borders with the need to facilitate trade, it is important that APEC economies adopt a “holistic” approach toward the development of trade security regimes.

Recommendations

- Develop a methodology for mutual

recognition of Authorized Economic Operators (AEOs) sanctioned by other member economies to avoid inconsistent, redundant and/or duplicative requirements and audits for AEOs;

- Refrain from implementing trade security regimes that will significantly hinder shipments either due to time or prohibitive costs; and
- Address any such costs through countervailing measures such as provision of finance for expensive equipment and capacity building assistance.

4. Behind-the-Border Issues

ABAC has welcomed APEC Leaders’ recognition that closer regional economic integration requires closer attention to “*behind-the-border*” issues that impact on trade and commerce. The APEC Ministerial Meeting on Structural Reform in Melbourne in August has initiated a program of action in APEC and ABAC to address issues such as competition policy and regulatory reform. ABAC endorses the outcomes of the Ministerial Meeting and recommends them to Leaders.

ABAC strongly supports the Private Sector Development Agenda (PSD) launched by the APEC SME Working Group (SMEWG) to promote better regulatory and business practices. However, the related capacity building program should be accelerated with participation by both policy officials and those responsible for implementation. A coherent APEC approach is needed, which calls for the highest level of collaboration and cooperation among relevant APEC agencies. ABAC seeks appropriate opportunity at PSD workshops to provide a regional business perspective on planned new regulations to help address behind-the-border issues.

5. Business Mobility

It is clear that business mobility is crucial to promoting trade and investment. When business people do not meet, there is no business. Moreover, delays in travel because of visa requirements and immigration control exact a very real cost to businesses.

The APEC Business Travel Card (ABTC) scheme resulted from efforts by ABAC in 1996 to call attention to this fact.

Since the ABTC was introduced in May 1997 by Australia, Korea and the Philippines, the scheme has grown steadily. At the end of 2006, the United States indicated its intention to participate in the scheme, and as of now, has already started to participate as a “transitional” economy. In 2007, Mexico joined the scheme and the number of member economies reached 19. The gradual expansion of participating economies is the tangible evidence that APEC’s “pathfinder approach” is successful and trustworthy. However, some calculations reveal that the number of ABTCs to be issued in the next five years could increase ten-fold and ABAC believes the scheme has reached a key stage where its operational conditions can be further promoted and improved, while maintaining security.

Recommendations

- Continue to improve the operation of ABTC in participating economies, such as priority processing, further shortening the processing time for pre-clearance, extending the term of the validity of the card, providing seamless validity at the time of passport renewal, improving online services, ensuring definite recognition of ABTC at airports, and providing clearly marked ABTC lanes;
- Encourage transitional and non-participating economies to fully join the ABTC scheme through a minimum transition period (three year maximum) to eliminate cardholder confusion and facilitate the full participation of these economies;
- Provide sufficient capacity building for immigration officials to avoid confusion at airports;
- Publicize changes to ensure widespread awareness among cardholders and to avoid confusion both at the individual economy and APEC-wide levels; and
- Consider utilizing new technology such as a “Contact-less” chip, which would allow ABTC to store a cardholder’s biographic data, so long as it provides benefits even

for economies with fewer cardholders, and is proven to be cost-efficient.

6. Harmonization of Standards

ABAC is building momentum towards harmonization of standards across the region. It has been utilizing some research on standards and capacity building across the region to advance an APEC-wide initiative on emergency management standards for security of critical infrastructure, a global initiative on the creation and introduction of disaster and emergency procedures. The outcomes from this project will be reviewed as to their possible value as a template for future work in other sectors.

H. Ensuring Access to Labor

With intensifying globalization and accelerating demographic changes, business is increasingly experiencing a marked shortage of skilled and lower skilled labor. The accelerating labor flows are becoming a permanent structural feature impacting APEC economies and could have the potential to be a source of tension that could affect business activity. From a business perspective there would be value in discussion in APEC on steps to manage issues surrounding international labor mobility in parallel with ongoing efforts in the region to facilitate the free flow of goods and investments.

Considerable progress has been made in liberalizing trade and financial flows. However, progress in labor mobility has been limited. An initiative in labor mobility would be consistent with the goals of APEC and greatly enhance the regional integration process.

ABAC has undertaken a study with PECC to assess the economic and business implications of labor mobility, identified common challenges and proposed possible cooperative responses including:

- Strengthening national and regional data and policy analysis in order that APEC economies and stakeholders can have a fuller understanding of labor mobility and their importance;
- Building capacity in labor mobility

management at national and regional levels; and

- Sharing best practices on circular migration, reducing transaction costs for temporary workers, technology transfer and training, pension portability and facilitating social adjustments and others.

Recommendation

- Include in APEC's 2009 Agenda a work plan aimed at addressing issues that would enhance the benefit to APEC economies of labor mobility, ease adjustment problems associated with labor mobility, strengthen the transfer of human skills, overcome increasing demographic and labor imbalances and provide protection and enhanced well-being for temporary workers. ABAC and PECC are willing to join APEC in this program by sharing our knowledge, analyses and conclusions with APEC officials.

I. Boosting Innovation

Intellectual Property Rights Protection

(a) Patent Cooperation and Enforcement

In recent years, the increasing speed of knowledge acquisition and IP development, as well as the expansion of the global marketplace, have led to a surge in the number of worldwide patent applications. This has been accompanied by an increase in non-resident patent applications (patents filed in multiple economies). According to the World Intellectual Property Organization, in 2006, the number of patent applications world-wide reached 1,660,000, of which 77% were non-resident filings. The rapid growth in patent filings world-wide has increased the demand for both volume and capability of resources needed to assess these filings, has strained individual patent offices, and -- unless addressed -- could stand as an impediment to innovations.

Improvement in the patent application and examination processes will surely help, particularly in those economies with significant increases in new patent applications. Measures such as the adoption of a common patent application format, generally following the Patent Cooperation

Treaty (PCT) standard, will reduce burdens on offices and filers and promote electronic filing and prosecution. Efforts to encourage and facilitate the sharing of search results similarly will serve to streamline the patenting process. Moreover, such measures will reduce costs for applicants as well as patent offices, promote certainty and consistency in outcomes, and reduce delays in the processing of applications. The US, Japan and European patent offices have been trying to leverage the work-search and examination done by other offices to avoid duplication and increase efficiency in processing. This effort could serve as a reference model for a pathfinder initiative within APEC to share knowledge and, thus, improve the quality and timeliness of patent approvals.

Also important to supporting innovation is the commitment by APEC economies to ensure that, once approved, patented products are protected from copies until expiration and, likewise, that copiers are not allowed to rely on the safety and efficacy data of the originator to gain marketing approval. Restoration of some portion of the patent time lost to administrative delays would also demonstrate support for advances in technology.

Recommendations

- Pursue efforts to increase cooperation in exchanging information relative to the examination and issuance of patents so that work-search and examination conducted in one economy can be applied to the patent filing process in another economy;
- Encourage patent experts in the APEC region to have a workshop for the analysis of the feasibility of a common patent application format according to the current patent status;
- Encourage greater investment in innovation through capacity building assistance from developed APEC economies to establish legislation/regulation to prevent marketing approval of patent infringing products and reliance by infringers on safety and efficacy data provided by originator companies; and
- Establish a pathfinder initiative to pursue related issues in the near- and long-term.

(b) *Signal Theft*

The 2007 declaration of APEC Ministers and the 2008 Ministers Responsible for Trade (MRT) Meeting Chair's Statement affirmed a continuing commitment to the protection of intellectual property rights and, for the first time, called upon participating economies to direct attention to satellite and cable signal theft. APEC urged economies, in accordance with international obligations and legal systems, to explore ways to effectively address this problem, which harms copyright owners and broadcast and cable industries and exacts a toll on government coffers in the form of lost tax revenues.

Recommendation

- Give effect to APEC's 2007 Ministerial Declaration and the 2008 MRT Meeting Chair's Statement regarding theft of broadcast signals, through further documentation of the nature and extent of the problem, the development of guidelines and best practices and capacity building activities through public-private sector workshops, in order to prevent the unauthorized redistribution of copyrighted content, including "free-to-air" digital terrestrial broadcasts, over various platforms including the internet.

(c) *Technological Protection Measures*

As information flows become more globalized and information increasingly drives economic growth in the region, APEC economies need to adopt policies that provide adequate legal protection to content creators and owners.

Recommendation

- Pursue the protection of digital contents for purposes of information security, privacy protection and copyright management by limiting circumvention of technological protection measures (TPMs) and prohibiting the sale and distribution of circumvention devices.

(d) *Anti-Counterfeiting Trade Agreement*

In response to the global proliferation and increasing sophistication of counterfeiting and piracy, a number of APEC Members will

be pursuing an Anti-Counterfeiting Trade Agreement (ACTA). The envisioned ACTA is expected to include commitments in three areas: (i) strengthening international cooperation; (ii) improving enforcement practices; and (iii) providing a strong legal framework for IPR enforcement. The discussions are in their initial stages and need not be duplicated in APEC. However, APEC should welcome timely opportunities to understand developments in the ACTA negotiations and how they can contribute to broadening the opportunities inherent in the Information Society.

Recommendation

- Promote and encourage a dialogue with partners who are working on the new Anti-Counterfeiting Trade Agreement so that APEC members recognize the importance of the ACTA.

(e) *Sharing Information for IPR Counterfeit Enforcement*

APEC member economies developed six Model Guidelines based on the APEC Anti-Counterfeiting and Anti-Piracy Initiative which was endorsed in 2005 and have made efforts to protect intellectual property rights and strengthen their own enforcement systems. Despite the recent efforts of industry, governments and various international organizations including APEC, the damage caused by counterfeiting and piracy has not diminished. On the contrary, the counterfeiting and piracy "business" has become international, complex and sophisticated.

Companies that are active in IP protection worldwide have accumulated a wealth of information related to international specialization and sophisticated methods of counterfeiting and piracy. It would contribute to an effective response if this information could be brought together to facilitate joint countermeasures by companies and industry organizations, and collaboration with appropriate authorities in efficient and effective enforcement action. Today, some industrial organizations, and government organizations in some economies have already started such collaboration to put in place effective and efficient countermeasures. The efforts and achievements differ among APEC

economies. In some economies, business has to request that government authorities initiate countermeasures. A priority issue for APEC in strengthening IP protection is to encourage the development of a region-wide information-sharing structure for promoting more effective and efficient international countermeasures against counterfeiting and piracy.

Recommendations

- Establish a contact point to collect and analyze cases involving business and encourage sharing of such information to promote private-private and public-private cooperation and collaboration within each economy;
- Promote information sharing between the contact point of each economy and other economies' companies and enforcement authorities; and
- Take a leadership role in promoting appropriate measures to develop the private-private and public-private information sharing framework.

(f) Life Sciences

Improving health outcomes in APEC economies is an important shared goal of business and government. ABAC recognizes that a healthy workforce is a more productive workforce. In order to meet the increasingly complex disease challenges facing APEC economies, it is critical that the life sciences sector continue on the path of innovation.

Recommendation

- Support policies that enable investment and promote innovation in life sciences.

J. Promoting ICT-Enabled Growth

ABAC is encouraged by the progress that APEC has made in advancing the ICT-Enabled Growth Initiative since ABAC recommended its implementation in 2006. Specifically, ABAC endorses efforts to develop the Digital Prosperity Checklist as a tool for guiding economies in the implementation of ICT-related policies designed to enhance economic growth, including the

APEC Data Privacy Pathfinder, Technology Choice Principles Pathfinder and others.

1. Closing the Digital Divide, Creating Digital Dividend

Effective utilization of ICT increases productivity and will continue to be encouraged. However, access to and adoption of ICT are not sufficient to close the digital divide, but the creation of socio-economic value or digital dividend through effective utilization of ICT and through the multi-stakeholder partnerships is key to closing the digital divide and thus reducing poverty as per the United Nations Millennium Development Goals (MDGs).

The APEC Telecommunications and Information Working Group (TEL) has developed various programs to close the digital divide and has successfully addressed some ICT access and adoption issues. However, a number of areas with regard to the creation of socio-economic value and to the multi-stakeholder partnerships need to be improved.

Recommendations

- Increase coordination amongst the multi-stakeholder partnerships of government, private sector, international organizations and civil society; and
- Provide a more effective system of evidence evaluation and monitoring with new emphasis on indicators measuring socio-economic value.

2. Information Technology Agreement

More than a decade ago, APEC Leaders in Manila sent the global trading system in a new direction by agreeing on a far-reaching Information Technology Agreement (ITA) that eliminates tariffs on information technology products among trading partners that account for nearly 95 percent of trade in such products. It was the first global sectoral agreement that required uniform coverage and given the dynamic nature of the sector, contained provisions that ensured continuation of the ITA treatment for products that benefit from changes in technology. APEC is proud of its leadership

in this effort and continues to be concerned that maintenance of the ITA treatment remains an essential plank in APEC's work in the technology sector.

Recommendation

- Strongly support continued efforts to preserve the integrity of the Information Technology Agreement and its coverage, which was negotiated initially in APEC.

3. Tariff Elimination for ICT/Electronics and Electrical Products

If the ICT/Electronics and Electrical Products sectoral talks under the framework of the WTO Doha Development Agenda (DDA)'s Non-Agricultural Market Access (NAMA) negotiations are concluded successfully, further expansion of the trade in this sector can be expected. Referring to the success of the ITA, which has increased availability of the IT products, mitigated the digital divide, made people's lives more convenient and affluent, and brought about the rapid growth of the ICT industry, APEC needs to make every effort to realize tariff elimination in the ICT/Electronics and Electrical sector, and thus seek further prosperity of the APEC region.

The "de facto" integration has been progressing in East Asia, as multinational companies that belong to the ICT/Electronics and Electrical sector, among other manufacturing sectors such as automotive sector, have been forming intra-regional production networks, and governments are following this move through institutionalization. This "de facto" integration can be considered as an important preceding example for the regional economic integration of APEC. The realization of tariff elimination in the ICT/Electronics and Electrical sector is also expected to be a driving force for the regional economic integration of APEC.

Recommendations

- Actively support and exercise leadership in the ICT/Electronics and Electrical Products sectoral talks under the framework of the WTO DDA NAMA negotiations; and

- Encourage all member economies to actively participate in the negotiations and to become participants of the ICT/Electronics and Electrical Products sectoral agreement so that it may be established as an integral part of the successful conclusion of the DDA.

4. Technology Choice Principles

In 2006, to advance the 2002 Leaders' Pathfinder Statement to Implement APEC Policies on Trade and the Digital Economy, economies agreed to work together to promote the principles of technology choice in a market opening, trade-liberalizing manner that spurs the cycle of innovation and opportunity and promotes economic development across the region. To date, 15 APEC economies have joined the initiative. These principles underpin much of APEC's future work plan, and APEC is uniquely placed to promote further acceptance and adherence to these principles by APEC economies.

Recommendations

- Unanimously adopt the Technology Choice Pathfinder Principles;
- Conduct a survey of APEC economies on the current status of legal and regulatory regime vis-à-vis the principles; and
- Conduct a study on the long-term economic growth and innovation benefits of adherence to the principles.

K. Addressing Energy Security and Climate Change

1. Meeting the Climate Change Challenge

Many of the aspirational challenges expressed in the "Sydney APEC Leaders' Declaration on Climate Change, Energy Security and Clean Development", endorsed on 9 September 2007, such as commencement of a negotiation process for all economies' participation, the importance of setting a long-term goal, and the significance of innovative technology development, were reflected in the Bali Action Plan which was endorsed at the 13th Conference of

the Parties (COP13) of the United Nations Framework Convention on Climate Change (UNFCCC) held in Bali, Indonesia, from 3-15 December 2007. At COP13, members also reached agreement to set a new negotiation process to work towards the adoption of a new framework for a post-2012 arrangement by 2009.

It is critical to pursue energy efficiency and conservation internationally which has an immediate effect and provides a cost-effective solution that enables balanced economic growth and environmental conservation. At the same time, a large reduction in greenhouse gas emissions must be realized by developing and disseminating innovative technologies.

In order to establish long-lasting global cooperation framework to tackle the climate change challenge, it is indispensable to give due consideration to the following three points: (a) global climate change is the result of the greenhouse effects accumulated in the past; (b) as a result of the increase of foreign direct investment, the number of factories located in developing economies has risen; and (c) per capita GDP energy consumption should also be taken into account.

Recommendations

- Ensure that the following conditions are met in implementing the Post-Kyoto framework under the UNFCCC: (i) participation of major emitters, (ii) setting and implementing equitable and fair targets for greenhouse gas emissions reductions, and (iii) acceptance of flexible and diverse approaches, taking into account each economy's situation;
- Focus on energy efficiency to reduce greenhouse gas emissions. Each APEC economy should formulate its goals and action plans for improving energy efficiency, and a peer review mechanism should be established to mutually monitor their progress;
- Develop the concept of sectoral approach to facilitate sector-specific activities toward contributing to mitigation of the global warming effects;
- Enhance public and private efforts to collect

and share verifiable and objective data and indicators on energy efficiency of major sectors upon setting goals and monitoring results;

- Move ahead on a public-private partnership toward research and development of new energy technologies, as well as to remove barriers in the sharing of clean energy technologies at a fair price; and
- Accelerate deployment, transfer and dissemination of existing energy-saving technologies by providing such incentives as low interest financing, tax benefits and rewards, which will help encourage investment by business and early adoption by consumers.

2. Trade in Environmental Goods and Services

APEC Leaders agreed in Sydney in September 2007 to review and discuss at their 2008 meeting the progress achieved in the WTO Doha Round on the liberalization of trade in environmental goods and services. For their part, Ministers requested officials to continue work in this field with a particular focus on the scope to help economies meet their climate and energy security objectives.

Recommendations

- Attach priority to trade in environmental goods and services in APEC's liberalization agenda in 2008/2009;
- Promote practical ways of exchanging further information between public and private sectors and monitoring new developments, such as through participation in the APEC Market Access Group (MAG) panel discussions and workshops;
- Encourage, support and participate in work initiated in the MAG to build a regional database of up-to-date material on environmental trade and tariff regimes; and
- Request Ministers Responsible for Trade for wider flexibility in the WTO negotiations on environmental goods and services.

3. Increasing Energy Security in APEC: 2008 – 2012

ABAC has begun developing a five-year strategy for increasing energy security in the region. With the likelihood of sustained elevated prices for energy resources, it is now extremely critical for Leaders to reach consensus on, and begin implementing, policies that will lead to narrowing the gap between supply and demand growth of energy resources. ABAC will provide Leaders and Ministers over the term of five years with a comprehensive plan to advance policy development, which will include measurable objectives for improvements in the areas of efficiency, technology development, and energy portfolio diversification.

L. Deepening and Strengthening Capital Markets and Pension System Provisions

This year, ABAC has concentrated its efforts on two initiatives with regard to financial markets: deepening and strengthening capital markets and pension system provisions. ABAC has placed emphasis on taxes on capital markets, and on measures to enhance investment flows in financial services and to maintain open markets. Our recommendations are closely integrated with initiatives to deepen and strengthen capital markets, namely (i) financial measures to decrease greenhouse gas emissions, (ii) the rationale for and ways to promote microfinance and social inclusion, and (iii) consumer finance in market development.

Current efforts by APEC economies to deepen and strengthen capital markets will dampen market volatility and allow economies to withstand future financial shocks, such as the current credit contraction, by providing a diverse and broad supply of liquidity to those entities seeking funds. The recommendations listed below include specific areas of capacity building initiatives on local bond markets in the region, investment facilitation in financial services, commercializing microfinance, and fiscal reforms to encourage capital market development.

1. Taxes and Financial Integration

Taxes matter for financial integration and they can raise barriers both for financial development and global financial integration. In response to concerns

expressed last year by Ministers about taxes and the impact on financial integration, ABAC recommends a review that would identify taxes that are inefficient from an economic point of view in each member economy or by regions. Such a review would be most effective if it were supported by international institutions such as the OECD or the IMF. This could be supplemented by survey of APEC economies and the analysis incorporated into APEC "IAP Peer Studies Reports".

2. Strengthening Pension Systems

APEC economies, both developed and developing, are facing a variety of new challenges related to disproportionate population ageing and the funding and management of retired workers' pensions. Costs related to ageing are latent liabilities of the state, and are a result of its roles as both employer and provider of social safety nets. ABAC recognizes that savings rates, investment levels, and financial market strength vary in individual economies, and therefore, there is no single prescription available for addressing this challenge. For all economies, it is important to recognize that pay-as-you-go social security structures have inherent weaknesses, should be replaced over time with some form of funded mechanisms. For all economies, it is essential that governments urgently attach importance to the significance of social security systems.

3. Financial Inclusion and Microfinance

In many developing economies, large portions of the adult population – as high as 60-70 percent in certain cases – remain without access to financial services. Microfinance has emerged as a potent tool to address this issue, and its ability to do so has grown in recent years with the expanded use of technology and financial innovation, increasing sophistication of microfinance institutions, growing linkages to capital markets and policy reforms. The development of microfinance remains uneven across the region, underscoring the significant potential of regional cooperation to assist economies in providing a favorable environment for promoting financial inclusion through microfinance.

Government has an important role to play in the process of promoting financial inclusion and can accelerate progress toward financial inclusion by identifying the most critical policy solutions. A study that examined alternative policy measures to promote financial inclusion identified six sets of access policy solutions that governments in the region could consider. These refer to policies and regulations governing correspondent banking agents, mobile phone banking, entry barriers to the financial sector, the governance and management of publicly-owned financial institutions, financial identity regulations and financial consumer protection.

Recommendation

- Launch a policy initiative to promote financial inclusion, focused on providing an enabling legal, policy and regulatory environment for microfinance, in collaboration with ABAC. In developing this initiative, APEC Leaders and officials should consider the conclusions of the ABAC/Advisory Group Workshop Report “Commercially Sustainable Microfinance: A Strategy for Promoting Financial Inclusion in APEC.”

4. Consumer Credit and Consumer Protection

The development of a strong financial sector is an underlying consumer-driven economy, which will compliment financial inclusion. Corporate activity and macro-economic growth ultimately trace their source to consumer activity, which generates the demand for corporate products, and in turn for more complex financial services that facilitate the development of those products. Without the conditions for robust consumer demand, broader economic growth becomes more difficult. Furthermore, risk management is vital for a healthy consumer and commercial financial services market. ABAC recommends that economies should concentrate on making available accurate, robust, full-file credit bureaus and credit information resources. Such systems allow the deployment of superior risk analytics, which can more efficiently allocate capital to minimize losses, extend more capital to credit worthy borrowers, and end inefficiencies related to cross-subsidization of credit risk.

5. Environmental Finance

There is a significant gap between the current scale of financial support and the levels required to achieve a global low carbon growth trajectory. Therefore, it is critical to mobilize private funds.

Recommendations

- Eliminate various barriers and impediments hindering the expanded flow of private funds into these fields and provide incentives such as low financing, tax benefits and rewards; and
- Promote public-private partnership to mitigate risks specific to environmental finance through credit enhancement by international and public financial institutions.

6. Sovereign Wealth Funds and National/ Security Interests

The growth of sovereign wealth funds has become an important policy issue in the cross-border movement of capital. Similarly, there is increasing interest in policies relating to controls of capital inflows on security or national interest grounds. ABAC is concerned that to gain the full benefit of capital movement, markets should be open to such movements; the benefits of sovereign wealth funds in the recapitalization of some global banks is an example of the value of such flows at a time of constraints on global liquidity.

At the same time, ABAC appreciates the concerns arising from the fact that some funds lack transparency and accountability. ABAC also is aware of the interests that economies have in foreign investment which may have an impact on national security. There is value in seeking a balance in economies’ policies in these areas and in upholding the international investment principles of non-discrimination, national treatment, accountability and predictability.

Important discussions are on-going on these matters in the IMF and the OECD and with other international agencies, aimed

at reflecting the balance of interests just noted. An agreement between the US, Singapore and Abu Dhabi on principles that host and investing countries in that agreement should adhere to, provides a sound example of balancing of interests outlined above.

Recommendations

- Support international efforts to ensure (i) the orderly development of sovereign wealth funds and the objective of improved disclosure and data collection of funds that comply wholly with the laws of host economies, and (ii) host economy laws and policies provide for non-discriminatory treatment, predictable investment environments and avoid intrusive policies in regard to such funds; and
- In respect of policies relating to national/ security and other related investment interests, commend work being undertaken in the OECD and participate in on-going discussions aimed at developing policy guidelines and best practices in these matters.

7. Capacity Building in Financial Services

ABAC calls on APEC Leaders to work with Finance Ministers to further deepen regional public-private sector cooperation in capacity-building for the development of financial markets. In particular, ABAC endorses the 2008 Report of the Advisory Group on APEC Financial System Capacity-Building and urges the adoption and implementation of the following recommendations from this Report.

(a) *Bond Market Development*

Following the successful First APEC Public-Private Sector Forum on Bond Market Development in May 2007 in Melbourne, the Second Forum was held in Cusco, Peru on 9 July 2008. ABAC endorses the conclusions of this Second Forum, which focused on the bond markets of Chile, Mexico and Peru. ABAC sees much value in the sharing of bond market development experiences among economies, and the dialogue between public and private sectors.

Recommendation

- Continue holding the APEC Public-Private Sector Forum on Bond Market Development, with a Third Forum to be held in Singapore in 2009.

(b) *Infrastructure Public-Private Partnerships*

Successfully promoting infrastructure public-private partnerships (PPPs) requires a transparent process that can reduce uncertainty on the part of the private sector and improve understanding of the process on the part of the public sector and communities. It also requires steps to address the challenge of limited skills, particularly in the financial analysis of projects and negotiation of appropriate frameworks. There is much potential for greater public and private sector involvement from APEC economies in ongoing work in this field, such as the work of the ADB, ADB Institute, IFC and PECC, through a coordinated regional approach. Training policymakers and regulators is needed to deepen the skills base in the region's economies.

Recommendation

- Support the establishment of a Regional Infrastructure Dialogue which should include key representatives from government, private sector and host communities, with the objectives of strengthening planning capabilities for infrastructure requirements and promoting best practice governance arrangements within government and the private sector in the region, and support capacity building training initiatives for the region's policymakers and regulators in infrastructure management and financing arrangements.

(c) *Strengthening Regional Financial Stability*

The failure of regulators and markets to anticipate the degree of turbulence arising from the sub-prime crisis underscores the need to better understand ongoing innovations and developments in financial markets. There is a need for responses that strike a healthy balance between regulation and transparency on one hand and fostering efficiency and innovation on the other.

Keeping in mind that the nature of financial crises is likely to continue changing as the financial landscape evolves, further efforts are needed to help deepen understanding by regulators and financial market players of changes in the financial environment, particularly in light of the sub-prime crisis, as well as improve collection and dissemination of data on private sector financial flows to enhance early warning systems. The Advisory Group is working with finance system specialists in cooperation with the ADBI and other agencies to review ways to enhance reporting and dissemination of data of relevance to both the public and private sectors.

Recommendation

- Consider ways to promote collaboration between public and private sectors in improving understanding of current financial markets and the collection and dissemination of data on private sector financial flows and encourage official involvement and support for the Advisory Group's work with the ADBI, IMF and other groups on these matters.

(d) Improving Credit Reporting Systems

Studies examined by ABAC provide strong evidence that greater participation by data furnishers in a private consumer credit reporting system and the use of full-file (as opposed to negative-only) and comprehensive (as opposed to segmented) credit reporting promote increased and more socially equitable access to credit and improved lending performance. Concerns about privacy, identity and confidentiality need to be addressed, through legal and policy reforms and the use of technology, to ensure public support for such systems.

Recommendation

- Consider measures to promote full-file comprehensive reporting to private credit bureaus that also effectively address concerns about privacy, identity and restricted distribution of confidential data and ensure public support for such systems, through legal and policy reforms and the use of technology.

(e) Strengthening Risk Management and Governance in Banking Systems

ABAC continues its work in collaboration with other regional institutions to promote effective implementation of Basel II and governance in banking systems. This year marks the fourth annual dialogue between bank regulators and the region's financial industry hosted by the SEACEN Centre and co-organized by ABAC. Sustained participation by commercial banks and the region's bank regulatory authorities is key to ensuring robust risk management systems and governance in banking systems.

Recommendation

- Support continued participation of banking supervisory agencies in the annual regional public-private dialogue on Basel II implementation and strengthening banking systems hosted by SEACEN.


M. Promoting Corporate Social Responsibility

ABAC agrees that Corporate Social Responsibility (CSR) is an important and wide ranging issue. ABAC members represent a wide range of industries and economies at various stages of economic development. As such, there are many different perspectives on the topic of CSR. Nevertheless, ABAC has identified three common understandings with regard to CSR.

CSR is strictly a business activity, driven by corporate values and circumstances unique to each company and the communities in which they operate. ABAC believes that good corporate citizenship is good for business and enhances a company's position and value; but it must be voluntary, based on each company's own values and judgment, and should not be mandated or legislated.

CSR is not a way to have business fund activities and undertakings that government should rightly fund. Services such as schools, health facilities, infrastructure and other basic needs are fundamental responsibilities of governments.

CSR can include a range of voluntary activities and that will vary widely from industry to industry; but understood broadly, CSR includes



those activities companies undertake to improve living, working, or environmental conditions for its employees, its customers, and its neighbors in the communities in which they operate.

ABAC will undertake further work on CSR, including a showcase of best practices in CSR currently underway in APEC economies, an inventory of available global resources on CSR practices, and an inventory of CSR principles, standards, codes of conduct, and definitions.

Annexes



Demographic Change and International Labor Mobility in the Asia-Pacific Region: Implications for Business and Regional Economic Integration

Executive Summary

Report and Policy Recommendations of a PECC-ABAC Task Force on International Labor Mobility*

One of the most remarkable and beneficial aspects of Asia-Pacific integration in the past half century has been the growing and massive international movement of people on a temporary and permanent basis. Such movements typically have brought tremendous economic benefit to the region.

Through people movements, net destination economies compensate for labor and skill shortages, and may deter industries from moving off-shore to more labor-rich locations. Investment would increase as a result. For net origin economies, individuals are provided with opportunities and income, remittance flows become an enormous source of foreign exchange earnings, and student and trainee movements have facilitated the acquisition of skills. Both net origin and destination economies benefit from circular migration flows involving the acquisition of skills and knowledge in the early career in a foreign economy and its transfer and use in the native economy later in the career. These labor flows enhance regional economic integration.

Private industries also benefit enormously from both highly skilled and lesser skilled flows by being able to maximize productivity through deploying human resources where they are most effective – whether they are highly or lesser skilled workers. At present, there is a critical shortage of both skilled and unskilled workers in many APEC economies, and businesses are finding it increasingly difficult not only to find workers but also to deploy talent when and where it is most effective. Economic analysis tells us that in aggregate the benefits of enhanced labor mobility far outweigh adjustment costs and are an essential and crucial element in the Asia-Pacific growth story.

This will continue to be so. Demographic transformations, widening differences in levels of economic and educational development, and continued regionalization and globalization of

industry, all suggest that Asia-Pacific economies will almost certainly require even greater international movements of labor in the future. However, in a time of both increased security concerns and economic insecurities, there is a tendency to politicize and restrict border flows, causing tensions and policy incoherence in the region. This will not only be harmful to national economies, but also increase surreptitious and exploitative illegal labor flows.

It is the right of every government to regulate immigration policies. However, smart regulatory policies should be based on a sound understanding of the economic impact of labor flows and knowledge of the human dimensions of migrant flows. They will also be enhanced by an understanding of best and poor practices that have worked or failed for other economies. In our view, there is a compelling need for regional cooperation as a vehicle through which both origin and destination economies can maximize economic benefit, smooth economic and social adjustments for native citizens and immigrants, share policy experiences, and improve the protection and well-being of migrant communities.

Based on an extensive survey of Asia-Pacific labor migration practices and policies, our cooperative PECC-ABAC study team makes the following general recommendations:

- As a basis for smart policy, APEC economies need to have a fuller understanding of labor migration and its importance to national economies and regional integration. While some economies do have significant statistical and analytical capabilities, they are mostly devoted to national level issues. The regional flows, benefits, and adjustment challenges are much less understood. We urge the APEC economies to strengthen national and regional data collection and policy analysis of migration flows.

* This project was launched at the initiative of the Korea National Committee for Pacific Economic Cooperation (KOPEC) which has provided the organizational and administrative leadership, as well as a generous financial support for the project.

- Governmental capabilities to manage migration flows and to coordinate policies across different agencies and communicate them to their employees and migrants are frequently deficient. We recommend a regional survey of these capabilities in order to identify needed reforms and skills training programs, and sources of assistance to address these needs. Good governance in migration management is a key for protection of migrants and making international labor flows a win-win for the worker as well as both origin and destination economies. In some cases, wider labor market reforms and stronger labor institutions may be needed. We urge APEC to build capacity in migration management across the region.
- Best practices and policies on international migration should be studied and shared. The APEC region encompasses a wide variety of labor circumstances, practices, and legal and policy regimes, and each economy clearly needs policies addressed to its individual needs and situation. However, there is also much to share regarding practices and policies that can enhance remittance flows, strengthen circular migration patterns, reduce transaction costs for the migrants, provide legal protection for migrants, facilitate good social relations between migrant and established communities and mainstream migrants in national life, incorporate labor migration issues in trade and other bilateral agreements, technology transfer and training of workers, develop pension portability, and other issues. Regional institutions are often a more effective forum for knowledge sharing than global institutions, and APEC is a logical venue because of its focus on aspects of regional economic integration.
- We urge APEC to undertake a concerted effort to identify illegal and exploitative practices associated with the migration industry that are oftentimes the cause of illegal migration. These include egregious cases of human trafficking, forms of indentured servitude, passport and visa fraud, transportation that is risky, illegal payments, the practice of workers paying placement fees, and excessive over-charging for handling remittances and other normal and legal transactions.
- The APEC economies should develop processes for enhanced consultation on frameworks and policies affecting labor migration with the International Labor Organization, the Organization for International Migration, and other relevant international organizations.
- Public-private partnerships and private sector programs can often be tools to strengthen support and provide protection for migrant communities. Our case studies suggest valuable lessons from the international shipping industry and private sector projects to enhance electronic social networks among migrant communities and with family and friends in home economies. We urge APEC to undertake a full canvassing of the business community in order to allow for a wider range of suggestions and ideas to facilitate beneficial and equitable labor movements.

In sum, the PECC-ABAC International Labor Mobility Task Force believes that APEC can develop an action-oriented set of activities around the issue of international labor mobility that will significantly enhance the benefits to APEC economies, ease adjustment problems associated with migration, strengthen the transfer of human skills through migration, overcome increasing demographic and labor imbalances, and provide protection and enhanced well-being for those who migrate. In September 2007, APEC Leaders agreed to promote further economic integration in the Asia-Pacific region. Considerable progress has been made in liberalizing trade and financial flows; however, progress in labor mobility has been limited. An initiative in the area of labor mobility would be consistent with the goals of APEC and could serve to facilitate business operations and greatly enhance the regional integration process.

We hope that APEC will adopt as part of its next work cycle an International Labor Mobility project with a midterm vision and specific action goals. ABAC and PECC are willing to join APEC in this program by sharing the knowledge, analyses, and conclusions that we have developed with government officials. More detailed analysis of migration trends, issues and challenges as well as policy recommendations are contained in a 50 page synthesis report which accompanies the present summary. A longer policy-relevant volume, consisting of detailed surveys and analyses of the international migration patterns, practices, issues and policies for the whole region as well as by subregions is being published later in the year. The individual economy case studies have been put on the PECC website (<http://www.pecc.org>).



14 May 2008

The Hon. Mercedes Araoz

Chair, Meeting of APEC Ministers Responsible for Trade and
Minister of Foreign Trade and Tourism
Peru

Dear Minister Araoz:


On behalf of the APEC Business Advisory Council (ABAC), I am pleased to submit to APEC Ministers Responsible for Trade our views on key issues that are on our agenda. We believe these issues should be addressed in order to transform growth into lasting development and to spread the benefits of globalization more widely between and within APEC economies. This is in line with the 2008 ABAC theme "*Mind the gap: making globalization an opportunity for all.*" ABAC believes that progressing towards the Bogor Goals of free and open trade and investment in the Asia-Pacific region is key to achieving these objectives. Our views and recommendations in the following essential areas are being made against the backdrop of a slowdown in the developed economies, rising inflationary pressures, and tight supply-demand conditions in the oil and commodity markets:

1. **Concluding the Doha Development Agenda (DDA).** The current pressures on the global economy, including the credit crisis and the supply and price problems for food products, reinforce the need for the DDA to be concluded within 2008. The successful conclusion of DDA is vitally important in maintaining the credibility of the multilateral trading system. In a recent visit to Geneva, an ABAC delegation stressed that the next three months are critical to bringing the Round to a successful conclusion within the year. A high quality outcome covering all areas under negotiation would inject new confidence into the global economy, help counter protectionist pressures, and provide a more stable environment for Governments and business to work together on addressing the difficulties now faced.
2. **Accelerating Regional Economic Integration.** ABAC welcomes the Leaders' decision to accelerate efforts to promote further *economic integration* in the Asia-Pacific region, including a possible *Free Trade Area of the Asia Pacific* (FTAAP). ABAC believes that the FTAAP represents a practical means to achieve convergence among FTAs, advance regional trade and investment liberalization, and achieve the Bogor Goals.

ABAC is active in a number of areas that could serve as building blocks towards the realization of the FTAAP concept. Our studies include the development of model measures; the assessment of high quality FTAs in order to identify the core elements of regional integration; the possible expansion of the Trans Pacific Strategic Partnership Agreement (also known as P4) as one of the options; and the harmonization of rules of origin. The outcomes will be submitted in due course as a contribution to the consideration of a framework for an FTAAP. ABAC looks forward to working with APEC to advance these issues in order to realize progress towards an FTAAP.

3. **Facilitating Investment Flows.** We endorse the Investment Facilitation Action Plan (IFAP) concept and the prominence to be given to *investment* in the APEC Ministerial Meeting on Structural Reform. The IFAP should promote transparency in investment policies, simplification in investment procedures and measures to improve the attractiveness of economies' investment environments. Measurable and realistic indicators to assess progress should be included, and actions should be practical and directed at measuring progress on agreed defined objectives which will promote business investment.

We recommend that APEC Ministers Responsible for Trade assign priority to the promotion of measures to reduce impediments to FDI flows in the region and to remove "behind-the-border barriers" to investment in financial services. Further, in the WTO negotiations, ABAC urges Ministers to utilize the checklists it produced in 2006 on goals and best practices for financial services liberalization with particular reference to incorporating advice on investment matters that would promote private pension systems and private health coverage in APEC economies.

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4. **Facilitating Trade Flows.** The ease and speed with which goods are moved across national boundaries are critical to the strength of the developed and emerging APEC economies. A single-entry point for all regulatory requirements and seamless data-sharing would help reduce compliance costs. To that end, we recommend that the target date for introduction of the “*Single Window*” approach across the Asia-Pacific region be brought forward, with special emphasis on adoption of recognized international instruments and uniform standards that increase regional interoperability.

We welcome the opportunity to work with APEC in seeking a further reduction of 5% in transaction costs to business envisaged in the ***Second Trade Facilitation Action Plan*** (TFAP II). To ensure the delivery of real benefits to the business community, ABAC has submitted to APEC a range of ***Key Performance Indicators*** (KPIs) that measure time savings, transaction costs savings, enhanced capacity and enhanced security.

Enhanced ***trade security*** can and must be compatible with improved facilitation. We urge APEC economies to work closely with regional business in a holistic approach to establish reliable and effective risk management systems that will not hinder shipments either through time or prohibitive costs. Economies should move ahead in implementing Authorized Economic Operators (AEOs) programs, and work with each other to develop a methodology for mutual recognition of AEOs to avoid inconsistent, redundant or duplicative requirements and audits for AEOs.

We urge that priority be given to addressing ***behind-the-border*** issues and specific areas of sub-optimal business regulation and promoting associated capacity building activities. ABAC fully supports the important work in APEC on ***structural reform***. Recognizing the costs on business of inefficient structures and institutional settings, an ABAC delegation will participate in the Ministerial Meeting on Structural Reform in Melbourne in August 2008.

The ***APEC Private Sector Development program*** for SMEs should be accelerated, and the work plan of the associated workshop schedule expanded to include new themes identified by the World Bank as relevant benchmarks. ABAC seeks the appropriate opportunity to provide a regional business perspective on planned new regulations to help address these issues, and will collaborate with relevant APEC agencies in capacity building program on better regulatory and business practices for SMEs.

Acknowledging the vital role that SMEs play in APEC economies, the 2nd ABAC SME Summit will be held in two phases: the first, in Hangzhou, China in August 2008, and the second, in Lima, Peru in November 2008. We urge Ministers to continue to give importance to ***SME development*** and create favorable policy in their programs.

Demographic trends in the region have affected the supply of labor in many economies and led to the acceleration of international labor flows, benefiting both the labor-sending and labor-receiving economies. Given the political and social implications, we believe that there is a need for region-wide discussion on the impacts of ***international labor mobility***. ABAC and PECC have developed a work program to assess the economic implications, common challenges and possible cooperative responses to this issue. A detailed study with recommendations will be submitted to APEC.

The APEC Business Travel Card (ABTC) scheme plays an important role in facilitating ***business mobility*** in the region. The scheme has reached a key stage where it can be further promoted and improved. We recommend that APEC continue to improve its operation, encourage transitional and non-participating economies to fully join the scheme, and consider the utilization of new technology in the clearance system as far as it is proven to be cost-efficient.

ABAC maintains that ***harmonization of standards*** is an important step in strengthening market growth and business development. ABAC has initiated, with APEC support, work on emergency management standards for security of critical infrastructure. This unique project offers the prospect of being a template for further work in harmonizing standards in other areas.

Faster approval and transparent enforcement of high quality *patents* will support innovation and increase competitiveness. We urge that APEC economies take steps to harmonize application formats and to share the results of patent searches and examinations in order to create highly efficient patent approval processes, and to prevent marketing approvals of patent infringing products.

Collaboration between private sector and enforcement authorities is essential to effectively crackdown on increasingly globalized and sophisticated *counterfeiting and piracy* activities. ABAC urges APEC economies to encourage the establishment of a framework for sharing information to enable efficient enforcement.

Protection of digital content is important for purposes of information security, privacy protection and rights management. We urge APEC to develop an action plan to give effect to its 2007 declaration regarding theft of satellite and cable broadcast signals through measures such as the development of best practices and capacity building through public-private sector workshops.

5. **Promoting ICT-Enabled Growth.** Policies which promote the adoption of *Information and Communications Technology* (ICT) are important tools in fostering economic growth and addressing the digital divide in the APEC region. The elimination of tariffs on ICT products and devices by the WTO Information Technology Agreement (ITA) has resulted in increased productivity, fostered economic growth, and mitigated the digital divide. We urge APEC to maintain the effectiveness and spirit of the ITA by upholding the product coverage and widening participation in the Agreement. ABAC also encourages APEC to support the ICT/Electronics and Electrical Products sectoral talks under the WTO DDA Non-Agricultural Market Access negotiations.

6. **Addressing Energy Security and Climate Change.** In order to balance the objective of economic growth with the challenge of addressing greenhouse gas emission reductions and *climate change*, we propose that APEC Ministers work towards a Post-Kyoto framework that satisfies the following three conditions: (a) participation of all major emitters; (b) setting and implementing rational targets for greenhouse gas emissions reduction; and (c) acceptance of diverse approaches.

Each APEC economy should formulate its goals and action plans for improving *energy efficiency* towards achieving APEC's aspirational goal set by Leaders in 2007 by sharing comparable and objective data and indicators of major industrial sectors. Furthermore, expansion of, and access to, all energy resources including traditional oil and gas, renewable and alternative sources, will be necessary to achieve energy security. Also important are technological innovation, cooperative sectoral approaches, and market-based technology transfer to developing economies.

APEC economies should pursue options available to liberalize trade in *environmental goods and services* on a multilateral basis, particularly since such action would be a valuable practical step to complement the significance APEC Leaders have attached to addressing climate change and energy security.

We look forward to discussing the above recommendations in detail with APEC Ministers Responsible for Trade when we meet in Arequipa, Peru on 31 May – 1 June 2008.

Sincerely,


Juan F. Raffo
ABAC Chair 2008

14 May 2008

The Hon. Mercedes Araoz

Chair, Meeting of APEC Ministers Responsible for Trade and
Minister of Foreign Trade and Tourism
Peru

Dear Minister Araoz:

There is widespread concern among regional business on the impacts of shortages in the supply of basic food products and subsequent marked increases in prices. These problems are due to a number of factors, notably increased global demand for agricultural products and energy-related issues including oil price rises. New policy issues need to be faced. In some economies defensive measures are being taken, including export restrictions to retain supplies for domestic markets, with adverse consequences for other economies.

Short-term programs are needed to cope with immediate problems. But it is equally essential that the underlying long-term problems are addressed. Within APEC there is an established framework for policy guidance -the APEC Food System (AFS) developed at the initiative of ABAC and adopted by Leaders in 1999.

As set out in the 1998 and 1999 ABAC Report to APEC Leaders, the AFS is based on a vision of a regional food system where:

- consumers have access to the food they desire at affordable prices;
- the productivity of the food sector is enhanced through region-wide availability of food-related technological advances and through efficient resource use;
- supply security is improved through cooperation and interdependence;
- the vitality of rural communities is enhanced through improved infrastructural development and through access to viable non-farm employment and industry.

The AFS includes specific programs to pursue the vision. Those programs have direct relevance to the situations faced today. It is regrettable that many APEC economies have not taken up the challenge presented to them to embrace the AFS. It is time for them to do so now. ABAC recommends that Ministers renew the commitment entered into by APEC Leaders in 1999 to bring the AFS into effect, and instruct officials, as a matter of urgency, to prepare a report for the 2008 Leaders' Summit on: 1) policies and programs required to implement the AFS on an APEC wide basis; and 2) concrete steps that the Leaders can take in 2008 to reinvigorate the process.

ABAC stands ready to work closely with APEC on this issue and plans to put special emphasis on the AFS and food issues from now through the 2009 Leaders Meeting – a thorough review of the AFS and APEC's failures in its implementation - and to make detailed suggestions to APEC throughout that period.

Sincerely,

A handwritten signature in black ink, appearing to read 'Juan F. Raffo'.

Juan F. Raffo
ABAC Chair 2008



14 May 2008

The Hon. Luis Carranza

Chair, APEC Finance Ministers' Meeting and
Minister of Economics and Finance
Peru

Dear Minister Carranza:

The APEC Business Advisory Council (ABAC) met in Moscow on May 12-14 to discuss the most critical issues pertinent to the regional business community. The current credit market contraction and its implications on the regional economy were at the forefront of our dialogue, and spurred intense and dynamic debate.

ABAC has responded to the global credit contraction precipitated by the U.S. sub-prime mortgage crisis by resolving on several recommendations to finance and economics policymakers. In transmitting these points to you, we acknowledge that self-regulation amongst private sector financial institutions was deficient, and exacerbated the current financial market turmoil.

ABAC recommends:

1. Improvement in confidence in the credit and capital markets through consistent monetary policies and liquidity mechanisms. Ministries of Finance and central banks should align consistent regulatory, fiscal and monetary policy across the region.
2. Ministries of Finance and financial market regulatory bodies should immediately begin to change the emphasis of regulation from entity-based to activity-based regulation. Steps have already been taken to initiate this type of change, but it will take many years to put new regulatory structures in place. In the meantime, activity-based regulation can be achieved through informal collaboration among the various regulatory bodies both within and across economies.
3. The principal remaining risk in the credit markets relates to the counterparty risk in the credit derivatives markets. This is because the risks inherent in credit derivatives result from a combination of high leverage, complexity of instruments, lack of price discovery, and lack of transparency as to the identity of counterparties.

To address these risks successfully, ABAC believes it is essential that high priority be given to coordinated action among the central banks and regulators within the region. The systemic risk economies face from the credit/liquidity contraction is serious and far from over. Ministries and central banks must take appropriate and timely measures in monetary policy to provide sufficient liquidity, while recognizing the risk of contributing to inflationary pressure, or later lead to overinvestment in insufficiently regulated sectors. Rapid communications, multilateral decision making and forceful and timely action by regulators and central banks will do much to mitigate remaining problems and will facilitate a rapid return to stability and liquidity in the APEC capital markets.

Sincerely,

Juan F. Raffo
ABAC Chair 2008

9 June 2008

The Honorable Jose Antonio Chang

Chair, APEC Education Ministerial Meeting and
Minister of Education
Peru

Dear Minister Chang:

ABAC commends the initiative being taken by APEC Ministers of Education to meet and discuss and identify the skill-sets required in our region to meet current and emerging challenges. There is no more crucial a task facing APEC economies, than enhancing our human capital resources through improved education infrastructure, curricula that fits today's and tomorrow's needs and a strengthened focus on vocational training.

As representatives of the APEC business community, ABAC members are very aware that the region has become the engine-room of global economic growth. During the last four years, the APEC region has been growing at 5% on average although a number of economies have performed much above average. Poverty levels that for decades resisted all efforts to lower them have now begun to respond to the positive forces of change.

As good as these achievements have been, there remain significant differences between developed and developing economies within the region. There is also a gap within economies between those people who have benefited from growth and globalization and those who have not. In a shrinking world, it is inevitable that people in different economies are much better informed than ever before of the disparities that continue to exist. There is a risk that this situation could lead governments to refrain from further liberalizing trade and investment policies or even reverse them and re-impose protectionist regimes. Taking such measures would have negative effects on these economies themselves and could ultimately also constitute an obstacle to access to those markets.

My ABAC colleagues and I are conscious of the rise in regional expectations. The business community accepts a serious responsibility to contribute to meeting those heightened aspirations. This is why the Theme for ABAC in 2008 is "Mind the gap: making globalization an opportunity for all". Our work this year is focused on developing recommendations for concrete measures to transform growth into lasting development to spread the benefits of globalization more widely between and within APEC economies. This work will be approached through three sub-themes, as follows:

- **Achieving trade and investment liberalization**
- **Facilitating business**
- **Capacity building for sustainable growth and development**

We believe that the region's continued economic transformation depends on individual APEC economies being globally competitive. For this to come about, a key ingredient is a highly skilled workforce. Long-term growth relies very much on institutional strength, especially on human capital. Education is essential to development and to enhance benefits for all citizens from the fruits of globalization. This is especially the case in education and training for Small Medium Enterprises (SMEs), the backbone of most of our economies. ABAC urges Ministers to focus their efforts on the development at primary and secondary levels of competences and skills appropriate for the 21st century with special emphasis on strong language, literacy and numeracy levels.

We submit that the goal should be to have students graduate from our schools who, are well qualified to take their place in the regional and global workforce; have the benefit of training for specific vocational careers; are equipped with a solid grasp of competencies beyond the most basic; have acquired the skills to provide quality services/inputs to the regional and global economy; and are excited by the prospect of making their personal contribution to a better world, and confident of being able to do so.

We encourage the development of the following competencies and skills: critical thinking and problem-solving, innovation, team work, appropriate use of technology and ICT literacy life; and career skills, such as adaptability, taking initiative and being self-directed, social and cross-cultural skills, productivity and accountability, and the qualities of leadership and responsibility.

APEC Ministers of Education are uniquely positioned to help ensure that the next generation of public sector and business leaders, are properly trained to their fullest potential, in 21st century competencies and skills. These competencies must prevail across all levels of Education so that those in whose hands the region's destiny will lie are ready for the challenges they will confront and will relish the opportunity offered to them.

Several APEC economies have successfully implemented Educational System Reforms and have seen an increase in the well-being of their population. We encourage those economies to share their experiences with other economies that have yet to reform their Educational Systems.

We look forward to discussing the above recommendations with APEC Education Ministers when we meet in Lima.

Sincerely,


Juan F. Raffo
ABAC Chair 2008



August 18th, 2008

The Honorable Minister Rafael Rey

Chair, APEC SME Ministers Meeting
Ministry of Production
Peru

Dear Minister Rey:

As representatives of the APEC business community, ABAC members are very aware that the region has become the engine-room of global economic growth. During the last four years, the APEC region has been growing at 5% on average although a number of economies have performed much above average. Poverty levels that for decades resisted all efforts to lower them have now begun to respond to the positive forces of change. As good as these achievements have been, there remain significant differences between developed and developing economies within the region. There is also a gap within economies between those people who have benefited from growth and globalization and those who have not.

My ABAC colleagues and I are conscious of the rise in regional expectations. The business community accepts a serious responsibility to contribute to meeting those heightened aspirations. This is why the Theme for ABAC in 2008 is "Mind the gap: making globalization an opportunity for all". Our work this year is focused on developing recommendations for concrete measures to transform growth into lasting development to spread the benefits of globalization more widely between and within APEC economies. This work will be approached through three sub-themes, as follows:

- **Achieving trade and investment liberalization**
- **Facilitating business**
- **Capacity building for sustainable growth and development**

We believe that the region's continued economic transformation depends on individual APEC economies being globally competitive. Since Small and Medium Enterprises (SMEs), including micro-enterprises, are the backbone of most of our economies, ABAC has as one of its main priorities for this year the enhancement of SME development. As part of this effort, ABAC has recently endorsed a Statement on SMEs calling for the implementation of special support programs on technological infrastructure, financing capacity building and training, which I am pleased to present to you and is attached to this letter.

We look forward to discussing the attached recommendations with APEC SME Ministers when we meet in Chiclayo next week.

Sincerely,



Juan F. Raffo
ABAC Chair 2008

ABAC STATEMENT ON SMEs

Small and medium-sized enterprises (SMEs), including micro-enterprises, make a significant contribution to the economies of all APEC members. Over 95 percent of all businesses in the APEC region as a whole are SMEs, employing around 80 percent of all workers. The role of SMEs has become even more significant in recent years as a result of the opportunities presented by globalization and regional integration, leading to enhanced technological advances and social development.

A sound and thriving SME sector is essential to economic development. SMEs are a dynamic source of flexibility and innovation. They have the ability to respond quickly to changing consumer preferences and capture market opportunities. To meet the challenge of intense competition, they have a strong impetus to innovate through the rapid adoption of new technologies and logistical support systems. They play a crucial role in maintaining competition in regional markets, inhibiting monopolization and market distortion.

Considerable efforts have already been made in APEC to encourage the growth and development of SMEs, but more remains to be done. Particular challenges and obstacles include:

- shortage of advanced management knowledge and skills;
- strategic foresight;
- necessary entrepreneurship; and
- finance and marketing skills.

The building of impartial, transparent and efficient legal and policy environments for the establishment and development of SMEs is essential. There is a need for APEC member economies, especially the developing economies, to consider implementing further measures to support SMEs, notably through:

- appropriate tax systems;
- financial policy support;

- information and market development support;
- capacity building in human resources;
- technological support in research and development and in the utilization of new technology.


Special attention must be given to ways of enabling SMEs to succeed in overseas markets.

In light of the outcomes of the Hangzhou session of the 2nd ABAC SME Summit, ABAC calls on APEC to implement three special support programs to further enhance the growth and development of SMEs in the region:

Implement a Technological Infrastructure Program by providing appropriate Information Communication Technology (ICT) services and technological infrastructure for SME development in all APEC member economies by 2020. Detailed actions include, but are not limited to:

- establishing and improving the ICT social support, service and safeguard systems for SMEs by harmonizing all administrative and social resources;
- enhancing targeted financial support for ICT use by SMEs (e.g., for growth, for resource acquisition, for skills acquisition);
- promoting the introduction of programs which assist SMEs to protect their intellectual property;
- encouraging ICT R&D and utilization capability of SMEs;
- developing systems and methods for improving SME productivity, especially the use of evolving new technologies; and
- supporting the development of business transformation mechanisms to help SMEs deal with major challenges to their businesses.

Implement a Financing Capacity Building Program by carrying out comprehensive



capacity building programs to reinforce the SME financing capability of all APEC member economies. Detailed actions include, but are not limited to:

- establishing micro-credit and loan systems and sound financing legal frameworks by APEC member economies;
- establishing venture investment funds for SMEs;
- establishing governmental financing guarantee and re-guarantee institutions for SMEs;
- promoting the establishment of Internet-based lending systems; and
- promoting new capital markets for trading high-risk equities, aimed specifically at SMEs, and especially on-line systems that ensure extreme transparency in investee companies.

Implement a SMEs Training Program through the following actions:

- establish day-to-day cooperation and exchange mechanisms among APEC economies;
- fully utilize and exploit a full range of educational resources, strengthen coordination among relevant international and domestic training institutions;
- establish Special Funds to support SME management education under appropriate APEC economic and technical cooperation schemes; and
- consider whether SME management education could, as appropriate, be pursued as an APEC Collective Action.

ABAC will continue seeking ways to work with APEC in order to achieve the effective implementation of these programs.

The APEC Business Advisory Council

Founding and Structure

The APEC Business Advisory Council (ABAC) was created by the APEC Economic Leaders in November 1995 to provide advice on the implementation of the Osaka Action Agenda and on other specific business sector priorities, and to respond when the various APEC fora request information about business-related issues or to provide the business perspective on specific areas of cooperation. It is the sole non-governmental entity that has an official role in the APEC Economic Leaders' Meeting through a formal dialogue.

ABAC comprises up to three members of the private sector from each economy. ABAC members are appointed by their respective Leaders, and represent a range of business sectors, including small and medium enterprises. The economy determines the term of membership of each appointee as well as its own administrative arrangements and staff support.

The ABAC Secretariat based in Manila, the Philippines serves all members and all economies and maintains a website. Funding is provided through a system of annual dues, which are structured to reflect the size of each economy, following the APEC formula.

ABAC in 2008

In 2008, Peru took on the Chair of ABAC, with Australia and Singapore as co-chairs, following the APEC order. Co-chairs represent immediate past and future chairs.

Noting that the significant economic gains achieved within the region during the past several years have not been equally shared by both developed and developing economies, ABAC adopted the theme "Mind the gap: making globalization an opportunity for all". ABAC 2008 seeks to develop recommendations

that would transform growth in the region into lasting development by spreading the benefits of globalization more widely and evenly within and between economies. This work was pursued through three sub-themes:


- Achieving trade and investment *liberalization*;
- *Facilitating* business and
- *Capacity building* for sustainable growth and development.

In line with the priorities of the ABAC Chair, ABAC established five working groups to carry forward its work during the year, namely:

- Action Plan and APEC Resources Working Group (APARWG);
- Finance and Economics Working Group (FEWG);
- Facilitation Working Group (FWG);
- Liberalization Working Group (LWG); and
- Technology & Information Working Group (TIWG).

ABAC convened four meetings in 2008: Indonesia (21-23 January); Moscow, Russia (12-14 May); Hangzhou, China (2-6 August); and Lima, Peru (17-20 November). Three meetings of the Advisory Group on APEC Financial System Capacity Building were also held: Jakarta, Indonesia (22 January); Moscow, Russia (14 May); and Hangzhou, China (5 August).

To foster closer relations and enhance interaction between APEC and ABAC, ABAC established the Liaison Representative system whereby ABAC staffers are assigned to represent ABAC in the various APEC fora or serve as conduits to facilitate communication between both groups. ABAC actively participated in various APEC meetings and related events, *inter-alia*: SOM I and related meetings (Lima, Peru: 19 February – 3 March); Energy Working Group Meeting (Iquitos, Peru: 3-7 March); SOM II and related meetings (Arequipa, Peru: 20-29 May); SFOM (Cusco, Peru:



10-11 July); SOM III and related meetings (Lima, Peru: 12-23 August); APEC SME Working Group Meeting (Chiclayo, Peru: 24-26 August); APEC Tourism Ministerial Meeting (Lima, Peru: 9-11 April); Meeting of APEC Ministers Responsible for Trade (Arequipa, Peru: 31 May – 1 June); APEC Education Ministers' Meeting (Lima, Peru: 11-12 June); APEC Ministerial Meeting on Structural Reform (Melbourne, Australia: 3-5 August); APEC SME Ministerial Meeting (Chiclayo, Peru: 28-29 August); and APEC Finance Ministers' Meeting (Trujillo, Peru: 5-6 November).

Other events organized and/or participated in by ABAC included: Symposium on "Education to Achieve 21st Century Competencies and Skills for All: Respecting the Past to Move Towards the Future" (Xi'an, China: 15-17 January); Seminar on "Changing Regional Architecture in East Asia and the Americas: What are the implications for APEC?" (Jakarta, Indonesia: 21 January); PECC-ABAC Conference on "Demographic Change and International labor Mobility in the Asia-Pacific Region: Implications for Business and Cooperation" (Seoul, Korea: 25-26 March); and APEC Public-Private Sector Forum on Bond Market Development (Cusco, Peru: 9 July).

Studies and Related Work

To support its work and deliberations particularly on the issue of international labor mobility, ABAC undertook jointly with PECC a study on "Demographic Change and International Labor Mobility in the Asia-Pacific Region: Implications for Business and Regional Economic Integration".

An ABAC delegation visited Geneva in May this year to demonstrate ABAC support for the successful conclusion of the WTO Doha Development Agenda negotiations.

Future Work

ABAC remains fully committed to providing advice to APEC Leaders on business sector priorities and in pushing forward the APEC agenda on trade and investment liberalization and facilitation. Future work will focus on accelerating regional economic integration, facilitating trade and investment, enhancing SME development, strengthening capacity building efforts, strengthening and deepening financial and capital markets, and addressing climate change and energy security.

ABAC Executive Director 2008

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