



**Asia-Pacific  
Economic Cooperation**

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**2010/SOM1/CPLG/026**

Agenda Item: 9

## **2009 ABAC Report to Leaders**

Purpose: Information

Submitted by: APEC Secretariat



**JAPAN 2010**

**Competition Policy and Law Group Meeting  
Hiroshima, Japan  
28 February-1 March 2010**



**APEC Business Advisory Council**  
Report to APEC Economic Leaders

# **Building Towards the Bogor Goals with One Community**

**Singapore 2009**

## APEC Member Economies

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Australia  
Brunei Darussalam  
Canada  
Chile  
China  
Hong Kong, China  
Indonesia  
Japan  
Korea  
Malaysia  
Mexico  
New Zealand  
Papua New Guinea  
Peru  
Philippines  
Russian Federation  
Singapore  
Chinese Taipei  
Thailand  
United States  
Vietnam



The logo embodies the essence of ABAC's 2009 theme of "Building Towards the Bogor Goals with One Community".

The large triangular base represents the broad business interests of the 21 APEC economies which are collectively converged and aligned towards achieving the core objective of the Bogor Goals.

Through the swift, continuous, flowing strokes; elements of APEC's steadfast, non-rigid consensus-building characteristics and connectivity agenda are portrayed. The circular central piece symbolizes ABAC's rolling agenda, and the concept of oneness and community.

Incorporating the individual letters of ABAC into the design, ABAC's undeniable relevance and important role to APEC and the Bogor Goals is accentuated.

# **Building Towards the Bogor Goals with One Community**







**His Excellency Lee Hsien Loong**

Chair, Asia-Pacific Economic Cooperation and  
Prime Minister of Singapore  
Singapore

Your Excellency:

The global economy continues to be weighed down by a severe recession triggered by a massive financial crisis and the resulting acute loss of confidence in the market. While there are signs of recovery, its sustainability remains uncertain.

ABAC supports global efforts – led by the G20 – to promote recovery through effective and high quality fiscal and monetary measures to stimulate demand; improved global coordination and cooperation in promoting sound regulatory practices; making more resources available to the International Monetary Fund and Multilateral Development Banks; and providing additional funding to support trade finance.

ABAC urges economies to pursue these efforts in a manner that restores demand on both a domestic and global basis without resorting to protectionist measures. Economies should also seize this opportunity to advance structural reform and regulatory reform in consultation with the private sector and in a manner that promotes inclusive growth for all.

Against this background, ABAC urges APEC Leaders to take the following actions to bring about an early return to sustained economic growth in the region:

1. **Accelerate regional economic integration and the achievement of the Bogor Goals by setting a timetable for initiating the Free Trade Area of the Asia Pacific (FTAAP).** We ask Leaders to instruct Ministers to finalize at their meeting in mid 2010 a viable timeframe and modalities for initiating FTAAP so that these can be presented to Leaders for decision at the 2010 Summit. We envisage that FTAAP will be a new generation agreement going beyond trade and encompassing services, investments and behind-the-border issues of concern to business. FTAAP should also be underpinned by a goal of inclusive growth so that all participating economies and citizens benefit and that transitional assistance is offered to those who require it.
2. **Resist protectionism unequivocally** by reaffirming their commitment to standstill and by reversing recent measures restricting trade in goods and services wherever they occur, including in their own economies. A successful conclusion of the Doha Round by 2010 would serve not only to provide a major stimulus to global trade and investment but also to deal effectively with persisting protectionism. Any further delay can only lead to considerable loss of confidence in the global trading system and the marginalization of the WTO. In fact, new issues confronting global business are appearing which the WTO has not even begun to address.
3. **Increase the flow of investments** within the region by improving transparency in investment regulations, expediting decision making, harmonizing procedures and establishing a robust legal framework.

4. **Conclude the upcoming climate change negotiations** in Copenhagen with an agreement that provides business with a predictable and stable environment in which to operate.

While the above recommendations address global issues that require immediate action, we see scope in the coming year for active engagement on a range of issues of critical interest to Leaders including climate change, energy, food security and the impact of demographic trends on the availability of labor.

We look forward to discussing these recommendations with you during our dialogue in November.

Sincerely,



**Teng Theng Dar**  
ABAC Chair 2009  
Chief Executive Officer  
Singapore Business Federation



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ABAC Co-Chair  
Chairman  
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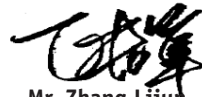
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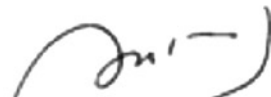


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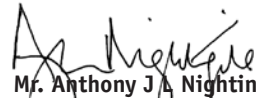
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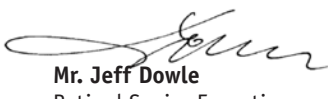


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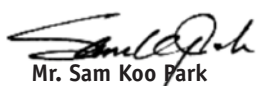
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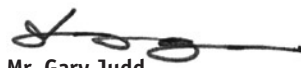


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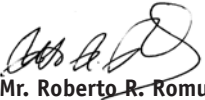


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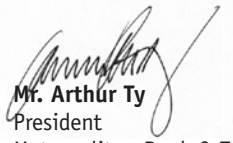
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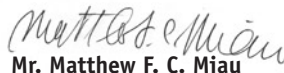


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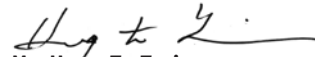


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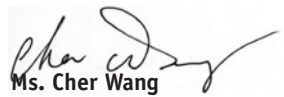
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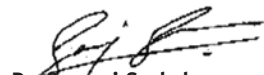


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## Executive Summary





# Executive Summary

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

- 1. Promoting Post-Crisis Recovery.** ABAC welcomes efforts to promote recovery through effective and high quality fiscal and monetary measures; to improve global coordination and cooperation in promoting sound regulatory practices; to make more resources available to the International Monetary Fund (IMF) and multilateral development banks; and to provide support for trade finance. ABAC believes that beyond promoting the recovery of domestic demand, such measures should also aim to restore global demand, in accordance with the needs and situation of each economy and with a clear vision towards facilitating structural reform and eliminating imbalances that have contributed to the crisis. In addition, they should help ensure broad-based and sustained recovery by responding to the financial needs of small and medium enterprises (SMEs) and micro-enterprises.
- 2. Accelerating Regional Economic Integration.** Commencing negotiations on the Free Trade Area of the Asia-Pacific (FTAAP) is the logical next step for APEC to accelerate regional economic integration. This is even more urgent in light of the impasse on the Doha Development Agenda (DDA) negotiations. ABAC believes that much time has already been spent in analyzing existing modalities for achieving FTAAP and that these are unlikely to develop the political will necessary to commence FTAAP. ABAC urges APEC Leaders to instruct Ministers and senior officials to define a framework by mid 2010 for decision by Leaders at their Summit in 2010.
- 3. Resisting Protectionism.** ABAC's monitoring of growing protectionism has identified several examples of APEC members, including major developed economies, taking actions which while compliant with the World Trade Organization (WTO) have a negative impact on trade and investment and inhibit economic recovery. While some APEC members have not resorted to such measures, others have applied a variety of restrictive measures. ABAC urges APEC Leaders to reaffirm and extend APEC's commitment to open markets and to an effective standstill on all new trade restrictive measures, whether WTO compatible or not.
- 4. Concluding the Doha Development Agenda.** The global community's failure to complete the WTO DDA reflects an extraordinary lack of political will. There are signs that business has given up hope that the Doha Round will be completed and has moved to develop business models that focus on investment rather than trade. However, there are issues that can only be resolved by a successful conclusion to the Doha Round, including the issue of production and export subsidies. APEC economies should show flexibility in the negotiations and engage with non-APEC economies, building on progress already made, to complete the round by the end of 2010.
- 5. Enhancing Investment Flows.** ABAC believes that the Investment Facilitation Action Plan (IFAP) is an excellent vehicle for advancing APEC's work in facilitating investment flows and will continue to monitor implementation efforts. 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. Further, officials should be instructed to prioritize the implementation of facilitation measures that provide the greatest benefit to businesses.
- 6. Facilitating Trade Flows.** ABAC continues to focus on a wide range of trade facilitation issues that have the potential to improve the flow of goods and services across borders and substantially reduce costs for businesses. ABAC believes that additional progress can and should be made in the area of customs practices and procedures by implementing the APEC Single Window Initiative and the ABAC Customs Work Plan and accelerating the implementation of the Second APEC Trade Facilitation Action Plan (TFAP II). ABAC urges APEC economies to continue improving the APEC Business Travel Card (ABTC) scheme by considering

additional benefits and improvements to the operation of the scheme, encouraging non-participating and transitional economies to join, and providing capacity building for immigration officials. ABAC considers that improved facilitation of trade must be and can be compatible with trade security and urges the adoption of an APEC-wide Authorized Economic Operator (AEO) system that allows for mutual recognition.

**7. Enhancing Connectivity.** ABAC has initiated work to secure improved efficiencies and safety through reform in regulatory and administrative arrangements for logistics in APEC economies. While work is being undertaken in APEC on cross-border issues and impediments, the ABAC initiative links that with action for internal arrangements which forms the backbone of logistics in the region. Reinforcing these goals is the increase of technological advances for vehicles. As a first step, a pilot project between selected APEC economies – Australia, Malaysia, New Zealand, Singapore and Thailand – will seek to develop action on these reforms which would provide a solid template for wider engagement in the region.

**8. Supporting the Development of SMEs, including Micro-Enterprises.** Recognizing that SMEs remain the backbone of virtually every economy in the region – and will continue to be so in the foreseeable future – ABAC is placing a strong emphasis this year on assisting the development of SMEs, including micro-enterprises. ABAC is organizing four SME events, the conclusions from which should feed into the SME Ministerial in Singapore in October. ABAC has endorsed a non-binding commitment to host a SME Summit every year. The SME events supported by ABAC throughout the year will be organized under the auspices of the APEC brand so as to promote inclusiveness. ABAC is also making progress on a pilot project to further support SME innovation initiatives. The Innovation Supply Chain Platform will provide a solution to eliminate the bottlenecks between developer and market.

**9. Ensuring Access to Labor.** International labor mobility in the APEC region has become a significant issue for both businesses and for policy makers as they cope with shortages of workers in key areas of business activities. ABAC has developed a work program in conjunction with the Pacific Economic Cooperation Council (PECC) to assess the economic implications of this issue, to examine the business implications, and to identify common challenges as well as possible cooperative responses. ABAC has commissioned the University of Southern California's Marshall School of Business to undertake a research project to determine the extent to which Regional Trading Arrangement (RTA) / Free Trade Agreement (FTA) chapters and bilateral labor agreements negotiated between APEC economies meet the needs of business. ABAC urges APEC economies to recognize and prioritize International Labor Mobility policy as a key element in promoting sustained and inclusive economic growth.

**10. Tackling Illicit Trade.** ABAC believes that illicit trade is a 'cross-border' activity and requires coordinated action by all economies. Given that there is currently no satisfactory regional or alternative mechanism that exists that would facilitate action to stop illicit trade, ABAC urges APEC, in conjunction with ABAC, to seek to develop an effective mechanism to operate at the regional level. Further, ABAC is currently monitoring the development of the Global Illicit Trade Index, a mechanism for measuring the cost of illicit trade to governments and companies by sector. This index may serve to inform economies' respective approaches to address the problem by prioritizing specific industries and addressing illicit trade at its source. The film industry is an example of a sector where focused enforcement activities can be leveraged to reduce illicit "camcording" in cinemas, the source of 90% of pirated film content.

**11. Support for the APEC Industry Dialogues and Fora.** ABAC is working to establish closer communication links with APEC's Automotive Dialogue, Chemicals Dialogue



and Life Sciences Innovation Forum which respectively advance work plans that reflect the priorities of the private sector. The achievements of these sector-focused groups directly support - and provide examples of concrete progress in - a range of issues in ABAC's broader work plan. ABAC proposes a similar dialogue for the food industry sector.

**12. Implementing APEC's Intellectual Property Rights Commitments.**

ABAC continues to highlight the important role that the effective protection of intellectual property rights plays in promoting regional economic integration, globalization of supply chains and the development of domestic IP-based industries. Further, ABAC looks forward to closer engagement and cooperation with the APEC Intellectual Property Rights Experts' Group to address a range of issues relevant to private sector stakeholders.

**13. Enhancing Food Security.**

ABAC reasserts that its initial plan for action on an APEC Food System (AFS) should remain a priority for APEC. It is important to understand how this system's dynamics might have changed or may need to change in relation to new and recent regional trade and business realities and in the increasingly important context of sustainability. The ultimate goal is for APEC to take a cohesive strategic approach to food that includes food security alongside issues on development and trade and investment. ABAC has broadened the original AFS commitment in 1999 to better reflect current issues and proposes a process for more coordinated dialogue between ABAC and APEC. In particular, ABAC stands ready to facilitate business input into the proposed Food Security Ministerial to take place in Japan in October 2010.

**14. Addressing Energy Security and Climate Change.**

ABAC maintains that an open and deregulated energy market in the region offers the better options to drive change and secure a balance between economic growth and environmental conservation. ABAC supports efforts to improve 'energy efficiencies' in regional economies and

urges the development of a long range Strategic Framework for Energy Security. However, economies in APEC have the option to utilize a range of measures to reduce greenhouse gas (GHG) emissions and urges that such measures do not in their implementation raise new barriers to trade and investment in the region. Because of the importance of action on energy security, ABAC recommends that the proposed meeting of Energy Ministers next year would be the start of annual meetings by APEC Energy Ministers.

**15. Promoting Trade in Environmental Goods and Services.**

ABAC encourages APEC to consider ways to maximize opportunities at the Copenhagen Conference later this year to find means to reduce barriers to trade and investment in environmental goods and services (EGS), particularly as progress in the Doha Round is currently stalled. ABAC recommends that a work program be developed between APEC and ABAC to promote awareness in APEC economies of the value of action on EGS and to explore ways to standardize or align energy efficiency and labeling and to support a program whereby products exceeding agreed thresholds be subject to low or zero tariffs.


**16. Developing a Modern Industry of Emergency Response.**

ABAC urges regional collaboration on natural disasters and emergencies, including enhancing investment and encouraging private sector involvement and collaboration to develop a modern Emergency Response Industry.

**17. Leveraging on ICT to Foster Economic Growth.**

ABAC applauds efforts in current economic stimulus packages to allocate funds for the development of Information Communication Technology (ICT) infrastructure that will increase access to broadband, noting that the adoption of ICTs can increase the productivity of service-oriented industries and facilitate the flow of goods and services across borders. To help protect business and public organizations against cybercrimes, ABAC urges APEC to reinforce efforts, such as those being carried out in the APEC Telecommunications





and Information Working Group (TEL), to address information security matters. Of equal importance is the development of regulatory and policy environments to enable economies to leverage the benefits that can be achieved through the adoption of ICTs. ABAC urges the adoption of the Digital Prosperity Checklist to assist economies in assessing their own policy and regulatory environments and determine capacity building needs and priorities to facilitate the adoption of ICTs.

**18. Strengthening and Deepening the Region's Capital Markets.**

To alleviate the damage on capital markets caused by the crisis, ABAC urges international cooperation to further enhance existing currency swap agreements and promote a healthy global monetary system. In light of recent bank and insurance company failures, ABAC highlights the need for improved financial regulatory system and a reassessment of corporate governance within companies as well as the need to promote macro-prudential regulation and supervision with respect to the monitoring and assessment of systemic risk. ABAC maintains that the development of financial system infrastructure as well as supportive regulatory and legal frameworks is vital to facilitate financing of enterprises, particularly SMEs. To assist the development of capital markets, ABAC urges APEC to improve laws and regulations governing transparency, credit rating systems and tax regimes, among others, and promote corporate bond markets.

**19. Promoting Capacity Building to Strengthen Financial Systems.**

Promoting greater financial inclusion will have a significant impact on economic development, social equity and financial deepening. Accordingly, ABAC urges APEC to launch a Financial Inclusion Initiative as a component of its work on inclusive growth; initiate a regional infrastructure partnership among governments, international financial institutions and the private sector; and enhance social safety nets, in particular, unemployment insurance, skills development and pension systems.

## Main Report





# Outline of Recommendations

## Introduction

- A. Promoting Post-Crisis Recovery**
- B. Accelerating Regional Economic Integration**
- C. Resisting Protectionism**
- D. Concluding the Doha Development Agenda**
- E. Enhancing Investment Flows**
- F. Facilitating Trade Flows**
  - 1. Customs Procedures and Practices
  - 2. Business Mobility
  - 3. Trade Security
- G. Enhancing Connectivity**
- H. Supporting SMEs, including Micro-Enterprises**
  - 1. Assisting the Development of SMEs
  - 2. Supporting SME Innovation Initiatives
- I. Ensuring Access to Labor**
- J. Tackling Illicit Trade**
- K. Supporting the APEC Industry Dialogues and Fora**
- L. Implementing APEC's Intellectual Property Rights Commitments**
- M. Ensuring Food Security**
- N. Addressing Energy Security and Climate Change**
- O. Promoting Trade in Environmental Goods and Services**
- P. Developing a Modern Industry of Emergency Response**
- Q. Leveraging on ICT to Foster Economic Growth**
- R. Strengthening and Deepening the Region's Capital Markets**
  - 1. International Financial Cooperation
    - (a) Multilateralization of the Chiang Mai Initiative
    - (b) Promoting a Healthy Global Monetary System
  - 2. Improving Regulatory Frameworks
    - (a) Corporate Governance
    - (b) Systemic Risks and Macro-Prudential Regulation and Supervision
    - (c) Building Financial System Infrastructure to Facilitate SME Finance
    - (d) Addressing the Impediments to Bond Market Development

## **S. Promoting Capacity Building to Strengthen Financial Systems**

1. Promoting Financial Inclusion
2. Promoting Infrastructure Public-Private Partnership
3. Enhancing Social Safety Nets

### **Attachment**

ABAC Customs Work Plan

### **Annexes**

- A ABAC Letter to APEC G20 Leaders on the G20 and Lima commitments on standstill and protectionism (dated 26 March 2009)
- B ABAC Letter to APEC Leaders on short-term recommendations to address the global economic and financial crisis (dated 15 May 2009)
- C ABAC Letter to APEC Ministers Responsible for Trade providing an interim report on ABAC's work in 2009 (dated 15 June 2009)
- D ABAC Letter to APEC Ministers Responsible for Trade providing an update on ABAC's work in monitoring protectionism and the G20 commitments on standstill (dated 10 July 2009)
- E ABAC Letter to APEC Finance Ministers on strengthening financial systems and regulatory capital requirements (dated 13 August 2009)
- F ABAC Letter to APEC SME Ministers conveying ABAC's recommendations relating to SMEs (dated 15 September 2009)
- G ABAC Letter to APEC Finance Ministers outlining its recommendations for 2009 (dated 15 September 2009)
- H The APEC Business Advisory Council

# Main Report

## Introduction

The global economy continues to be weighed down by a severe recession triggered by a massive financial crisis and the resulting acute loss of confidence in the market. Real GDP growth has declined significantly – affecting both developed and developing economies. World trade is expected to contract by about 10% this year. Financial markets remain under stress. While there have been signs that recovery may soon be on the horizon, there remains the risk of a prolonged period of depressed economic conditions as consumers and firms hold back on spending in the face of rising unemployment, high excess capacities, continuing declines in property prices and persistent tightness in credit markets. The crisis has also created a significant set of risks, including risk to financial systems, the risk of financial and trade protectionism, as well as regulatory and legal measures that pose new obstacles to foreign investment and innovation and further constrain liquidity and credit.

ABAC therefore stresses the importance of forceful actions by governments to establish the conditions necessary for a return to sustained growth. ABAC believes that its theme of “*Building Towards the Bogor Goals with One Community*” and priorities of accelerating regional economic integration, championing a model of sustainable development, and strengthening capacity building and enhancing connectivity in the region remain central to restoring economic growth in the region. ABAC urges APEC economies to adopt the actions set out below to address the current challenges and accelerate the achievement of the Bogor Goals of free and open trade and investment in the region.

### A. Promoting Post-Crisis Recovery

Governments have exerted significant efforts to respond to the crisis domestically and internationally. At the Group of Twenty (G20) meeting on 2 April 2009, governments have committed to undertake sufficient fiscal stimulus measures and reforms to repair damaged financial systems and improve the effectiveness of international institutions. It still remains uncertain whether and when these measures can bring about recovery, which will hinge on

the success of efforts to avoid excessive price declines of assets, including real estate and financial products, and restore market confidence. In economies where financial systems have been damaged by the crisis, reviving the financial intermediation process is important for stimulus measures to take effect. The decline of cross-border transactions, particularly trade finance, as a result of the global financial crisis, also needs to be addressed.

While communication among and between regulators of various economies has increased, which is a welcome development, there are also trends running counter to international coordination at the level of individual economies. Specifically, there have been movements towards new sovereign barriers and restrictions, including on cross-border flow of capital, outsourcing limitations, and requirements that foreign entities operate in a given economy through subsidiaries rather than branches.

ABAC supports the G20’s efforts to promote recovery through effective and high quality fiscal and monetary measures; to improve global coordination and cooperation in promoting sound regulatory practices, ensuring their consistent implementation and aligning regulatory regimes across borders; to make more resources available to the International Monetary Fund (IMF) and Multilateral Development Banks (MDBs); and to provide US\$250 billion over the next two years to support trade finance through export credit and investment agencies and MDBs.

ABAC believes that beyond promoting the recovery of domestic demand, such measures should also aim to restore global demand, in accordance with the needs and situation of each economy and with a clear vision toward facilitating structural reform and eliminating imbalances that have contributed to the crisis. In addition, they should help ensure broad-based and sustained recovery by responding to the financial needs of small and medium enterprises (SMEs) as well as of households and micro-enterprises that form the foundation of the economic pyramid.

### Recommendations

- Continue domestic and global efforts to ensure the high quality of existing stimulus

measures, fully restore the functioning of financial markets, and support trade finance.

- Where financial systems have been significantly damaged by the crisis, focus on reviving the financial intermediation process, which is important for stimulus measures to gain traction, by restarting credit markets, repairing viable lenders' balance sheets and liquidating unviable lenders. Continued capital injections for ailing financial institutions should be considered if lenders' asset quality deteriorates further as a result of prolonged economic weakness. Incentives, including special tax treatment, should also be considered if necessary to encourage the sale of non-performing assets. Complete removal of problem assets is encouraged so that capital injection towards solvent institutions becomes effective.
- Continue improving bilateral and multilateral policy communication and cooperation, particularly within the G20 and the Financial Stability Board (FSB), to identify additional mechanisms, including guarantees, to promote sound cross-border transactions; enable effective monitoring of volatile cross-border capital flows; and promote meaningful regulatory reform. ABAC encourages the G20 to continue meeting at the Leaders' level in 2010 to ensure effective coordination and response to the crisis.
- Continue moving from entity-based to activity-based regulation. ABAC underscores the importance of central clearing houses for derivative products with globally consistent procedural and operational standards that cover different economies and time.
- Given the magnitude of the current stimulus measures, monitor closely long-term interest rates to ensure that their development does not impede the recovery of the housing market and investor sentiment. In addition, in view of the scale and impact of fiscal and monetary measures deployed in response to the crisis, governments should carefully coordinate exit strategies during the transition period when such measures are withdrawn as the economy recovers.

## **B. Accelerating Regional Economic Integration**

Commencing negotiations on the Free Trade Area of the Asia-Pacific (FTAAP) is the logical next step for APEC to accelerate regional economic integration. This is even more urgent in light of the impasse on the Doha Development Agenda (DDA) negotiations. While there are several potential pathways to achieve FTAAP, including through such initiatives as the Trans Pacific Partnership (TPP), there is no substitute for an overarching vision which would establish a timeframe and modalities for free trade in the region and for improved trade rules amongst member economies. Much time has been spent in analyzing existing modalities for achieving FTAAP including convergence/divergence, rules of origin and analytical studies. Further studies, while providing potentially useful background, are unlikely to develop the political will necessary to commence FTAAP. This is a bold step which APEC Leaders themselves now have to take.

### **Recommendation**

- Instruct Ministers and senior officials to define a framework by mid 2010 for decision by Leaders at their Summit in 2010.

## **C. Resisting Protectionism**

ABAC's monitoring of growing protectionism has identified several examples of APEC members, including major developed economies, taking actions which while compliant with the World Trade Organization (WTO) have a negative impact on trade and investment and inhibit economic recovery. While some APEC members have not resorted to such measures, others have applied a variety of restrictive measures.

Global protectionism can only be resisted if APEC economies "walk the talk" on standstill and obey the spirit as well as the letter of their G20 commitments.

### **Recommendations**

- Re-affirm and extend APEC's commitment to open markets and to an effective standstill on all new trade restrictive measures, whether WTO compatible or not.

- Reverse trade restrictive measures that have already been introduced.
- Continue to monitor protectionism and its impact on business.

#### **D. Concluding the Doha Development Agenda**

The global community's failure to complete the WTO DDA reflects an extraordinary lack of political will. There are clear signs that business has given up hope that the Doha Round will be completed and has moved to develop business models that focus on investment rather than trade. Even so, there are issues that can only be resolved by a successful conclusion to the Doha Round, including the issue of production and export subsidies. APEC economies have a role to play in showing flexibility in the negotiations and engaging with non-APEC economies, building on progress already made, to complete the round and ensure the WTO remains relevant to business.

##### **Recommendations**

- Take practical steps to ensure the Doha Round is completed by the end of 2010.
- Engage actively with ABAC to determine business priorities for future rules governing global economic integration.

#### **E. Enhancing Investment Flows**

Enhancing investment flows in APEC economies is critical to returning to a path of growth and economic restructuring in the face of the current global recession. With an eye towards achieving the Bogor Goals, APEC should maintain a focus on both facilitating and liberalizing cross-border investment in the region. ABAC believes that the Investment Facilitation Action Plan (IFAP) is an excellent vehicle for advancing APEC's work in facilitating investment flows and will continue to monitor implementation efforts. 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. Further, officials should be instructed to prioritize the implementation of facilitation measures that provide the greatest

reductions on costs to businesses and ultimately consumers.

##### **Recommendations**

- Reinvigorate efforts to address the liberalization of investment as embodied in APEC's 1994 non-binding investment principles, including limiting the use of performance requirements that distort or limit expansion of trade and investment, national treatment, removal of foreign ownership limitations and others.
- Supplement efforts to implement the IFAP with capacity building initiatives which familiarize economies with policies that improve the investment environment, including investor state dispute resolution mechanisms.
- 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.
- Complete model measures to promote the convergence of high-quality investment chapters in Regional Trading Arrangements (RTAs) and Free Trade Agreements (FTAs) and bilateral investment treaties between regional economies.
- Continue to collaborate with major international organizations in promoting and facilitating investment and leverage existing research and investment best practices.

#### **F. Facilitating Trade Flows**

##### *1. Customs Procedures and Practices*

ABAC continues to focus on a wide range of trade facilitation issues that have the potential to improve the flow of goods and services across borders and substantially reduce costs for businesses. Customs procedures have a significant impact on trade flows and directly influence the speed and reliability of a company's global supply chain. Transparent, uniform and predictable customs practices and procedures are



important components of a thriving economy. ABAC believes that additional progress can and should be made in the area of customs practices and procedures in APEC economies because this is an area where improvements will yield substantial benefits to business. APEC should act immediately to implement trade facilitation measures and realize the potential US \$280 billion increase in intra-APEC trade identified by the World Bank.

#### **Recommendations**

- Accelerate work to harmonize customs processes through the implementation of the APEC Single Window Initiative.
- Accelerate the implementation of the Second APEC Trade Facilitation Action Plan (TFAP II) for the early achievement of goals to reduce the cost of doing business.
- Undertake efforts to implement the ABAC Customs Work Plan (Attachment), especially in areas not currently addressed by APEC.
- Refrain from the implementation of burdensome regulations or processes which act as de facto protectionist measures.
- Implement elements of the trade facilitation package in the DDA.

#### **2. Business Mobility**

According to the APEC Business Travel Card (ABTC) Client Survey conducted recently, convenience is the strongest merit of the ABTC for cardholders. The number of ABTC holders continues to grow. The survey also revealed that many people would like the area of use of the ABTC expanded to non-APEC economies, especially the EU. ABAC will ask the Business Mobility Group (BMG) or an appropriate APEC forum to carry out a study to determine the prospect and ways by which the area of use of the ABTC could be expanded. ABTC's continued success depends on future added values to the card.

#### **Recommendations**

- Continue to support the ABTC scheme and its progress.
- Consider additional benefits for holders, e.g., expanding the area where the ABTC can be used, and featuring a biometric authentication system to expedite the immigration procedure.
- Continue to improve the operation of the ABTC in participating economies, such as priority processing, further shortening the processing time for pre-clearance, extending the validity of the ABTC, providing seamless validity at time of passport renewal, improving online service, ensuring definite recognition of ABTC at airports, and providing clearly marked ABTC lanes.
- Encourage non-participating and transitional economies to join.
- Provide capacity building for immigration officials so as to avoid confusion.

#### **3. Trade Security**

While the need for secure trade cannot be questioned, ABAC believes that these regimes must be implemented in a way which serves to facilitate trade. An APEC-wide Authorized Economic Operator (AEO) system with a mutual recognition scheme can improve trade facilitation dramatically without compromising trade security. Concrete steps need to be identified to build towards the creation of such a scheme carefully including the necessary conditions for a sound and effective system while disseminating the concept to all economies in the region.

#### **Recommendations**

- Assign an appropriate APEC sub-forum to undertake a study on the creation of an AEO scheme with mutual recognition which applies standardized and harmonized security criteria throughout the region, adheres to the

World Customs Organization (WCO) SAFE Framework of Standards to Secure and Facilitate Global Trade, does not create a spaghetti bowl of AEO schemes, and provides common and tangible benefits for AEO participants.

- Provide capacity building in order to assist economies in the region establish and implement the AEO scheme at the same level.
- Develop programs providing SMEs with substantial support in order to ensure their smooth integration in the AEO scheme in the region.

### **G. Enhancing Connectivity**

ABAC has initiated work to secure improved efficiencies and safety through reform in regulatory and administrative arrangements for logistics in APEC economies. While work is being undertaken in APEC on cross-border issues and impediments, the ABAC initiative links that with action for internal arrangements which forms the backbone of logistics in the region. Reinforcing these goals is the increase of technological advances for vehicles. As a first step, a pilot project between selected APEC economies – Australia, Malaysia, New Zealand, Singapore and Thailand – will seek to develop action on these reforms which would provide a solid template for wider engagement in the region.

### **H. Supporting SMEs, including Micro-Enterprises**

#### *1. Assisting the Development of SMEs*

Recognizing that SMEs remain the backbone of virtually every economy in the region – and will continue to be so in the foreseeable future – ABAC is placing a strong emphasis this year on assisting the development of SMEs, including micro-enterprises. ABAC is organizing four SME events, notably in Brunei in May, in China and Peru in September, and in Singapore in November. The conclusions of these SME events should feed into the SME Ministerial in Singapore in October.

In recognition of the importance of the contribution of SMEs to the general economy, ABAC has endorsed a non-binding commitment to host a SME Summit each year along the APEC Leaders' meetings. The SME events supported by ABAC throughout the year will be organized under the auspices of the APEC brand so as to promote inclusiveness. ABAC seeks the continued support of APEC for the hosting of such SME events, thereby providing a global forum for SMEs to showcase their development.

#### *2. Supporting SME Innovation Initiatives*

ABAC is developing a platform to further support SME innovation initiatives. The Innovation Supply Chain Platform will provide a solution to eliminate the bottlenecks between developer and market. The Innovation Supply Chain is a public-private partnership project which allows for a systematic process strongly supported by financial capacity to assist SMEs.

### **I. Ensuring Access to Labor**

International labor mobility in the APEC region has become a significant issue for both businesses and for policy makers as they cope with shortages of workers in key areas of business activities. ABAC has developed a work program in conjunction with the Pacific Economic Cooperation Council (PECC) to assess the economic implications of this issue, to examine the business implications, and to identify common challenges as well as possible cooperative responses. Subsequently, a PECC-ABAC joint study on international labor mobility in the region was submitted to APEC.

This year, ABAC commissioned the University of Southern California's Marshall School of Business to undertake a research project to determine the extent to which RTA/FTA chapters and bilateral labor agreements negotiated between APEC economies meet the needs of business. The study showed that there are problems and costs to sending and receiving economies with regard to labor mobility.

### **Recommendations**

- Recognize and prioritize Labor Mobility policy as a key element in promoting sustained and inclusive economic growth.
- Create a Labor Mobility Task Force within APEC to develop strategies and policies in the area of temporary labor movement.
- Address overstay of visas that create patterns of irregular migration.
- Improve Government-to-Government interaction and agreements to facilitate smoother temporary labor movement.
- Initiate a new APEC-wide data collection project to aid in future policy development.
- Regulate private entities involved in the labor mobility process.
- Develop guidelines for the APEC accepted and recognized skill sets and certifications for the various job sectors.
- Provide language and other pre-departure training for foreign workers.

### **J. Tackling Illicit Trade**

Numerous international organizations have identified illicit trade as a significant brake on economic growth in the region. Earlier this year, ABAC called on Senior Officials to take action towards solving this problem which may account for 15-20% of global trade. Clearly, the current global financial crisis and the threat of protectionism may lead to further increase in illicit trade. Therefore, it dictates the urgent need for action on illicit trade to ease the burden on many economies and to assist in improving the environment for businesses and consumers. Illicit trade is a 'cross-border' activity and requires coordinated action by all economies, however currently no satisfactory regional or alternative mechanism exists that would facilitate action to stop illicit trade. This underscores the need for action by bodies such as APEC in conjunction with ABAC to seek to

develop an effective mechanism to operate at the regional level.

Further, ABAC is currently monitoring the development of the Global Illicit Trade Index, a mechanism for measuring the cost of illicit trade to governments and companies by sector. This index may serve to inform economies' respective approaches to address the problem by prioritizing specific industries and addressing illicit trade at its source. The film industry is an example of a sector where focused enforcement activities can be leveraged to reduce illicit "camcording" in cinemas, the source of 90% of pirated film content.

### **Recommendations**

- Develop an Illicit Trade Code, modeled on the 2007 APEC Code on Anti-Corruption, as a first step in coordinating an APEC-wide approach to address illicit trade.
- Explore support from the Asian Development Bank (ADB) & the World Bank in securing funding for capacity building, technical assistance, and support to assist economies to carry out priority tasks efficiently and effectively against illicit trade.
- Take steps to address industry-specific incidents of illicit trade where focused enforcement and deterrent legislation can cut off illicit trade at the source, such as "camcording" which affects the film industry.

### **K. Supporting the APEC Industry Dialogues and Fora**

ABAC is working to establish closer communication links with APEC's Automotive Dialogue, Chemicals Dialogue and Life Sciences Innovation Forum which respectively advance work plans that reflect the priorities of the private sector. The achievements of these sector-focused groups directly support - and provide examples of concrete progress in - a range of issues in ABAC's broader work plan. Specifically, ABAC would like to note its support for the following initiatives and deliverables:

#### *APEC Life Sciences Innovation Forum*

- Implementation of Enablers of Investment Checklist which was completed by Singapore this year
- Establishment of the APEC Life Sciences Harmonization Center in Seoul, Korea

#### *APEC Automotive Dialogue*

- Statement to Trade Ministers urging “no new auto tariffs or non-tariff measures”
- Announcement of two road safety initiatives: a helmet safety project in Indonesia, and a motorcycle safety initiative
- Recommendations to the APEC Committee on Trade and Investment (CTI) and the Sub-Committee on Customs Procedures (SCCP) regarding expedited customs clearance and modernization of customs websites
- Project identified to examine cost effective expansion of the transport and distribution infrastructure for biofuels in APEC

#### *APEC Chemicals Dialogue*

- Implementation of the Ministerially endorsed (2008) principles for best practice chemicals regulations which will lower the costs of doing business in the region for the chemical industry and downstream industries
- Initiative to examine the role of the chemical industry as an innovative solutions provider for the reduction of Greenhouse Gases

#### **Recommendation**

- Establish a Food Industry Dialogue Group.

#### **L. Implementing APEC’s Intellectual Property Rights Commitments**

ABAC continues to highlight the important role that the effective protection of intellectual property rights plays in promoting regional economic integration, globalization of supply chains and the development of domestic IP-based industries. Further, ABAC looks forward

to closer engagement and cooperation with the APEC Intellectual Property Rights Experts’ Group to address a range of issues relevant to private sector stakeholders.

#### **Recommendations**

- Give effect to APEC’s 2007 Ministerial Declaration and the 2008 Meeting of APEC Ministers Responsible for Trade (MRT) 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.
- 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.
- Enhance cooperation between customs agencies and rights holders to facilitate the identification and seizure of counterfeit and pirated goods at the border.

#### **M. Ensuring Food Security**

ABAC reasserts that its initial plan for action on an APEC Food System (AFS) should remain a priority for APEC. It is important to understand how this system’s dynamics might have changed or may need to change in relation to new and recent regional trade and business realities and in the increasingly important context of sustainability. The ultimate goal is for APEC to take a cohesive strategic approach to food that includes food security alongside issues on development and trade and investment. ABAC has broadened the original AFS commitment in 1999 to better reflect current issues and proposes a process for more coordinated dialogue between ABAC and APEC notably through the proposed Food Industry Dialogue Group above. In particular, ABAC stands ready to facilitate business input

into the proposed Food Security Ministerial to take place in Japan in October 2010.

#### **Recommendations**

- Reaffirm Leaders' support for the AFS and to agree to key elements on issues such as food security as proposed by ABAC.
- Call again for a commitment from APEC Leaders against export embargoes and restrictions on food.

#### **N. Addressing Energy Security and Climate Change**

ABAC maintains that an open and deregulated energy market in the region offers the better options to drive change and secure a balance between economic growth and environmental conservation. ABAC has identified three areas requiring attention by APEC in 2010.

First, ABAC urges the development of a long range plan based on ABAC's Strategic Framework for Energy Security to advance policy development and implementation in APEC. The purpose is to assist in securing improvements in energy security, efficiency and technological development and provide opportunity for events such as World Energy Council (WEC)-ABAC Symposiums.

The second relates to steps to reduce greenhouse gas (GHG) emissions. Support for efforts to improve 'energy efficiencies' in regional economies is important as it represents opportunity for early gains in reducing GHG. Economies in APEC have the option to utilize a range of measures to reduce GHG and urges that such measures do not in their implementation raise new barriers to trade and investment in the region.

Third, ABAC is concerned that APEC Energy Ministers have not met since 2007. While it is aware that APEC Japan is planning a meeting of Energy Ministers next year, ABAC would urge Leaders to agree to the scheduling of the APEC Energy Ministers' Meeting to be annual.

#### **Recommendations**

- Support new initiatives that would contribute to the development of a long

range plan for energy in APEC, namely study on a futures market for gas, best practices in energy efficiency by end-users and promote exchange of conservation practices.

- Urge Leaders to be aware of possible negative implications for business from inconsistencies in the implementation of some GHG measures in the APEC region.

#### **O. Promoting Trade in Environmental Goods and Services**

ABAC encourages APEC to consider ways to maximize opportunities at the Copenhagen Conference later this year to find means to reduce barriers to trade and investment in environmental goods and services (EGS), particularly as progress in the WTO Doha Round is currently stalled.

#### **Recommendations**

- Develop a work program between APEC and ABAC to promote awareness in APEC economies of the value of action on EGS including steps to strengthen the capacities of APEC economies, especially developing economies, to develop the EGS sector.
- Explore ways to standardize or align energy efficiency and labeling.
- Support a program whereby products exceeding agreed thresholds be subject to low or zero tariffs.

#### **P. Developing a Modern Industry of Emergency Response**

At the 2<sup>nd</sup> APEC Task Force for Emergency Preparedness (TFEP) meeting in August 2008, APEC economies endorsed a Peru-initiated "Strategy for Disaster Risk Reduction and Emergency Preparedness and Response in the Asia Pacific Region 2009-2015", recommended collaboration on natural disasters and emergencies. In 2009, the Influenza A represents yet another reminder of the urgency of technical cooperation in emergency response within APEC economies.

After the experience with SARS in 2003, the Chinese government realized the limitation of traditional emergency response plans, and



decided to promote a brand-new concept and framework for Emergency Response Management. After five years of collaboration between the government, research institutions and the business sector, China has developed the idea of Digital Emergency Response Platform that enables quick, scientific and systematic response actions in emergencies. This concept of Emergency Response Platforms played a crucial role in some disaster response events in 2008, such as the snow disaster in South China, the 5.12 Sichuan earthquake, the Beijing Summer Olympics, etc., enabling government and society to act quickly in the appropriate manner during emergencies.

### **Recommendations**

- Enhance investment to develop a modern Emergency Response Industry.
- Encourage and assist more private sector involvement in developing the Emergency Response Industry.
- Foster regional collaboration between private sectors.

### **Q. Leveraging on ICT to Foster Economic Growth**

As economic growth in the Asia Pacific region rebalances and economies strive to establish alternative models of growth, it is important to draw attention to the potential for Information and Communication Technologies (ICTs) to act as a multiplier for economic growth. Adoption of ICTs can increase the productivity of service-oriented industries, key drivers of domestic demand, as well as facilitate the flow of goods and services across borders. ABAC welcomes efforts by a number of economies to allocate funds in their economic stimulus packages in response to the crisis for the development of ICT infrastructure as such efforts will leverage the multiplying effect of ICTs through investment in broadband access.

Of equal importance to specific ICT programs is the development of regulatory and policy environments which enable economies to leverage the benefits that can be achieved through the adoption of ICTs. The Digital Prosperity Checklist is a comprehensive tool that has evolved from ABAC's ICT-Enabled Growth Initiative. Using

the checklist, economies can assess their own policy and regulatory environments to determine capacity building needs and priorities to facilitate the adoption of ICTs.

The rapid development of information technology has elevated the role of information into an importance resource. However, significant risks threaten to impact the healthy and positive functioning of the Internet. Because these risks are global in nature, cooperation in APEC on technical and policy issues is important. Solving the challenges requires involvement from all stakeholders including government, business, civil society and academia at the inter-departmental, governmental and regional levels. Effective information security policies and technologies in the APEC region require the active involvement of APEC economies to assess emerging threats and take concerted actions.

### **Recommendations**

- Make greater concerted efforts to enhance information security and cybersecurity through technology and policy.
- Pay more attention to social unrest caused by cyber crimes disguised under various purposes.
- Raise public awareness of information security issues through education in the APEC region.
- Take stronger measures to fight against cyber crimes.
- Utilize the Digital Prosperity Checklist to assess economies' regulatory and policy environments with the objective of leveraging the benefits of ICTs.
- Reference the policy instruments and best practices identified in the Digital Prosperity Checklist in the implementation of broadband infrastructure investment programs being implemented through economic stimulus packages.

### **R. Strengthening and Deepening the Region's Capital Markets**

#### *1. International Financial Cooperation*

Throughout the crisis, various initiatives have been taken to alleviate the damage

to capital markets from the crisis. Such initiatives include currency swap agreements among economies and discussions to review and enhance the global monetary system.

(a) Multilateralization of the Chiang Mai Initiative

At their 12<sup>th</sup> meeting in Bali, Indonesia on 3 May 2009, the ASEAN Plus Three Finance Ministers agreed to multilateralize the Chiang Mai Initiative (CMI). Although conceived to assist the developing members of the ASEAN Plus Three, CMI has proven to be a good model of financial cooperation that APEC economies could consider. On top of the US Federal Reserve's efforts to set up bilateral swap agreements in the region, the decision to expand the facility size to US\$120 billion and the establishment of regional supervisory functions are expected to help alleviate the impact on the region of the global liquidity crunch in international financial markets.

**Recommendation**

- Consider further improvements in CMI's disbursement mechanism to enhance its effectiveness, in particular, by changing the 20% threshold of the IMF support program compliance.

(b) Promoting a Healthy Global Monetary System

The current international monetary system has played an important role in promoting unprecedented global economic growth and development over the past several decades. It has come under growing scrutiny, in particular, as to how effectively it reflects the tremendous changes in the global economic structure.

**Recommendations**

- Consider ways of developing a basket of currencies that can be

used more widely for settlement of international transactions and eventually complement the key roles of the US dollar and Euro in maintaining international monetary system stability.

- Enhance policy harmonization and cooperation among financial regulators for more effective monitoring of volatile cross-border capital flows to minimize any negative impact on global financial markets.

2. *Improving Regulatory Frameworks*

The improvement of financial regulatory frameworks continues to be an important concern. This year, in particular, corporate governance and risk monitoring were important items on the agenda reflecting the crisis, on top of SME finance and bond market development.

(a) Corporate Governance

The importance of effective corporate governance has been underscored by the recent failures of key financial institutions. These developments highlight not only the need to improve financial regulatory systems, but also to promote good corporate governance. While the OECD principles of Corporate Governance introduced in 2004 serve as a sound foundation, "hybrid" governance structures that take into account domestic conditions and, blend global standards and good ideas from other economies should be explored and tested for possible implementation.

**Recommendation**

- Monitor adequately implementation of good corporate governance principles. In addition, disclosure requirements for public companies should be enhanced to facilitate risk management.

(b) Systemic Risks and Macro-Prudential Regulation and Supervision

The newly established Financial Stability Board (FSB) can play an important role in minimizing regulatory conflict and preventing financial protectionism. As regulatory frameworks are reviewed and updated, intensified international cooperation through bodies such as the FSB to develop and apply a common set of principles and standards that seek to avoid conflicts will be critical to the efficient and effective functioning of global markets.

**Recommendations**

- Urge the FSB to closely coordinate with the Basel Committee on Banking Supervision to review and consider appropriate changes to the Basel II framework in the context of mitigating pro-cyclicality, as well as to promote macro-prudential regulation and supervision to address systemic risk. Public-private dialogue should be maintained before implementing any new regulations, including any proposed changes to capital requirements. Such new regulations should form part of a comprehensive financial package that addresses risk management and corporate governance practices, among others.
- Maintain the international standard for the minimum level of capital as declared at the London G20 until recovery is assured.

(c) Building Financial System Infrastructure to Facilitate SME Finance

The development of financial system infrastructure as well as appropriate supporting regulatory and legal frameworks, will be vital to facilitating the financing of enterprises, particularly SMEs, and eventually to restoring

confidence and growth. Key areas that should be given attention are promoting commercial lending through an enhanced secured lending framework; promoting improved risk management through modernized credit information; and improving the regulatory process, transparency and predictability of the judicial system.

Secured lending requires legal and judicial infrastructure to ensure predictability. Asset-based lending and secured financing remain in many cases at less than their full potential to provide needed corporate liquidity, particularly for SMEs.

**Recommendation**

- Undertake initiatives to promote a more predictable legal architecture for secured lending, including an exclusively available system for registering and perfecting security interests in both movables and receivables as collateral, efficient judicial procedures for enforcement of security interests, and clear regulations around asset-based lending requirements to further enable both lenders and borrowers to assess risk and enhance sound credit and lending activities.

Risk management is vital for a healthy consumer and commercial financial services market. However, the development of risk management tools depends on the availability of accurate, robust, full-file credit bureaus and credit information resources. In many APEC economies, credit information systems have not reached the level of development where they can achieve their full potential in improving credit decisions. In some economies, unduly strict privacy laws may hamper the use of information for credit analysis and development of scientific scoring systems that could better predict borrowers' capacity to repay and default risk and enhance lenders'



ability to identify qualified borrowers. Modernized credit information systems allow the deployment of superior risk analytics, which can more efficiently allocate capital to credit-worthy borrowers.

#### **Recommendation**

- Encourage credit bureaus to allow access to and include information from all qualified lenders to maintain fair and competitive access and improve the quality of data available for all.

Regulatory systems need to provide transparent rule-making and rule-application, such as through notice-and-comment rule-making and a system of “no action” letters to resolve legal ambiguities that might discourage market participants from launching new products. Enhanced disclosure requirements for public companies would provide increased transparency and improve risk management. In addition, predictability and swiftness of judicial enforcement of contractual rights for all market participants will serve to enhance confidence in all aspects of financial services. Prompt avenues for enforcement of judgments, liens and security interests, on a level-playing-field basis for all institutions, are essential particularly to enhance the regulatory architecture for secured lending.

#### **Recommendation**

- Enhance disclosure requirements for public companies to promote better risk management.

#### **(d) Addressing the Impediments to Bond Market Development**

Developing economies’ bond markets are still far from adequate in meeting the financing needs of the private sector. Legal systems need to be strengthened to provide adequate protection to creditors and enforce transparency

and fair play. Taxation continues to pose challenges to the development of many markets. The investor base needs to be broadened in order to promote market depth and liquidity. Promoting cross-border investment within the region will significantly contribute to the deepening of bond markets. In relation to this, further steps are needed to provide regional investors in local currency bonds useful and comparable credit ratings for bonds across the region’s emerging markets, as well as an efficient bond settlement system that can serve the needs of such investors.

#### **Recommendations**

- Strengthen laws to foster and enforce transparency and fair play, provide adequate credit protection and recovery processes, and further develop market regulations and supervision. Review tax regimes, address the negative impact of taxes on bond markets and consider incentives to promote demand for new assets that can help broaden the investor base.
- Undertake bold steps to take bond market development in the region to the next level, with emphasis on promoting the growth of corporate bond markets and financial integration, and collaborate with ABAC in advancing the bond market development agenda, including the holding of the 4<sup>th</sup> APEC Public-Private Sector Forum on Bond Market Development in 2010.

### **S. Promoting Capacity Building to Strengthen Financial Systems**

Over the past several years, ABAC has collaborated with a number of leading international institutions to develop ideas for regional public-private partnership through the Advisory Group on APEC Financial System Capacity Building. This year, the Advisory Group undertook several important activities to discuss a number of

issues and provide recommendations on the way forward. The 2009 Report of the Advisory Group contains ideas and recommendations on five issues: promoting financial inclusion; broadening the institutional base for emerging bond markets; infrastructure public-private partnership; improving the region's credit reporting systems; and responding to the financial and economic crisis.

### 1. *Promoting Financial Inclusion*

With over three billion people worldwide lacking access to financial services, there is considerable demand from developing economies for a more inclusive financial sector. Among developing members of APEC, the percentage of adults who have no access to financial services ranges from 40 percent to as high as 90 percent. Promoting greater financial inclusion will have a significant impact on economic development, social equity and financial deepening. APEC economies can promote financial inclusion in the region by undertaking a policy initiative that addresses major issues in a number of key areas.

In 2009, ABAC collaborated with a number of regional and international institutions to discuss best practices in undertaking reforms in these key areas, through a workshop (Promoting Financial Inclusion through Innovative Policies) that was held in Tokyo. The outcomes of the workshop are reported in the 2009 report of the Advisory Group on APEC Financial System Capacity Building.

#### **Recommendation**

- Undertake a financial inclusion initiative to promote legal, policy and regulatory reforms that will provide an enabling environment for microfinance and share best practices in undertaking these reforms, particularly in agent banking, mobile phone banking, diversity of microfinance service providers, governance and management of public banks with microfinance operations, financial identity and consumer protection.

### 2. *Promoting Infrastructure Public-Private Partnership*

There is tremendous potential for mobilizing the region's huge pool of savings to address its considerable infrastructure needs through public-private partnerships. However, there are underlying issues that need to be addressed to realize this potential.

#### **Recommendation**

- Launch a regional infrastructure partnership among governments, international financial institutions and the private sector that will produce a list of major projects that represent regional priorities based on extensive consultations and actively identify ways of building up the range of financing options offered by capital markets through addressing policy and regulatory impediments to further innovation and greater market participation.

### 3. *Enhancing Social Safety Nets*

Inadequate social safety nets, including pension and unemployment insurance systems, force households in emerging Asian economies to save proportionately more than their counterparts in advanced markets, where more developed social service infrastructure provides greater comfort.

#### **Recommendations**

- Enhance unemployment insurance and skills development to establish an adequate social safety net. In addition, funded base pension systems should be developed to alleviate the costs of job transfers.
- Replace over time unfunded (pay-as-you-go) pension arrangements that have inherent weaknesses with funded plans. It should be noted that in the context of rapid ageing populations, the associated costs are potential liabilities of the state.



## Attachment





# APEC Business Advisory Council

## Customs Work Plan: Recommendations on Customs Practices and Procedures to the APEC Committee on Trade and Investment

The APEC Business Advisory Council (ABAC) continues to focus on a wide range of trade facilitation issues that have the potential to improve the flow of goods and services across borders and substantially reduce costs for businesses. Customs procedures have a significant impact on trade flows and directly influence the speed and reliability of a company's global supply chain. Transparent, uniform and predictable customs practices and procedures are important components of a thriving economy. ABAC believes that additional progress can and should be made in the area of customs practices and procedures in APEC economies because this is an area where improvements will yield substantial benefits to business. ABAC urges the APEC Committee on Trade and Investment (CTI) to consider the following recommendations on customs matters that are aimed at reducing costs and improving transparency and to forward them to the APEC Sub-Committee on Customs Procedures (SCCP) for immediate action.

### World Trade Organization (WTO) & World Customs Organization (WCO) Agreements

The following customs modernization measures should be implemented by each APEC member economy and reflected in their Collective Action Plans:

- Accede to and fully implement the WCO Revised Kyoto Convention on the Simplification and Harmonization of Customs Procedures.
- Abide by the WTO Customs Valuation Agreement, which stipulates that value for customs purposes should be determined on the basis of transaction value – commonly referred to as “the price paid or payable” by the importer.
- Adopt and implement the WCO SAFE Framework of Standards to Secure and Facilitate Global Trade.
- Adopt and implement the WCO Immediate Release Guidelines in order to further accelerate the customs clearance process. Where immediate or expedited clearance

procedures are implemented they should apply, to the greatest extent possible, without regard to the weight or value of the item.

- APEC-wide implementation of the WCO's updated Harmonized Tariff Schedule (HTS) codes.

### Expedited Customs Clearance and Harmonization of Supply Chain Security Measures

Differentiating between low- and high-risk importers is an effective way to achieve increased efficiency at the border. This allows customs authorities to focus on high-risk products and importers rather than focusing limited enforcement resources on those products and traders that represent little or no risk. In implementing the WCO SAFE Framework of Standards to Secure and Facilitate Global Trade, APEC economies should avoid creating divergent Authorized Economic Operator (AEO) programs that will increase the cost and complexity of cross-border trade within APEC. To facilitate greater harmonization and simplification of AEO programs, APEC economies should:

- Establish a common AEO application/self assessment form and verification process.
- Establish a common set of data elements required for advanced cargo information.
- Establish a common set of benefits flowing to AEO participants.
- Agree upon minimum security standards for AEO programs within APEC.

### Customs Websites

WTO members are required to publish their trade-related laws and regulations. Most APEC economies have met this requirement by providing internet access to governmental websites; however, many sites are not maintained and are unreliable for importers to use as a reference tool. As an essential first step in eventually updating and improving the functionality of the APEC tariff database, which is out-of-date and difficult to use, ABAC recommends that a

capacity building exercise be undertaken to modernize, and to the extent possible, harmonize each APEC economy's customs website. Specific objectives for websites are the following:

- Publish trade-related laws, regulations, and rulings in a searchable database on the internet.
- Post up-to-date tariff information, including preferential and non-preferential duty rates.
- Easily navigable by non-domestic users and in WTO languages (e.g., English).
- Data is retrievable based on simple or complex search characteristics using keywords.
- Links available to the economy's government sites that contain key information.
- Search results are timely, authoritative and accurate.

#### **Dispute Resolution Mechanism**

In some APEC economies, a transparent dispute resolution mechanism does not exist or the process is heavily biased in favor of the local Customs authorities. APEC economies should:

- Establish a robust, uniform, and transparent dispute resolution mechanism in the event of a disagreement between the importer and Customs, which could be implemented either at the initial port of entry level or in subsequent audits.

#### **Rationalization of Internal Commodity Taxes**

Internal commodity taxes are referred to as luxury tax, excise tax, or sales tax, and many APEC economies apply such taxes on a small number of goods such as motor vehicles, tobacco, and alcohol. It is often the case that the value on which these taxes are applied and/or the classification descriptions are not clearly defined, which creates ambiguity. To improve transparency and uniformity, APEC economies should:

- Base these taxes on the transaction value or selling prices rather than notional or arbitrary constructed values to avoid ambiguity and disputes.
- Alternatively, these taxes could be combined or subsumed into the standard VAT, and the VAT rate could be increased as appropriate to the relevant commodities (based on the WCO's HTS codes).

#### **Advance Binding Rulings**

Binding ruling mechanisms are seldom used by importers/taxpayers because of delays in getting rulings. Rulings may not be clearly binding on the authorities. The processes are part of the Customs/tax authority and thus their decisions may be influenced by revenue considerations. These mechanisms are generally dysfunctional. APEC economies should:

- Establish an independent, transparent, and time-bound advance binding ruling mechanism on all customs issues including classification, valuation and rules of origin in Free Trade Agreements (FTAs).

#### **Claims for Duty Free Treatment under FTAs**

The rules governing claims for duty free treatment under FTAs vary from economy to economy and are unnecessarily burdensome. For example, the Customs authorities in many economies are unwilling to accept certificates of origin with minor discrepancies (e.g. spelling errors, translation irregularities). In addition, government authorities also require the repetitive submission of voluminous bills of materials for each shipment. These actions create significant administrative burden that undermines the goals of FTAs. APEC economies should:

- Establish rules that certificates of origin with non-substantive discrepancies will be sufficient for duty free claims.
- Establish common rules providing for blanket annual certificates of origin. Such rules should require the exporter to notify the national agency issuing the certificates if there is any material change in the composition of the export product.

#### **Other Standards & Conformance Issues**

Customs practices and procedures differ among APEC economies and some are not consistent with WCO standards. Reliance on paperwork in some economies is inefficient.

- Establish reasonable *de minimis* thresholds below which neither duties nor taxes will be collected nor customs formalities applied.
- Create a single electronic window for all regulatory approvals required for import and export.
- To facilitate immediate release procedures, economies should establish appropriate financial mechanisms that enable guarantees in the form of sureties, deposits, or other appropriate instruments for securing the payment of duties and taxes.

## Annexes









26 March 2009

APEC G20 Leaders

Dear Excellencies:

The APEC Business Advisory Council (ABAC) concluded its first meeting of the year in Wellington, New Zealand, on 12 February 2009, where the primary concern was the potential for governments to yield to domestic pressures and implement protectionist policies.

Created by the APEC Economic Leaders in 1995 to provide advice and the business perspective to our Leaders in pursuing the Bogor Goals for a free and open trade and investment regime in the Asia-Pacific region, ABAC firmly reiterates its strong support for the Lima Declaration made by the APEC Leaders in November 2008, in alignment with the G20 Washington Declaration to pledge against raising new barriers to investment and trade in goods and services within the next 12 months.

Since the APEC Summit last November, the business community has encountered policy changes in some APEC economies that are cause for growing concern over the possible 'backsliding' against the G20 and APEC Lima commitments as economies respond to domestic pressures and growing economic uncertainty.

With the next G20 Leaders' Summit convening in London on 2 April, ABAC would like to take this opportunity to reiterate our call to APEC Leaders who will be attending the G20 Meeting to remain fully committed to the APEC Leaders' Declaration made in Lima, and also to seek the same commitment from the rest of the G20 Leaders.

At the Wellington meeting last month, my ABAC colleagues and I concurred that the global economy is already heavily weighed down by a lack of confidence. Any increase, actual or perceived, in protectionist measures will only serve to weaken market confidence and lead to a lock down of world trade. We collectively agreed that there is an urgent need for Leaders to implement bold policies with the objectives of restoring market confidence, increasing consumer demand and stabilizing financial markets to ensure that trade continues to flow freely. While appropriate regulatory reform measures are required, ABAC believes that APEC Leaders participating in the G20 process should impress upon their non-APEC colleagues the important role that coordinated fiscal stimulus efforts will play in achieving these objectives.

ABAC believes that maintaining free and open markets, and restoring market confidence to fuel economic recovery are the most critical and immediate tasks to be addressed. We would also like to impress upon G20 Leaders to continue their support for the conclusion of the World Trade Organization (WTO) Doha Development Agenda (DDA) to deter any protectionist inclinations.

On this note we would like to draw to Your Excellencies' attention that for this year, aside from our annual recommendations to APEC Leaders, ABAC has decided to have a two-pronged approach where a set of recommendations will be delivered to our governments by mid year which will place a high emphasis on addressing the immediate challenges posed by the current global crisis.

We would also like to share with APEC and G20 Leaders that ABAC will be establishing a mechanism for monitoring compliance with the key elements of the G20 undertakings to address the present financial challenges and compliance with WTO commitments in the context of the specter of rising protectionism.

To conclude, ABAC commends the firm stand against protectionism taken by APEC and the G20 and we look forward to working closely with our governments in resisting protectionism worldwide.

We wish the G20 Leaders Summit in London a great success, with affirming statements made by Leaders on our call for a free and open trade and investment regime.

Thank you for your kind attention.

Yours sincerely,



Teng Theng Dar  
ABAC Chair 2009

Cc: All APEC Leaders



15 May 2009

**H. E. Lee Hsien Loong**  
APEC Chair and Prime Minister  
Singapore

Your Excellency:

We are writing to you against the backdrop of a world economy faced with a deep and possibly prolonged recession to urge action which could be taken in the short-term to promote economic recovery in the Asia-Pacific region.

Our main concern is that world trade is expected to contract by 9% this year, the largest decline since World War II. We, the members of the APEC Business Advisory Council (ABAC), therefore place great importance on the need to promote the recovery of world trade as a key component of efforts to restore global economic growth.

In light of the continuing fragility of financial markets, coordinated efforts at the global level to bring about the full restoration of their functioning remain of prime importance. In this regard, the G20 Leaders' meeting process – through which the views of APEC can be conveyed through the nine APEC members who are part of the process - has been an effective mechanism for policy coordination in response to the crisis and for restoring market confidence. We realize that in these difficult times domestic pressures pose a formidable impediment to turning pledges against protectionism made at such meetings into action. We urge Leaders not to lose sight of what is beneficial and sustainable in the long-term for all APEC members and the majority of their population rather than just to certain sectors.

We believe APEC Leaders should now take the opportunity to show leadership in the region and to non-APEC members by taking the following actions which reinforce their commitment to achieving the Bogor Goals and the vision of the Free Trade Area of the Asia Pacific (FTAAP):

First, APEC Leaders must abide by their commitment to standstill on the implementation of any new barriers to trade. Our own observation reveals a disturbing trend towards increased protectionism in the form of new barriers to trade and increasing trade remedies. While it appears that many of these actions may be consistent with WTO provisions, we strongly believe they are against the spirit of the G20 and APEC Leaders' commitments. To be effective, the standstill commitments must apply to any measure, including fiscal stimulus, impacting negatively on trade and investment. For such protectionist measures that are already in place, we urge that they be withdrawn.

Second, Trade Ministers should be instructed to accelerate work on initiatives aimed at promoting immediate steps to enhance regional economic integration, regulatory reforms and physical connectivity. Priority should be given to accelerating the implementation of trade facilitation measures identified by the World Bank as having the potential to lead to an increase of \$280 billion in intra-APEC trade. APEC member economies should aim for a measurable reduction in transaction costs of 5% by the end of 2009 instead of the current target of 2010. APEC should implement elements of the trade facilitation package in the Doha Development Agenda (DDA).

Third, APEC members who implement fiscal stimulus measures should do so in a way which enhances global demand - not only domestic demand - with a clear vision toward facilitating structural reforms which will prevent future occurrence of problems currently experienced and promote sustained economic growth. In addition, such fiscal measures should enhance SME finance since the activities

of SMEs contribute significantly to job creation. One important way to accelerate the rebuilding of consumer confidence in the immediate term is for business and governments to join forces and partner in the development of programs that stimulate consumption and at the same time are aligned with the promotion of other government policy priorities such as health, hygiene and sustainability. APEC provides a unique platform for public-private partnership that should be leveraged to promote and facilitate deployment of these programs.

Finally, given that the WTO Doha Round - much to our concern - is unlikely to be completed before the end of 2009, APEC Leaders should instruct their Trade Ministers to take responsibility for efforts to reach agreement on modalities for the negotiations before the northern summer break and to set a deadline for conclusion of the Round in early 2010, building on the progress already made. It is a source of considerable frustration to us as business leaders that, after eight years of negotiations and countless calls for urgency, the Doha Round remains uncompleted.

We stand ready to discuss the above recommendations with you in further detail and we look forward to our annual dialogue later in the year.

Sincerely,



**Teng Theng Dar**  
ABAC Chair 2009

15 June 2009

**The Honorable  
Lim Hng Kiang**

Chair, Meeting of APEC Ministers Responsible for Trade and  
Minister for Trade and Industry  
Singapore

Dear Minister Lim:

On behalf of the APEC Business Advisory Council (ABAC), I am pleased to submit to APEC Ministers Responsible for Trade (MRT) an interim report on the work that is being carried out by ABAC in 2009.


Our agenda has been significantly influenced by the global economic crisis which is expected to result in a 9% contraction in global trade this year. We maintain that our theme of *"Building Towards the Bogor Goals with One Community"* and priorities of accelerating regional economic integration, championing a model of sustainable development, strengthening capacity building and enhancing connectivity in the region remain central to guiding APEC's efforts towards restoring economic growth in the region.

Given the considerable uncertainty in the regional and global economic environment, ABAC believes that priority should be given to addressing the immediate challenges posed by the global economic crisis by accelerating APEC's agenda of achieving the Bogor Goals of free and open trade and investment in the region.

Specifically, ABAC calls on APEC Ministers Responsible for Trade to:

- 1. Address Challenges Posed by the Global Economic Crisis.** APEC economies should fulfil the *standstill commitment on protectionist measures* reaffirmed by APEC Leaders in November 2008 and at the most recent G20 Summit. Our own monitoring to date reveals a disturbing trend towards increasing trade regulation and trade remedies. Many of the protectionist measures currently under implementation appear to be WTO-compatible. We strongly believe that this runs counter to the spirit of the G20 and APEC commitments on standstill. If the standstill provision is to be effective, it should be interpreted more widely to include any measure, including fiscal stimulus measures, impacting negatively on flows of trade and investment or restricting the movement of goods across borders. ABAC is committed to monitoring the incidence of protectionist measures and will do what we can to ensure that our respective governments do not resort to protectionism.

In the context of a difficult climate, *trade finance* is vitally important for keeping trade flowing. ABAC welcomes the G20 Leaders' commitment to ensure an additional \$250 billion available to support trade finance through the export credit and investment agencies and through the multilateral development banks, and to make use of available flexibility in capital requirements for trade finance. We urge Ministers to consider ways in which APEC might provide enhanced mechanisms for trade finance. Specifically, APEC Ministers could usefully discuss whether there are particular needs for trade finance in APEC economies, including developing economies, which need to be met. We call for continued efforts to identify additional mechanisms to promote sound cross-border transactions.

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2. **Conclude the Doha Development Agenda.** It is a matter of considerable frustration for ABAC that the *WTO Doha Development Agenda* negotiations have languished for close to a year since the failure of the July 2008 Ministerial. Despite agreements at the Washington G20 Summit, it was deeply disappointing to us that Ministers were unable to be brought together as planned at the end of 2008. The completion of the round is now long overdue. We urge Ministers to commit themselves to engage actively with their WTO colleagues, with a view to approving final modalities for the DDA before the northern summer break, building on the progress already made. ABAC proposes to visit Geneva once again to press for a strong outcome from the Doha negotiations.
  3. **Accelerate Regional Economic Integration.** The goal of establishing a framework for Free Trade Area of the Asia Pacific (FTAAP) has become more urgent in the light of an ongoing delay in concluding the DDA. ABAC calls on Ministers to take concrete steps towards setting a timetable for more concrete consideration of issues important to business in an approach to an FTAAP. This would help restore confidence in the ability of APEC to contribute to economic recovery in the region.
  4. **Facilitate Trade Flows.** Now is the time for economies to implement trade facilitation measures and realize the potential US \$280 billion increase in intra-APEC trade identified by the World Bank. APEC should accelerate work to harmonize customs processes through the implementation of the APEC Single Window Initiative. Further, APEC should focus efforts on the creation of trade security regimes that enhance trade facilitation such as an APEC-wide AEO system with a mutual recognition scheme. The harmonization of standards, especially in emerging industries, and sectors is also critical in achieving APEC's stated Trade Facilitation Action Plan (TFAP) goal of lowering transaction costs by 5%. ABAC welcomes the establishment of the APEC Harmonization Center for Life Sciences as a tangible effort to advance standards harmonization in the region.

The movement of natural persons across borders continues to be an important issue for businesses and new issues have arisen as growth in the global economy has slowed. Building on the results of a study conducted in collaboration with PECC in 2008, ABAC is examining FTA chapters and MoUs related to *labor mobility* to assess the extent to which these arrangements meet the needs of businesses in the region. Specific recommendations based on the findings of the study will be transmitted to Leaders and Ministers in November.

ABAC has identified *illicit trade* as a significant brake on economic growth in the region and has recently called on Senior Officials to take action towards solving this problem which may account for 15-20% of global trade. ABAC is currently monitoring the development of the Global Illicit Trade Index, a mechanism for measuring the cost of illicit trade to governments and companies by sector. This index may serve to inform economies' respective approaches to address the problem. The film industry is an example of a sector where focused enforcement activities backed by new legislation can be leveraged to reduce "camcording", the source of 90% of pirated film content.

5. **Facilitate Investment Flows.** Officials should be instructed to prioritize the implementation of facilitation measures that provide the greatest benefit to businesses and measure achievement and efficacy of these efforts through the adoption of concrete key performance indicators. Economies can increase the flow of *cross-border investment* by increasing transparency, harmonizing regulations and streamlining approval processes.



6. **Support the Development of SMEs, including Micro-Enterprises.** Recognizing that SMEs remain the backbone of virtually every economy in the region – and will continue to be so in the foreseeable future – ABAC is placing strong emphasis this year on assisting the development of SMEs, including micro-enterprises. ABAC is organizing four SME Summit events, notably in Brunei in May, in China and Peru in September, and in Singapore in November and calls on APEC governments to support these events. Further, to enhance the efficiency of SMEs in cross-border trading, ABAC urges APEC economies to establish policy environments and support mechanisms contained in the Digital Prosperity Checklist that will enable SMEs to harness the benefits of information and communication technologies. Specifically, ABAC urges APEC to develop more practical action plans to narrow the legal and basic infrastructure differences among members, establish an electronic commerce alliance and e-business structure suitable for SMEs, and agree on the implementation of the APEC Blueprint for Action on Electronic Commerce.
7. **Enhance Connectivity.** There are considerable efficiencies to be achieved across the *supply chain* through the harmonization of transport regulations and adoption of best practices in addressing road safety. APEC should examine global best practices in transport and safety regulations. ABAC will assist in developing a work plan that will assist in establishing safer and more efficient supply chain networks across the region.
8. **Address Energy Security and Climate Change.** Emergence of possibly differing schemes on proposed *greenhouse gas emission reduction measures* in various economies could pose a risk of negative impacts on trade between economies caused by differing levels of obligations under each national greenhouse gas emission reducing schemes. One step is encouraging sharing of information and advice on greenhouse gas emission reduction schemes to minimize adverse impact on trade and investment in the region. ABAC also supports steps to promote energy efficiency measures.
9. **Ensure Food Security.** ABAC is disappointed by the lack of action by APEC on key aspects of its recommendations, accepted by Leaders in 1999, on the *APEC Food System (AFS)*. ABAC believes the AFS has direct relevance to the serious issues faced today on food supply and stability and sees more can be done within APEC to fully embrace the AFS. ABAC is developing a roadmap going forward on progressing issues in the AFS.
10. **Promote Trade in Environmental Goods and Services.** ABAC restates its recommendation for priority to be attached to *trade in environmental goods and services* in APEC's liberalization agenda in 2008/2009. With the lack of progress in the Doha Round negotiations, ABAC believes steps can be encouraged to find practical ways to engage business in APEC – such as to facilitate participation in the APEC Market Access Group (MAG) panel discussions and workshops – to develop proposals on advancing trade in APEC of environmental goods and services and the use of energy efficient and environment friendly products.

We look forward to discussing the above recommendations with APEC Ministers Responsible for Trade when we meet in Singapore on 21-22 July 2009.

Sincerely,



**Teng Theng Dar**  
ABAC Chair 2009



10 July 2009

H E Lim Hng Kiang  
Minister of Trade & Industry  
**SINGAPORE**

Dear Minister

We are pleased to write to you to inform APEC Trade Ministers on ABAC's work in monitoring protectionism and the G20 commitments on standstill.

Further work will be undertaken at the ABAC meeting in Danang in August 2009, on the basis of comments received from ABAC members concerning the business impact of measures cited in recent WTO reports. The results will be incorporated into ABAC's end of year report to APEC Economic Leaders.

In general terms, while ABAC agrees with the latest report from the Director General of the WTO that there has been no wholesale descent into protectionism, ABAC remains concerned that some governments, including amongst APEC member economies, continue to implement trade restrictive measures which impact negatively on the cross-border movement of goods and services.

Furthermore, ABAC is concerned that the G20 commitments have been expressed in such a way that it provides legitimacy for WTO-consistent action which is nonetheless restrictive and damaging in the current environment. Examples of such action that have been drawn to ABAC's attention and which will be discussed further in Danang, include tariff increases within WTO bindings, "buy local" policies linked to stimulus packages and export subsidies, particularly for agricultural products.

**ABAC therefore again calls on APEC Trade Ministers to reaffirm their commitment to the Lima and G20 statements to maintain a standstill and to resist the implementation of any new measures, whether or not WTO consistent, which might restrict the cross-border movement of goods and services or otherwise restrict competition between suppliers.**

**We continue to reiterate the importance and urgency of maintaining free and open markets, and restoring market confidence to fuel economic recovery; as well as urge our Leaders to support the conclusion of the WTO Doha Development Agenda (DDA), and take clear and coordinated action to fight against protectionist inclinations.**

#### **Background**

The financial and economic crisis which was first evident in mid 2007, which became manifest mid 2008 and has persisted until the present, has led both to severely curtailed economic activity in the global economy and to a sharp downturn in global trade.

Against this background, several governments have resorted to implementing measures which seek to restrict cross-border trade and investment and risk delaying the economic recovery. At successive meetings in Washington in November 2008 and London in April 2009, a commitment to resisting such protectionism was agreed by G20 Leaders including nine APEC member economies. APEC Economic Leaders meeting in Lima in November 2008 upheld these same commitments.

In light of the growing pressures posed by the crisis on governments to undertake undesirable trade measures that circumvent APEC's Bogor Goal of free trade and investment, ABAC has concurred in its 1st ABAC Meeting in New Zealand in February this year, to work towards establishing a

mechanism for monitoring the success or otherwise of the G20 and APEC commitments in preventing protectionism.

An initial report was prepared for ABAC's meeting held in Brunei in May 2009 on the basis of the first report from the WTO Director General, which it was agreed would provide a useful starting point for the monitoring process. ABAC members further agreed to share information on the real business impact of protectionist measures and to discuss this further at ABAC's Danang meeting in August.

### **WTO reporting**

In July 2009 the WTO forecasts that global trade will decline by 10 percent over the coming year, with exports from developing countries declining by 7 percent and from developed countries by 14 percent. While the sharp contraction of the global economy appears to be slowing down, the WTO notes that in the past three months there has been further slippage towards more trade restricting and distorting policies but resort to high intensity protectionist measures has been contained overall.

At the global level, while more countries have introduced trade-liberalizing and facilitating measures than was the case earlier in the year, a variety of new trade-restricting and distorting measures have been introduced since March. There has been a further increase in the initiation of trade remedy investigations (anti-dumping and safeguards) and an increase in the number of new tariffs and new non-tariff measures (non-automatic licenses, reference prices, etc.) affecting merchandise trade.

Trade in agricultural products, in particular dairy products, and in iron and steel products, motor vehicles and parts, chemical and plastic products, and textiles and clothing, has been most affected by these new measures.

Concerns have continued to be raised by governments and business about "buy/invest/lend/hire local" requirements that have officially or unofficially been attached to some of these programs. Several new cases of "buy local" campaigns, usually at local government levels, have been reported in the past three months.

Concerns have also continued to be raised about the competition-distorting effects of the subsidy components of these programs.

### **ABAC process**

Initial notifications received from ABAC members confirm that the global trend is evident amongst APEC member economies. While some APEC members have introduced liberalization measures, and others have taken no action at all, others have raised tariffs within WTO bindings, instituted various "buy local" commitments as part of stimulus packages and resumed export subsidies.

ABAC expects to be in a better position following the Danang meeting to provide further advice on the real business impact of such measures.

Further work is currently being carried out by my ABAC colleagues to collate feedback from the private sector on the impacts dealt by emerging trade measures undertaken by APEC economies since the Lima and G20 statements, on their businesses.

The solicitation of views from the business community is expected to yield insights from the core group of stakeholders most affected by the implementation of trade measures. Some of the negative business impacts anticipated to be faced and shared by businesses include, the loss of sales opportunities, increase in business costs, time wastage, to name a few.

We are of the view that the candid experience sharing and findings of this exercise will bring an additional private sector perspective, and greatly complement the existing work done by WTO and APEC. This feedback process is anticipated to be finalized and endorsed at our 3rd ABAC Meeting in Danang, Vietnam, in August 2009.

We hope that the sharing of our work progress has provided a good interim update, and lay the ground for further discussion at the upcoming MRT Meetings.


ABAC re-instates its commitment to work closely with the various fora in APEC to enhance public-private engagement within APEC, and looks forward to APEC Senior Officials' and your support in our endeavors.

In the meantime, while some satisfaction can be taken that protectionism overall has been contained, albeit with slippage in some areas, ABAC urges APEC Trade Ministers to remain vigilant in resisting protectionism and to interpret the commitment to standstill in the widest possible way. ABAC has no doubt that in the current climate any new protectionist measures, whether or not WTO compliant, could have the effect of preventing trade growth and inhibiting the early signs of economic recovery.

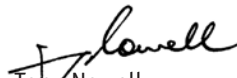
ABAC stands ready to add its voice where required to prevent such protectionism occurring and to promote APEC's commitment to open markets.

We should be grateful if you would share this report with your Ministerial colleagues.

Yours sincerely



Teng Theng Dar  
ABAC Chair 2009



Tony Nowell  
Chair, ABAC Liberalisation Working Group 2009

13 August 2009

**The Honorable  
Tharman Shanmugaratnam**

Chair, APEC Finance Ministers' Meeting and  
Minister for Finance  
Singapore

Dear Minister Tharman:

Mindful of ongoing actions by governments within the G20 framework to strengthen financial systems in light of the recent crisis, we, the members of the APEC Business Advisory Council (ABAC), respectfully ask the APEC Finance Ministers to give their full support to these efforts. We hope, in particular, that the upcoming 4-5 September G20 Finance Ministers' Meeting would present an opportunity for participating Ministers from APEC member economies to bring forward effective reform measures that would ensure sound, efficient and innovative financial systems to facilitate economic recovery and sustained growth within our region.

In the previous year, we had recommended a number of measures that we believe will lead towards this objective. These include a change in emphasis from entity-based to activity-based financial sector regulation and the establishment of clearing mechanisms for credit derivatives to increase transparency and reduce counterparty risk. We are very pleased to note that recent measures undertaken by governments reflect these recommendations, and encourage further actions in this direction.

We would also like to share our views with APEC Finance Ministers in relation to ongoing discussions of proposed changes in regulatory capital requirements. Given the risk that such changes could lead to unwelcome developments, such as the impairment of financial intermediation by exacerbating difficulties of obtaining credit at a time of continued economic fragility, we believe that this issue should be approached with great care. Our view is that such changes should wait until after recovery is assured, and that any changes and the timing of their introduction are best undertaken in close consultation and dialogue with the private sector, in order to minimize the risk of excessive de-leveraging and credit contraction.

In addition, such measures would also have to be done in conjunction with parallel efforts to improve corporate governance and risk management, as well as with the development of macro-prudential regulation and resolution and oversight mechanisms to minimize systemic risks and moral hazard. In very diverse context in which financial institutions in our region operate, we believe it would be appropriate for domestic regulators to use discretion in implementing new capital requirements, taking into consideration the business lines and funding characteristics of financial institutions in their respective jurisdictions.

Finally, in view of the scale and impact of fiscal and monetary measures deployed in response to the crisis, we would like to express our hope that governments will very carefully undertake and coordinate the implementation of exit strategies, including their timing, when such measures are to be reversed as the economy recovers.

We view the above considerations as important in ensuring our region's financial stability and economic recovery, and hope that APEC Finance Ministers would encourage their counterparts in the other G20 economies to bear them in mind when they discuss the issue of capital requirements and other future actions at their next meeting, as well as bring these views to the attention of relevant regulators in their respective economies. We firmly support the efforts of domestic regulators and international institutions to promote robust and efficient domestic and international financial systems through reforms and capacity building, and look forward to strengthening our continuing dialogue and collaboration in the years ahead.

Sincerely,



**Teng Theng Dar**  
ABAC Chair 2009



**Yoshihiro Watanabe**  
Chair, ABAC Finance & Economics Working Group





15 September 2009

**The Honorable  
Lee Yi Shyan**

Chair, APEC SME Ministerial Meeting and  
Minister of State  
Ministry of Trade and Industry  
Singapore

Dear Minister Lee:

The current global economic crisis has highlighted the vulnerability of SMEs and micro-enterprises which represent over 70% of regional GDP. We encourage APEC economies to continue relief policies for these sectors, including the extension of trade finance, until clear and unambiguous economic indicators confirm the return to economic normality. In support, ABAC is currently conducting a study of SME relief programs within APEC, the report of which will be presented at our next meeting in November.

Affirming the global relevance of SMEs in ABAC's inclusive agenda, we held SME events in Brunei in May and in Peru and China in September. An APEC SME Summit will also be held in Singapore in conjunction with the APEC Leaders' and CEO Summits. Further, we would like to highlight that ABAC, at its recent Danang meeting, endorsed a non-binding commitment to host an APEC SME Summit each year. We seek your continued support for the hosting of such SME events, thereby providing a dedicated international forum for SMEs to examine and discuss challenges and concerns specific to them.

The driving force behind inclusive growth is the sharing of benefits more widely across all segments of society. Strategies for inclusive growth include the facilitation of economic restructuring, so as to make economies more resilient and adaptable to competitive pressures, and strengthening social resilience, so as to provide security for the vulnerable while rewarding effort. From a business perspective, an APEC discussion on inclusive growth should include policies to encourage, facilitate and support the development of SMEs, the backbone of virtually every economy in the region.

Green sustainable growth is an essential element in maintaining a healthy and prosperous society. ABAC is currently developing a platform to further support SME innovation initiatives. The Innovation Supply Chain Platform report, which will be presented in ABAC during the APEC Leaders' Week, will provide a solution to eliminate the bottlenecks between developer and market. The Innovation Supply Chain is a public-private partnership project which allows for a systematic process strongly supported by financial capacity to assist SMEs.

The growth and development of SMEs is enhanced when they can leverage the benefits provided by information communication technologies (ICTs). ICTs provide cost savings through efficiencies and economies of scale, enabling a wider dissemination of services of societal benefit and affording opportunities for SMEs to gain access to services and market opportunities that would be impossible in the absence of internet intermediation. We urge SME Ministers to adopt policies, such as those identified in the APEC Digital Prosperity Checklist, to address barriers to ICT utilization by SMEs through the strengthening of ICT training programs, business process consultations and financial support.

The challenges of obtaining finance for SMEs remain the pinnacle concern and ABAC has recommended that APEC undertake initiatives to promote a more predictable legal architecture for secured lending,



including an exclusively available system for registering and perfecting security interests in both movables and receivables as collateral, efficient judicial procedures for enforcement of security interests, and clear regulations around asset-based lending requirements to further enable both lenders and borrowers to assess risk and enhance sound credit and lending activities.

ABAC is also proposing the launch of an APEC financial inclusion initiative under the Finance Ministers' Process as a component of the overall theme of inclusive growth. The proposed initiative focuses on helping member economies provide an enabling environment for microfinance through sharing of best practices in facilitating agent and mobile phone banking, promoting diversity of microfinance service providers, enhancing governance and management of state banks with microfinance operations, developing financial identity and improving consumer protection for people at the bottom of the economic pyramid. We seek your endorsement of this initiative.

Finally, we would like to share with you the key themes that emerged during our three SME events this year:

- First, government has an important role to play in creating an enabling environment for the functioning and capacity building of SMEs. The ease of doing business, including a reduction of existing red tape and bureaucracy, is vital for successful SME operations. Governments are therefore encouraged to be proactive in providing forums for SMEs to provide policymakers feedback on how to improve the business environment.
- Second, innovation is key to the sustainability of an SME. The flexibility and ability of an SME to quickly effect change is one of just a few competitive advantages that SMEs have over larger corporations. Governments can support innovation in SMEs by implementing policies that encourage incremental improvements in products, systems and processes and by introducing educational curricula which foster creativity and entrepreneurship.
- Third, open markets and foreign direct investments by large multinational companies can have a constructive and positive impact on the development of local SMEs. Collaboration through formalized programs or joint projects provide local SMEs the opportunity to learn from the best practices of larger international companies, including the adoption of global standards, skills and experiences which allow them to compete and succeed in projects abroad.

We look forward to discussing the above issues and recommendations with APEC SME Ministers at your upcoming meeting in Singapore on 8-9 October 2009.

Yours sincerely,



**Teng Theng Dar**  
ABAC Chair 2009



**Ma Yun**  
Chair, ABAC Capacity Building and  
Action Plan Working Group



15 September 2009

**The Honorable  
Tharman Shanmugaratnam**

Chair, APEC Finance Ministers' Meeting and  
Minister for Finance  
Singapore

Dear Minister Tharman:

On behalf of the APEC Business Advisory Council (ABAC), we are honored to submit the 2009 ABAC Report to APEC Finance Ministers. We attach great value to the excellent relationship that ABAC has developed with the APEC Finance Ministers over the past few years, and note with satisfaction our growing cooperation with the Senior Finance Officials. We are thus grateful for the opportunity to once again have a dialogue with the Finance Ministers this coming 12 November in Singapore, and look forward to sharing with them our perspectives and views from the region's financial industry on the important issues we are facing today.

This year, ABAC focused its efforts on formulating a sound response to the global financial and economic crisis and promoting inclusive growth through the deepening, strengthening and integration of capital markets and the enhancement of industrial and social infrastructure in our region. These objectives underpin the recommendations that are contained in our report, which is structured to reflect three key areas that need attention.

First, we welcome efforts to promote post-crisis recovery through effective and high quality fiscal and monetary measures, supported by the improvement of global coordination and cooperation in promoting sound regulatory practices and continued international collaboration, especially within the G20 and Financial Stability Board (FSB) frameworks. We call for continued movement toward activity-based regulation and the development of consistent standards for clearinghouses. We also urge governments to ensure that the development of long-term interest rates and coordinated implementation of exit strategies are supportive of recovery.

Second, we recommend renewed international and domestic efforts to strengthen and deepen the region's capital markets. We believe this could be done through further improvements to the Chiang Mai Initiative and the development of a basket of currencies for settlement of international transactions that can eventually help strengthen the international monetary system. We call for enhanced regulatory harmonization and cooperation to more effectively monitor cross-border capital flows. We also recommend the close monitoring of the implementation of corporate governance principles, enhanced disclosure requirements, promotion of macro-prudential regulation and public-private dialogue on new regulations. We are proposing improvements in the legal architecture for secured lending, the acceleration of the development of corporate bond markets and financial integration, and promotion of equity market development through improved access to information and greater diversity of products, hedging tools and the international investor base.

Third, we call for greater capacity building for the expansion of the social and industrial infrastructure within our region. We especially see a great need to promote domestic demand and correct the huge global imbalances that have built up over the previous decades. To this end, we recommend the launch of an APEC Financial Inclusion Initiative and the promotion of infrastructure development through a regional partnership among governments, business and international financial institutions. We call for the enhancement of social safety nets, including social insurance and pension systems, relevant to the circumstances of individual economies; and the strengthening of credit reporting systems to facilitate the growth of consumer finance.

In addition to these recommendations contained in our report, we also call for greater dialogue between public and private sectors on financial reforms and regulatory changes, particularly those related to regulatory capital requirements, which we have touched on in a separate letter we have submitted this year to Finance Ministers.

We firmly believe that the Asia-Pacific region should be the growth center of the global economy. Given that full and sustainable recovery remains uncertain at this time despite recent positive developments, we would like to reiterate the importance of the dialogue between the public and private sectors and of APEC Finance Ministers' continued coordinated efforts to promote a sound economic environment in our region. We reconfirm our support for these efforts and look forward to further strengthening our cooperation with the APEC Finance Ministers in the months and years ahead.

Sincerely yours,



**Teng Theng Dar**  
ABAC Chair 2009



**Yoshihiro Watanabe**  
Chair, ABAC Finance & Economics Working Group



## 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 2009

In 2009, Singapore took on the Chair of ABAC, with Peru and Japan as co-chairs, following the APEC order. Co-chairs represent immediate past and future chairs.

Against the backdrop of the global economic and financial crisis, the suspension of the WTO Doha Development Agenda negotiations and the new challenges posed by climate change, food and energy security, ABAC adopted the theme "Building Towards the Bogor Goals with One Community." This work was pursued through three sub-themes:

- Accelerating regional economic integration;
- Championing a model of sustainable growth; and
- Strengthening capacity building and enhancing connectivity.

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

- Liberalization Working Group (LWG);
- Facilitation Working Group (FWG);
- Sustainable Development Working Group (SDWG);
- Capacity Building and Action Plan Working Group (CBAPWG); and
- Finance and Economics Working Group (FEWG).

ABAC convened four meetings in 2009: Wellington, New Zealand (9-12 February); Bandar Seri Begawan, Brunei Darussalam (12-15 May); Danang, Vietnam (24-27 August); and Singapore (8-11 November). Four meetings of the Advisory Group on APEC Financial System Capacity Building were also held: Wellington, New Zealand (11 February); Bandar Seri Begawan, Brunei Darussalam (14 May); Danang, Vietnam (25 August); and Singapore (11 November).

With a view to fostering closer relations and enhancing APEC-ABAC interaction, ABAC maintained the Liaison Representative system whereby ABAC representatives to various APEC fora are designated to serve as conduits to facilitate communication between both groups. ABAC actively participated in various APEC meetings and related events, *inter-alia*: the First APEC Senior Officials' Meeting



(SOM I) and related meetings (Singapore: 13-26 February); the Fifth Senior Finance Officials Meeting (SFOM5) (Singapore: 16-17 February); the APEC Supply-Chain Connectivity Initiative Symposium (Singapore: 16-17 May); the APEC Committee on Trade and Investment (CTI) and Sub-Fora meetings (Singapore: 18-22 May); SOM II (Singapore: 15-19 July); SFOM6 (Singapore: 17-18 July); the Meeting of APEC Ministers Responsible for Trade (MRT) (Singapore: 21-22 July); the CTI and Sub-Fora meetings (Singapore: 23 July-8 August); the APEC SME Ministerial Meeting (Singapore: 8-9 October); the 21<sup>st</sup> APEC Ministerial Meeting (Singapore: 12 November); and the APEC Finance Ministers' Meeting (Singapore: 12 November).

Other events organized and/or participated in by ABAC included: the APEC Ease of Doing Business Seminar: Trading Across Borders (Wellington, New Zealand: 9 February); Promoting Financial Inclusion Through Innovative Policies (Tokyo, Japan: 31 March – 3 April); the APEC SME Summit (Bandar Seri Begawan, Brunei Darussalam: 12 May); the APEC Public-Private Sector Forum on Bond Market Development (Singapore: 16 July); 5<sup>th</sup> SEACEN/ABAC/ABA/PECC Public-Private Dialogue for the Asia-Pacific Region (Bangkok, Thailand: 27-28 July); and the Symposium on Energy Efficiency (Danang, Vietnam: 24 August).

#### Studies and Related Work

This year ABAC sought to ensure continued progress towards the Bogor Goals, notwithstanding the current global economic crisis, by establishing a mechanism for monitoring APEC member economies' compliance with the key elements of the G20 undertakings and with WTO commitments in the context of the specter of rising protectionism.

ABAC commissioned the University of Southern California Marshall School of Business to undertake a survey of labor mobility provisions in RTAs/FTAs and sectoral MOUs negotiated between and among APEC economies to determine the extent to which these provisions meet the needs of business.

#### 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 continue to focus on regional economic integration, trade facilitation, investment facilitation, SME development, capacity building, strengthening and deepening financial capital markets, and energy security and climate change.

## ABAC Executive Director 2009

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