



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

# WORKING TOWARDS SUSTAINABLE GROWTH FOR ALL

YOKOHAMA, JAPAN  
2010

## APEC MEMBER ECONOMIES

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



APEC economies, represented in the front cover by maple leaves, aspire to achieve balanced, inclusive, sustainable, innovative and secure growth. Like a 'Sazanami' (ripple) which spreads equally in all directions by creating waves, pushing boundaries and breaking barriers, ABAC has worked hard this year to develop recommendations to ensure that the benefits of economic growth and regional economic integration would be enjoyed by all economies and all peoples in the region.

WORKING TOWARDS  
SUSTAINABLE GROWTH  
FOR ALL

Report to APEC Economic Leaders

YOKOHAMA, JAPAN  
2010



**APEC Business Advisory Council**



APEC BUSINESS ADVISORY COUNCIL



**His Excellency Naoto Kan**

Chair, Asia-Pacific Economic Cooperation &  
Prime Minister of Japan  
Japan

Your Excellency:

When we met in November 2009, we faced global and economic uncertainty and threats to stability. While the global economy has improved, these threats are still looming. Today's economic environment calls for more than a restatement of APEC's previous goals. It calls for nothing less than a rapid revitalization of APEC's ambition which is critical to ensuring that APEC economies remain the drivers of global economic growth.

The pursuit of the Bogor Goals of free and open trade and investment has promoted job creation and social stability and helped draw millions in the region out of poverty. Remaining economic uncertainty and continuing protectionist pressures, however, threaten to reverse these achievements and require a new impetus to be given to regional economic integration. Critical to this will be the pursuit of ongoing financial reform requiring close coordination between member economies.

We call on Leaders to adopt a new vision for APEC that builds on what has been achieved since Bogor, creating and sharing the universal benefits of regional economic integration. The new vision should include a recommitment by APEC to pursue a Free Trade Area of the Asia-Pacific (FTAAP), a vehicle that is the most practical means to deliver free and open trade and investment in the APEC region. We urge APEC Leaders to make decisions on possible pathways to achieve a FTAAP.

As APEC business leaders, we believe that making progress on the FTAAP presents the best strategy for achieving regional growth that is balanced, inclusive, sustainable, innovative and secure. It will also ensure APEC's continuing leadership and relevance in the global economy.

To enhance the quality of economic integration and competitiveness of APEC economies, and to improve social well-being, we also urge APEC Leaders to accelerate the growth of SME and micro-enterprises (SMMEs) in the global economy, through policies to promote capacity building and financial inclusion. To ensure that APEC's economic growth is sustainable and not undermined by emerging nutritional and supply issues, we propose an aggressive agenda towards achievement of regional food security and energy security.

While these recommendations require immediate action, we also look for active engagement by APEC on a range of other important issues, which are detailed in the attached report.

We look forward to discussing our recommendations with you during our dialogue at the Yokohama Summit.

Yours sincerely,

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Chief Executive Officer  
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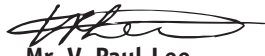
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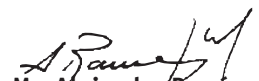
  
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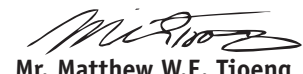
  
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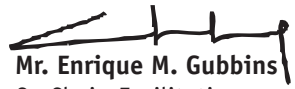
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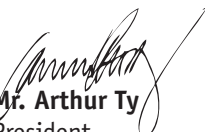
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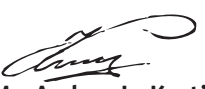


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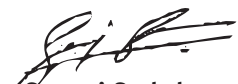


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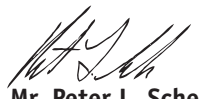


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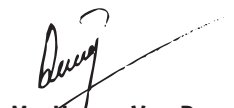
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## EXECUTIVE SUMMARY







## EXECUTIVE SUMMARY

The following is a summary of the actions that ABAC recommends APEC undertake to achieve balanced, inclusive, sustainable, innovative and secure growth for all in the region as put forward in this report:

- A. Re-commit to achieving the Bogor Goals and develop a new vision.** ABAC's own review of progress towards the Bogor Goals clearly identifies that many member economies have become considerably more open since 1994. Further, ABAC acknowledges the important steps that have been taken to improve the ease of conducting business within APEC regional supply chains and value chains since the Bogor Goals were first conceived. However, the existence of remaining barriers to trade and investment and the changing nature of modern regional supply chains and value chains mean that more needs to be done to achieve the goals of free and open trade and investment in the region.

ABAC recommends that APEC Leaders develop a new vision, which sets an aspirational goal for APEC, building on its achievements and looking towards the future extending beyond the Bogor era. The new vision should re-commit APEC economies to achieve free and open trade and investment and promote deeper regional integration to achieve balanced, inclusive, sustainable, innovative and secure growth. As the new vision is developed, APEC economies should adopt and publish annually a set of regional integration metrics. The new vision should seek to liberalize flows of goods, services, investment, technology and people across the region and be developed in consultation with business.

- B. Make further progress towards achieving FTAAP.** ABAC believes that the Free Trade Area of the Asia-Pacific (FTAAP) is an aspirational but achievable vehicle for delivering free and open trade and investment within the Asia-Pacific region. It urges APEC Leaders to make decisions at their Yokohama meeting on possible pathways for achieving FTAAP so that work to develop these pathways can proceed in line with APEC basic principles and ultimate goal for regional economic integration, to

ensure all-inclusive participation by APEC economies, and so that business can play an active role in helping define the forward agenda.

- C. Identify new business requirements.**

ABAC has developed further ideas on new business requirements that could be included in future Free Trade Agreements (FTAs), whether FTAAP or other pathfinder agreements. Alongside market access, future FTAs should address market integration and take into account the needs of the digital economy, the services sector as well as principles for regulatory cooperation and processes for achieving regulatory cooperation and coherence.

- D. Resist protectionism.** ABAC's ongoing monitoring of the incidence of protectionism over the past year has identified several examples of economies, including APEC members, taking actions which, while WTO-compliant, have the effect of impacting negatively on trade and investment. While most APEC members have not resorted to such measures and have in fact liberalized trade and investment, some have continued to take trade restrictive measures. Measures notified to ABAC include raising tariffs, imposing regulations discriminating against imports and exports, providing government aid and offering export subsidies. ABAC urges APEC Leaders to re-affirm APEC's commitment to open markets and to an effective standstill and withdrawal of all new trade restrictive measures, whether WTO-compatible or not.

- E. Conclude the Doha Development Agenda.**

ABAC is deeply disappointed that the global community has failed to find the necessary political will to complete the WTO Doha Development Agenda (DDA) in 2010. APEC economies have a role to play in showing flexibility in the negotiation and engaging with non-APEC economies, building on progress already made, to complete the round and ensure the WTO remains relevant to business. ABAC urges APEC Leaders to do all they can to ensure DDA is completed in 2011.



**F. Facilitate investment flows.** ABAC believes that APEC economies must step up efforts to make investing in the region easier, cheaper and faster. In addition to a focused program on investment facilitation, APEC must also maintain an active program to promote liberalization of investment. Progress towards APEC's stated objectives must be measured to ensure that APEC's efforts improve the ability of the private sector to conduct business across the region. ABAC supports the adoption and implementation of the Roadmap for Investment in a manner that achieves results and recognizes the realities of doing business. ABAC has reviewed the 1994 APEC Non-Binding Investment Principles and recommends that Leaders adopt its proposed improvements to ensure that they continue to promote both foreign and domestic investment in the face of the changes in the way business is conducted in the region.

**G. Facilitate the flow of goods and services.** ABAC welcomes ongoing efforts to simplify, harmonize and increase the transparency of regulations and processes related to the flow of goods and services across borders through the Single Window, Trade Facilitation Action Plan (TFAP) II and Supply Chain Connectivity Framework initiatives. However, economies need to undertake further and more far-reaching efforts in order for the private sector to benefit fully from the results of APEC's trade facilitation initiatives. ABAC urges APEC to consider improving on existing measurements and indices as a reference to assess progress under TFAP II and the Investment Facilitation Action Plan. It urges APEC economies to share experiences in order to identify best practices that will contribute to the facilitation of business operations across the region.

**H. Accelerate SMME capacity building efforts.** There is a pressing need, in recognition of the economic contribution by small, medium and micro-enterprises (SMMEs), to create a conducive environment to strengthen their role in APEC economies by delivering balanced, inclusive, sustainable, innovative and secure growth. ABAC encourages targeted policies in the areas of productivity, innovation, financial inclusion and export fostering. SMME education is another

important capacity building activity since raising awareness on tools and resources, such as ICT, skills development programs and new business models, can help SMMEs grow. Outreach programs to capture, disseminate and foster micro-enterprise activities would secure inclusiveness and broaden the base for economic contributions. ABAC urges APEC economies to further improve SMME access to finance, facilitate greater ICT utilization by regional SMMEs, undertake capacity building programs to advance innovative growth, and develop common principles for ethical business practices for SMEs.

**I. Ensure food security.** The recommendations contained in ABAC's document "Strategic Framework for Food Security in APEC" should be integrated into APEC's food security work plan. ABAC urges APEC to pay particular attention to: (a) re-commitment by Leaders to an APEC Food System that ends subsidies, import restrictions and other distortions in food trade; (b) creation of a high-level entity, that includes the private and research sectors, to coordinate APEC's work on food issues; and (c) achievement of a true sense of food security by committing APEC economies to ending all export embargoes, quantitative restrictions and export taxes for food products traded between APEC member economies.

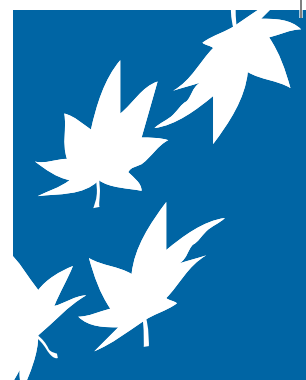
**J. Address energy security.** ABAC strongly recommends continued engagement between governments and the private sector in order to provide the essential perspective on the real impact of proposed policy and regulatory measures on actual markets, consumption patterns, and productivity, with due consideration for the energy security concerns of suppliers from the demand side. ABAC urges APEC economies to focus in the near term on improving efficiency and conservation; work to secure wider use of low-carbon fossil fuels; consider nuclear energy and study its feasibility in individual APEC economies as a low emissions source of power generation; continue to focus on the development and management of renewable energy; eliminate distortions and promote efficiencies in energy markets; expand emphasis on developing 'clean' energy and promote innovation in energy

and related technologies as a core pillar of a complete APEC energy security approach; and develop and implement APEC regional energy security strategies in the context of the overall global energy security situation.

- K. Address skilled personnel shortages.** To ensure that the lack of skilled personnel does not become an impediment to sustained economic growth, economies need to develop and maintain policies and programs to manage their talent needs. APEC should take actions, including capacity building and sharing of best practices, to ensure each economy is able to promote inclusive growth through implementation of effective people management systems. A comprehensive people management system would include: (a) a facility for economy-wide skills mapping; (b) programs for targeted training/retraining of domestic human resources; (c) means to assess where shortages can be addressed through delivery of services from remote locations; and (d) policies that enable industries to address shortages that require physical presence of talent.
- L. Ensure trade security.** ABAC welcomes the establishment of APEC's Authorized Economic Operator (AEO) Working Group and their decision to commence a study on an APEC-wide AEO program. It urges the AEO Working Group to develop a concrete program which focuses on mutual recognition and puts emphasis on tangible benefits for AEO-certified companies. Further consideration is also necessary to eliminate redundancy between the AEO program and other security programs.
- M. Harmonize transportation safety regulations.** Given the global nature of modern supply chains, ABAC urges the harmonization of transportation regulations on an international basis to achieve both safety and the facilitation of trade. Standards in each economy should be aligned with those set by relevant international organizations and where international standards do not exist, the introduction of an appropriate international framework to establish globally harmonized regulations should be encouraged. APEC

economies should promote capacity building activities to ensure transportation safety by encouraging compliance with current regulations among relevant supply chain operators.

- N. Promote safety in the logistics supply chain.** To assist in meeting the increasing freight challenge to allow for the smooth and safe flow of goods and services, ABAC urges APEC economies to support work it is undertaking on the development and application of a heavy vehicle safety guide. Such work would serve as a means to identify areas for action and to provide tools for decision makers and practitioners to improve their awareness of means to strengthen safety measures. It further urges APEC economies to work with ABAC on a pilot project on developing case studies and local experience on road safety measures.
- O. Enhance competition policy.** ABAC believes that cross-border trade and investment can gain momentum through further development of transparent and consistent environments which ensure procedural fairness in mergers and other competition policy-related cases. This applies to economies with mature competition policy regimes as well as those in the nascent stages of development. Following the successful staging of the first public-private sector dialogue between ABAC/private sector representatives and the APEC Competition Policy and Law Group, ABAC urges the holding of a second dialogue to examine best practices of procedural fairness both in mergers and other cases with the view to establishing common principles for procedural fairness in APEC economies, reflecting consensus of all APEC competition authorities. In particular, the different stages of development among APEC member economies must be fully taken into account.
- P. Further improve business mobility.** The APEC Business Travel Card (ABTC) has improved the mobility of business people in the APEC region and is an example of an APEC initiative that provides direct and tangible benefits to business. ABAC urges APEC economies to continue to enhance the operation of the ABTC scheme





by shortening the processing time for pre-clearance, simplifying the renewal process, improving online service, ensuring recognition of the card at the ports of entry, and providing clearly marked priority lanes. It further urges APEC to study the possibility of extending additional benefits for ABTC holders such as expanding the area of usage of the ABTC beyond APEC economies, especially the EU.

**Q. Strengthen intellectual property rights cooperation.**

Patents are an important tool for protecting intellectual property rights and promoting innovative growth. Explosive growth in global investment in research and development has contributed to a backlog of 3.5 million unprocessed patent applications. Critical to addressing this increase in patent applications will be enhancing and broadening patent acquisition cooperation efforts between patent offices in the Asia-Pacific. ABAC urges APEC to develop a set of framework principles that would govern patent applications work sharing and develop legal and technical modalities necessary for their implementation. To improve border enforcement of intellectual property rights, ABAC recommends enhanced information sharing among patent offices as well as the private sector. It also attaches importance to the necessity of maintaining a proper balance between the protection of the intellectual property rights of holders and the rights of the general public.

**R. Increase transparency and fight corruption.**

APEC Leaders have recognized the central importance of increasing transparency and fighting corruption, both as vital goals in their own right and as essential contributors to sustainable development, economic growth and good governance within the Asia-Pacific region. They have endorsed a number of robust deliverables to address corruption and increase transparency; however, evidence is scant regarding the extent of APEC action on these commitments. Public reporting would provide the best means for APEC Leaders to demonstrate that they are moving forward on these commitments. ABAC calls for APEC Leaders to consider the possible annual reporting on

implementation of transparency and anti-corruption commitments, with benchmarks and timetables for full implementation. The inaugural report could be issued by the November 2011 Leaders' Meeting in the United States.

**S. Support industry dialogues.**

ABAC welcomes the work being carried out by the industry dialogues, notably the principles for best practice chemicals regulation by the Chemical Dialogue, the Automotive Dialogue's focus on green vehicles advanced technologies, and the regulatory harmonization agenda of the Life Sciences Innovation Forum (LSIF). The regulatory harmonization agenda of the Chemical Dialogue and LSIF should be accorded priority as significant regional economic integration deliverables and as an initiative that promotes economic growth in the case of the former and human health in the case of the latter. ABAC also welcomes the initiative of the Chemical Dialogue to develop a strategic framework through 2012 with the goal of developing a coordinated approach to the international chemicals agenda. It supports the extension of the landmark LSIF Framework Study on the Returns to Investment in Health Innovations to include infectious diseases and the dynamic effects on economic growth and looks forward to working with LSIF as the study progresses.

**T. Promote environmental-friendly goods and services.**

The introduction of energy efficiency labeling accelerates dissemination of environmental goods and services (EGS) and ABAC is pleased that many economies have already implemented these labeling systems. ABAC also encourages APEC to accelerate efforts to promote energy efficiency and conservation actions on the demand side. In particular, it urges APEC economies to explore mutual recognition of other economies' labeling systems on a pathfinder basis, identify ways to pursue policies to help dissemination such as through incentives, and develop criteria to measure the energy efficiency of buildings.

**U. Tackle climate change.** Noting that Leaders in their 2009 Leaders' Declaration reaffirmed a commitment to tackle the threat of climate change, ABAC recommends that, in the design of any measures to tackle greenhouse gas (GHG) emissions, regard should be had to the impact of reduction measures on food production and distribution, and food safety and security generally. Further, APEC economies should develop standard metrics to assess efficiency, preferably by sector, and assist in measuring progress and quantifying results. APEC should consider developing an APEC Low-Carbon Pathfinder Scheme under which low-carbon policy measures by each economy would be systematically and transparently prioritized and reviewed, with reports published annually or biannually.

**V. Promote human capacity building.** ABAC believes that human capacity building must be a core feature of the APEC growth framework. It recommends that APEC economies: (a) promote information communication technology (ICT) applications in human resource development by conducting experimental demonstrations of education and training systems using ICT in order to introduce the most appropriate infrastructure and application; (b) reform the educational system by institutionalizing a culture of entrepreneurial innovation and creative thinking; and (c) give the Voices of the Future Program a more permanent profile in the Leaders' Summit to provide continuity in carrying the APEC program forward with the next generation of Leaders.

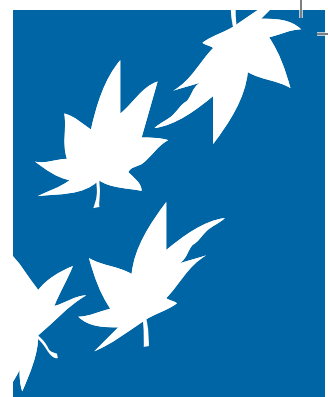
**W. Strengthen and deepen the region's capital markets.** ABAC underscores the importance of exit strategies and policy coordination among APEC economies in light of the nascent recovery of the global economy following the global financial crisis and renewed financial turbulence, notably in Europe. Care must be taken in selecting the timing of implementation of exit strategies. Fiscal and monetary policies should reflect each economy's specific situation while maintaining close global collaboration. APEC economies should further promote regional financial

integration and seek initiatives (e.g., cross-border securities collateral management) that enable them to prepare for emergencies which occur outside the region.

ABAC recommends continuous international and domestic efforts to advance capacity building efforts to strengthen and deepen the region's capital markets, inter-alia by: encouraging the co-existence of Islamic and conventional financial systems to promote greater financial system resilience; launching an Asia-Pacific Infrastructure Partnership as a pathfinder initiative to facilitate the growth of infrastructure public-private partnership (PPP) in the region; further promoting bond and equity markets, including through the establishment of wholesale securities markets open only to professional investors; and creating a task force within APEC to discuss the implementation of the International Financial Reporting Standards (IFRS), in cooperation with the International Accounting Standards Board (IASB). ABAC underscores the important role of the public sector in implementing appropriate legal framework to promote environmental finance and SMME finance, paying sufficient attention to the people at the bottom of the economic pyramid.



## MAIN REPORT







# OUTLINE OF RECOMMENDATIONS

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- B. Making further progress towards achieving FTAAP
- C. Identifying new business requirements
- D. Resisting protectionism
- E. Concluding the Doha Development Agenda
- F. Facilitating investment flows
- G. Facilitating the flow of goods and services
- H. Accelerating SMME capacity building efforts
- I. Ensuring food security
- J. Addressing energy security
- K. Addressing skilled personnel shortages
- L. Ensuring trade security
- M. Harmonizing transportation safety regulations
- N. Promoting safety in the logistics supply chain
- O. Enhancing competition policy
- P. Improving business mobility
- Q. Enhancing intellectual property rights cooperation
- R. Increasing transparency and fighting corruption
- S. Supporting industry dialogues
- T. Promoting environmental-friendly goods and services
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- V. Promoting human capacity building
- W. Strengthening and deepening the region's capital markets

## Attachment

APEC Non-Binding Investment Principles (as revised by ABAC)



## Annexes

- 1 ABAC Letter to APEC Finance Ministers on financial sector taxation (dated 15 February 2010)
- 2 ABAC Letter to APEC Ministers Responsible for Trade providing a progress report on its work for 2010 (dated 21 May 2010)
- 3 ABAC Letter to APEC Energy Ministers conveying its recommendations to strengthen energy security in the Asia-Pacific region (dated 21 May 2010)
- 4 ABAC Letter to APEC SME Ministers urging a focus on SME and micro-enterprise support policies (dated 27 August 2010)
- 5 ABAC Letter to APEC Ministers Responsible for Food Security urging action to ensure food security (dated 27 August 2010)
- 6 ABAC Letter to APEC Finance Ministers outlining its recommendations for 2010 on measures to strengthen and deepen capital markets (dated 16 September 2010)
- 7 The APEC Business Advisory Council

# MAIN REPORT

## Introduction

World growth is projected at about 4.5 percent in 2010, higher than initially expected. Nevertheless, significant risks and challenges remain. Downside risks have risen sharply amid renewed financial turbulence, notably in Europe.

Against this background, ABAC focused its 2010 agenda on promoting and sustaining economic recovery and restoring economic growth in the region. Under the theme “Working Towards Sustainable Growth for All”, ABAC put priority to developing recommendations that contribute to: strengthening economic structures for balanced growth; advancing regional economic integration; and enhancing economic growth in harmony with the environment. ABAC believes that accelerating the progress of APEC’s free and open trade and investment agenda is critically important in achieving renewed growth in the region. It urges APEC economies to adopt the recommendations outlined below to address the current challenges.

### A. Re-committing to the achievement of the Bogor Goals and developing a new vision

Over the past year, ABAC has undertaken its own assessment of the achievement of the Bogor Goals from the business perspective. This review concluded that the Bogor Goals have delivered positive outcomes for APEC businesses by making it easier to do business within the region. Many member economies have become considerably more open since 1994. Industrialized economies have made significant steps towards becoming freer and more open, a trend apparent among developing economies as well.

However, with the global economy having evolved considerably since the inception of the Bogor Goals, there is more to be done to achieve the goal of free and open trade and investment for all economies in the APEC region. Delivering stronger business growth requires a renewed focus on removing barriers to deeper integration and the nature of modern Asia-Pacific supply chains and value chains need to be taken into account.

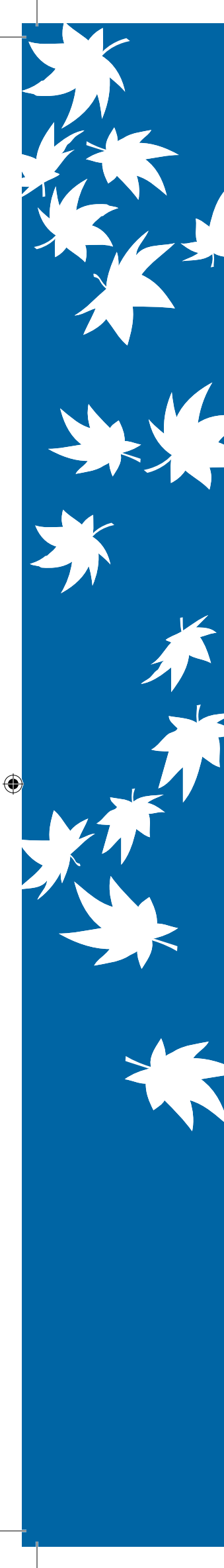
One of the challenges of reviewing the Bogor Goals was the lack of definition, at the outset, about how success was to be measured. The formulation of some specific regional integration metrics for the period up to 2020 is essential for benchmarking APEC’s performance and creating accountability from Leaders.

## Recommendations

- Re-commit to the Bogor Goals of achieving free and open trade within the APEC region by 2020.
- Instruct the APEC Secretariat to devise and publish annually a set of regional integration metrics to monitor each economy’s progress toward greater economic integration. ABAC recommends the creation of a one-page “Regional Integration Dashboard” for each economy showing the level and change in various indicators of liberalization, including, but not limited to, the flows of goods, services, investment, technology and people across the region.
- Agree that any new vision for economic integration should seek to liberalize flows of goods, services, investment, technology and talent across the region, and have a strong emphasis on balanced and inclusive growth and sustainable development.
- Agree that as any new vision for APEC is developed, the business community should be closely engaged so that policy makers draw on business leaders’ expertise in identifying practical initiatives and proposing workable solutions. To that end, ABAC recommends that the links between the Senior Officials’ Meeting (SOM) and ABAC processes be better defined and integrated.

### B. Making further progress towards achieving FTAAP

The lack of progress in the World Trade Organization (WTO)’s Doha Development Agenda (DDA) provides APEC with a unique opportunity this year to advance a more ambitious agenda for regional economic integration. The Free Trade Area of the Asia-Pacific (FTAAP) is



an aspirational but achievable vehicle for delivering free and open trade and investment within the Asia-Pacific region. The recent analytical study completed for APEC senior officials showed that comprehensive tariff elimination combined with trade facilitation and services liberalization could result in a 2.9% increase in the region's GDP and gains to welfare of US\$527 billion. These are potentially significant gains that cannot be neglected.

ABAC therefore urges Leaders to make decisions at their Yokohama meeting on the possible pathways for achieving FTAAP so that work to develop these pathways can proceed in line with APEC basic principles and ultimate goal for economic integration. This will ensure all-inclusive participation by APEC economies so that business can play an active role in helping define the forward agenda. Among the possible pathways towards FTAAP are the following initiatives: Trans Pacific Partnership (TPP), ASEAN +1, ASEAN +3, and the Comprehensive Economic Partnership in East Asia (CEPEA).

ABAC sees FTAAP ultimately as being more than just a traditional free trade agreement. It should encompass the widest possible definition of economic integration in the region. FTAAP should aim to expand market access by eliminating, where possible, existing barriers to trade and putting in place rules of origin which enable businesses to cumulate the benefits of existing trade agreements in the region. Beyond this, FTAAP should also address market integration issues, including facilitating investment and services as well as the movement of goods, promoting regulatory reform and cooperation between member economies, harmonizing standards and eliminating other non-tariff barriers and matching talent needs in the region.

#### **Recommendations**

- Make decisions in Yokohama on possible pathways to FTAAP.
- Instruct Ministers and senior officials to provide greater detail on the preferred modalities and processes towards FTAAP to enable active involvement by the business community.

- Continue to develop existing regional trade initiatives such as TPP, ASEAN+1, ASEAN+3 and CEPEA.

- Invite Leaders of economies engaged in evolving regional arrangements to direct their officials to share knowledge and substance about their respective negotiations in a timely and transparent fashion, while respecting the negotiating sensitivity of some issues.

#### **C. Identifying new business requirements**

Over the past year, ABAC has developed further ideas on new business requirements that could be included in future Free Trade Agreements (FTAs). As these and other arrangements evolve, they should draw on previously developed APEC model FTA chapters covering rules of origin, services and investment as well as other new business requirements to guide their progress. Such requirements include the following:

##### **1. Regulatory Principles**

ABAC has identified a set of principles that could be applied to regulatory chapters of future "21st century" trade agreements. Such principles would provide a set of criteria against which the "quality" of future agreements could be defined. This would be particularly useful when economies have differing ideas of the factors that provide for "high quality" in regard to specific outcomes. The proposed principles are non-discrimination, comprehensiveness, transparency, accountability and "least efficiency distorting". These principles reflect real business needs and can be applied to a range of regulatory issues, including non-tariff barriers in the areas of standards and conformance. Instead of seeking the harmonization of laws and regulations, the use of principles would permit differing approaches to laws and regulations as long as such differences, through mechanisms such as mutual recognition, led to the same or similar regulatory outcomes. This approach would also be permissive of exceptions as long as they were transparent and in place for sound public policy reasons.

## 2. Digital Economy

The 'digital economy' is playing an expanding role in international trade. With the convergence of computing and communications in the product space, and information technology solutions increasingly delivered via networks as a service, coverage of digital economy issues in future FTAs could ensure access to advanced information and communications technologies (ICTs), services, software and electronic commerce, just as the Information Technology Agreement (ITA) facilitated access to computer hardware over a decade ago. Such agreements could also expand the availability of a range of ICT-enabled products and services to foster additional productivity enhancements, enable 'green' business models and create a more modern services infrastructure.

The APEC Digital Prosperity Checklist is a useful tool for guiding policy makers in the development of agreements on Digital Economy. Though its elements are not binding, key policy issues featured in the Checklist, such as security, privacy, intellectual property system, electronic payment, Foreign Direct Investment (FDI) promotion, skills and capacity development, mutual recognition, and creating the most advanced infrastructure (hardware and software) should be addressed in new agreements.

Innovative technology and applications such as cloud computing, smart grid, intelligent transportation systems are driving new business models. But the existing classification and structure of trade negotiations have not kept pace with the rapid development of the business environment. A 21st century trade agreement on digital economy should seek to create new frameworks to address the changes in business and society in a manner which complements existing frameworks such as the WTO and addresses the issues set out in the recommendations below.

## 3. Services

ABAC supports further liberalization of services trade and endorses continuing work by the APEC Committee on Trade and Investment (CTI) with a view to the following elements:

- (a) increasing awareness of the nature of cross-border services and relevant policy issues;
- (b) developing a framework of services principles to facilitate expansion of cross-border services trade; and
- (c) developing a Services Action Plan to boost services trade and facilitate the development of an open and efficient services market in the APEC region.

ABAC believes the ultimate objective of this work should be the liberalization of services trade across the region and the abolition of all barriers to trade in services except in a strictly limited number of agreed areas.

### ***Recommendations***

- Include in future agreements provisions related to regulatory principles, regulatory coherence, the digital economy, and services as follows:
  - Regulatory Principles and Coherence
    - Adopt in relation to regulatory chapters the following set of guiding principles: non-discrimination, comprehensiveness, transparency, accountability and "least efficiency distorting".
    - Develop options for promoting enhanced regulatory coherence by promoting dialogue and cooperation between regulatory agencies.
  - Digital Economy
    - Reaffirm compliance with the ITA and eliminate any remaining customs duties on all ICT products, components and equipment. All new ICT items should also be

subject to zero duties without prejudice to their customs tariff classification or how they are used (e.g., consumer electronics, automotive, telecommunications, gaming, process control or any other ICT-enabled application).

- Affirm that computer and related services commitments ensure coverage for all information technology services, even as these services evolve with changes in technology.
  - Include a permanent prohibition on the application of customs duties to e-commerce. Parties would agree to non-discriminatory treatment of digital products.
  - Establish principles and procedures for transparency, co-operation on and participation in the development of standards, technical regulations and conformity assessment affecting ICT.
  - Eliminate non-tariff barriers for ICT products.
  - Provide strong protection of intellectual property rights in a manner which facilitates and encourages innovation in the digital economy.
- Services
    - Agree to liberalize services trade across the region by eliminating all barriers to trade in services except in a strictly limited number of agreed areas.

#### **D. Resisting protectionism**

Protectionism has not gone away. ABAC's ongoing monitoring of the incidence of protectionism over the past year has identified several examples of APEC members, including major developed economies, taking actions which, while WTO compliant, have the effect of impacting negatively on trade and investment. While some APEC members have not resorted to such measures and have in fact liberalized

trade and investment, others have continued to impose trade restrictive measures. Such measures notified to ABAC include raising tariffs, imposing regulations discriminating against imports and exports, providing government aid, and offering export subsidies. Furthermore, some of the trade restrictive measures implemented at the height of the financial crisis have still not been withdrawn. 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 and APEC 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.
- Withdraw trade restrictive measures that have already been introduced.
- Continue to monitor protectionism and its impact on business.

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

ABAC is deeply disappointed that the global community has failed to find the necessary political will to complete the World Trade Organization's Doha Development Agenda in 2010. We strongly support an ambitious outcome and conclusion of the Doha Round in the near term. APEC economies have a role to play in showing flexibility in the negotiation and engaging with non-APEC economies, building on progress already made, to complete the round and ensure the WTO remains relevant to business. In the meantime, pressure from business is growing for APEC to move faster on trade liberalization outside the DDA framework.

#### **Recommendation**

- Take all practical steps to ensure Doha is completed in 2011.

#### **F. Facilitating investment flows**

ABAC believes that APEC economies must step up efforts to make investing in the region easier, cheaper and faster to ensure



the sustainability and breadth of the current economic recovery. In addition to a focused program on investment facilitation, APEC must also maintain an active program to promote the liberalization of investment. Further, progress towards APEC's stated objectives needs to be measured to ensure that APEC's efforts will improve the ability of the private sector to conduct business across the region.

ABAC supports the adoption and implementation of the proposed Roadmap for Investment in a manner that achieves results and recognizes the realities of doing business. Since the establishment of APEC, the manner in which companies organize and work across borders has evolved immensely. In light of this, APEC should review and update, if necessary, the best practices and principles that were agreed to in the past to ensure their relevance to the current nature of commerce. ABAC has conducted a review of the APEC Non-Binding Investment Principles, which were established more than 15 years ago, and recommends that Leaders adopt its proposed improvements shown in the Attachment to this report.

### **Recommendations**

- Establish a consultative mechanism within APEC for government and private sector representatives to discuss ways in which the investment environment can be improved. Economies should also consider an APEC mechanism for consultation on proposed regulations so that the implications of new measures can be considered before they are put into effect.
- Based on ABAC's input, review and, as necessary, update the 1994 Non-Binding Investment Principles to ensure they continue to promote both foreign and domestic investment in the face of the changes in the way business is conducted in the region.
- Further liberalize investment in services to promote the ability of companies to establish comprehensive supply chains from material procurement to after sales service.
- Enhance capacity building and peer-review programs to support the implementation of APEC principles and best practices.

### **G. Facilitating the flow of goods and services**

APEC economies can enhance the competitiveness of business in the region by making it easier, cheaper and faster to conduct trade in goods and services across borders. Studies by the World Bank and other organizations have identified trade facilitation as an area where coordinated action by APEC economies has the potential to bear significant and tangible benefits to businesses of all sizes across the region in the form of reduced costs and expanded trade. Areas of focus for APEC should include customs procedures, such as those identified in the ABAC Customs Work Plan, as well as standards harmonization and conformity assessment.

Further, ABAC welcomes ongoing efforts to simplify, harmonize and increase the transparency of regulations and processes related to the flow of goods and services across borders through the Single Window, Trade Facilitation Action Plan (TFAP) II and Supply Chain Connectivity Framework initiatives. However, economies need to undertake further and more far-reaching efforts in order for the private sector to benefit fully from the results of APEC's trade facilitation initiatives.

In assessing progress under TFAP II and the Investment Facilitation Action Plan (IFAP), ABAC urges APEC to consider improving on existing measurements and indices such as the World Bank Ease of Doing Business Index, World Economic Forum Competitiveness Index, Heritage Foundation Index of Economic Freedom and others as a reference to assess progress in facilitation and competitiveness issues.

The existing reports allow the fora to identify areas of priority and cooperation, since assessments such as the Doing Business have found many successful experiences in different APEC economies. Sharing these experiences in order to identify best practices will contribute to the facilitation of business operations across the region.

### **Recommendations**

- Reinvigorate the Single Window Initiative to ensure that economies that have not fully implemented single window systems make progress toward that end and place





a priority on interoperability between systems to enhance the sharing of documents such as certificates of origin.

- Advance implementation of the Supply Chain Connectivity Framework in a manner that incorporates ABAC's input from 2010 and focuses on areas that provide the most benefit to businesses.
- Continue to implement TFAP II and conduct an assessment of progress toward the stated goal of reducing transaction costs by 5% to ensure that efforts are resulting in tangible benefits for businesses.
- Utilize and improve on existing measurements and indices such as the World Bank Ease of Doing Business Index, World Economic Forum Competitiveness Index, Heritage Foundation Index of Economic Freedom and others to assess progress under TFAP II and IFAP.

#### **H. Accelerating SMME capacity building efforts**

ABAC fully supports the APEC Leaders' call to advance APEC economic growth in a balanced, inclusive, sustainable, innovative and secure manner to accelerate economic recovery. This new paradigm must be focused on how it will support small, medium and micro-enterprise (SMME) growth in the Asia-Pacific region.

ABAC encourages targeted policies in the areas of productivity, innovation, financial inclusion and export fostering. SMME education is another capacity building activity as raising awareness on tools and resources such as ICT, skills development programs and new business models, can help SMMEs grow.

Outreach programs to capture, disseminate and foster micro-enterprise activities would secure inclusiveness and broaden the base for economic contributions.

##### **1. Fostering SMME development**

In recognition of the economic contribution by SMMEs, there is a pressing need to create a conducive environment to strengthen their role in APEC economies in

delivering balanced, inclusive, sustainable, innovative and secure growth. Many SMME productive activities cannot access formal financing and thus a revision of the financial structure is required to help provide SMMEs with micro-financing. Specific recommendations to expand SMME access to finance and promote financial inclusion are outlined in Section W below.

##### **2. Facilitating greater ICT utilization by regional SMMEs**

A study on access to, and availability of, ICTs across the APEC economies has been conducted to establish benchmarks for current ICT use and adoption by SMMEs and develop potential best practices and related policies to support further use of ICTs by SMMEs. Based on the results of the study, the ability of SMMEs to increase productivity, innovate and reach new markets through basic ICT tools, are limited by insufficient skills within SMMEs to utilize broadband, high subscription prices and a lack of awareness of the benefits of broadband. Efforts to encourage greater ICT utilization by SMMEs should include measures to lower prices, specifically increasing competition in the telecommunications market and providing incentives to support SMMEs' utilization of broadband services and ICT-related education. ABAC believes that reliable and affordable access to broadband services is a prerequisite to greater productivity, innovation and more sophisticated e-commerce applications.

#### **Recommendations**

- Identify enablers or barriers to ICT utilization by SMMEs to help facilitate greater use of ICT in APEC economies.
- Reduce broadband costs and increase its supply to SMME end-users, whether it be by increased competition or the provision of incentives, with a particular focus on underserved areas.
- Develop policies to promote awareness on the benefits of ICT utilization for SMMEs.

### 3. Establishing SMME policies observatory

ABAC is pursuing the adoption of reliable indicators to observe and monitor the performance of SMME-related policies in the Asia-Pacific region. These indicators, both quantitative and qualitative, will provide a solid base in identifying patterns, areas of opportunity and challenges of each economy. It will be a permanent and shared observatory of economies and the impact of their policies towards SMMEs' growth and development.

#### **Recommendation**

- Use the indicators established by ABAC as a reliable tool in reviewing and enhancing policies to support the growth and development of SMMEs.

### 4. Advancing innovative growth

Innovative growth (IG) is one of the five pillars of the APEC Growth Strategy aimed at helping economies accelerate growth, create jobs and improve income distribution. ABAC has undertaken a study examining the present state of IG and has suggested capacity building programs and policies to advance IG and support businesses and SMMEs in the APEC region.

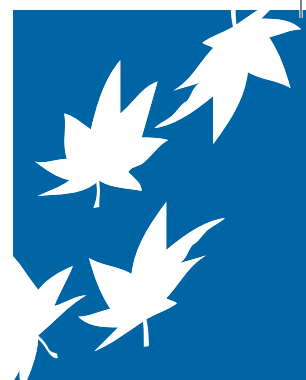
#### **Recommendations**

- Expand various programs that combine ICT with other fields for post-secondary students, internally educated professionals and current ICT workers.
- Inculcate training for ICT applications into the life-long learning system.
- Establish an Institute of Excellence in collaboration with companies and some of the best universities/institutions in the world.
- Expand ICT infrastructure investment from hardware to software in order to boost ICT-enabled services, including the possibility of introducing a certification system.

- Provide an institutional mechanism and framework for shared training facilities and infrastructure at minimal cost.
- Promote standard integration, encourage cross-licensing of technology between the public and private sectors and among firms, and partially allow open innovation to reduce the fixed cost for developing application services.
- Encourage venture capitalists to vertically integrate important functions together such as market viability research and technology evaluation in order to provide more complete services for start-up companies.
- Encourage cooperation between international developers to provide multi-option ready-to-move-in industrial parks or living campuses so as to test emerging applications.
- Equip and establish SMMEs with relevant information through "market knowledge centers" which may include consultancy, organizing of overseas business missions and provision of integrated market research data.

### 5. Developing common principles for ethical business practices for SMEs

One major barrier to trade, in particular for SMEs, is the lack of consistent, predictable, and transparent legal and regulatory frameworks in the area of business practices such as meal and entertainment policies, gift-giving, donations, research grants, consulting arrangements, and others. In 2007, ABAC helped to develop the APEC Code of Conduct for Business. ABAC welcomes efforts underway to build on this code by developing ethical business practice principles targeted at the unique needs of different sectors, beginning on a pilot basis with the medical device industry given the predominance of SMEs and its high level of interactions with healthcare professionals.



### **Recommendation**

- Support efforts to develop common principles for ethical business practices for SMEs across a range of sectors beginning with the medical device sector in 2011.

### **I. Ensuring food security**

ABAC is pleased that APEC is addressing the important issue of food security. It welcomes the holding of the first ever Ministerial Meeting on Food Security in Niigata, Japan in October this year as a means to deliver action on food security.

In November last year, ABAC published the document "Strategic Framework for Food Security in APEC" which explores key issues affecting food security. The study presented several recommendations which ABAC believes APEC economies should implement.

### **Recommendations**

- Undertake a food system approach. Leaders should recommit unequivocally to the regional APEC Food System approach rather than addressing issues in a piecemeal manner. This includes ending distorting measures such as import restrictions and subsidies.
- Establish a coordinating mechanism. There needs to be an ongoing, high-level mechanism to ensure policy coherence and continuity, as well as the technical cooperation, necessary to successfully address the many issues that will combine to create regional food security. This mechanism, reflecting the Leaders' 2009 Declaration that food security is a "major priority for APEC", must formally include the private and research sectors if it is to have the dynamism and access to current information to be able to address the many complex issues that affect food security. It must also have sufficient authority to provide priorities for APEC and to coordinate the various APEC fora working on food and food security-related issues.
- End export restrictions. Leaders should commit to formally ending all export embargoes, quantitative restrictions

and export taxes for all food products traded between APEC member economies. Simply put, trade cannot reliably enhance domestic production, or allow for efficient specialization, if supply is not completely reliable.

- Advance the Doha Round agricultural negotiations through the APEC Caucus. The pursuit of regional food security through a food system approach in APEC could be instrumental in making progress in the Doha Round.

### **J. Addressing energy security**

ABAC strongly recommends continued engagement between governments and the private sector, including energy producers, transporters, financiers, and consumers as well as relevant NGOs. These provide essential perspective on the real impact of proposed policy and regulatory measures on actual markets, consumption patterns, and productivity.

### **Recommendations**

- Focus in the near term on improving energy efficiency and conservation. The business sector can play an important role in its own use of buildings as well as home appliances and IT products. For industries, it is important to prioritize development of standard metrics to assess efficiency, preferably by industrial sector, to assist in measuring progress and quantify results. ABAC encourages APEC to commit to establishing APEC-wide common terminology, standards and best practices for measuring efficiency.
- Work to secure wider use of low-carbon fossil fuels, including promoting the use of natural gas and development of gas transport infrastructure. ABAC also recommends APEC study the possibility of establishing an APEC or Asian futures market in gas.
- Consider nuclear energy and study its feasibility in individual APEC economies as a low emissions source of power generation.
- Continue focus on renewable energy and a prudent approach to the development and

management of renewable energy sources, including research and development and the sharing of best practices. Renewable energy sources should be included in energy portfolios and included in an optimal way.

- Eliminate distortions and promote efficiencies in energy markets. Recognizing that in a group as diverse as APEC complete harmonization of standards is very difficult, ABAC feels that in the near term a focus on transparency and information sharing in this area may be a practical goal.
- Expand emphasis on developing 'clean' energy and promote innovation in energy and related technologies as a core pillar of a complete APEC energy security approach, with due consideration for energy security concerns from the demand side. Such development must involve close cooperation with government through public-private partnerships (PPPs) and a regulatory framework that encourages private sector investment.
- Develop and implement APEC regional energy security strategies in the context of the overall global energy security situation. APEC fora should coordinate closely with energy-related international organizations to ensure synchronicity of effort.

#### **K. Addressing skilled personnel shortages**

Early this year, the University of Southern California's Marshall School of Business presented the findings of its ABAC-commissioned report on labor mobility to business leaders and policy makers in key APEC labor receiving and sending economies. The study showed that international labor mobility continues to be a significant concern for business leaders and policy makers as each economy copes with shortages in key business activities. It was recognized that access to workers is directly correlated to business competitiveness and economic growth. To ensure that lack of skilled personnel does not become an impediment to sustained economic growth, economies need to develop and maintain policies and programs to manage their talent needs. APEC should take actions including capacity building and sharing of best practices to

ensure each economy is able to promote inclusive growth through implementation of effective people management systems.

#### **Recommendations**

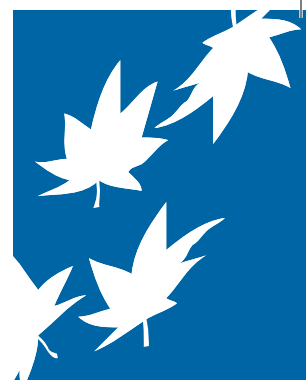
- Undertake the following steps:
  - Skills mapping and data – a facility for economy-wide skills mapping must be undertaken.
  - Internal training – programs targeted to training and retraining of domestic human resources must be provided.
  - Outsourcing – means to assess where shortages can be addressed through delivery of services from remote locations must be provided.
  - Importation of talent – policies that enable industries to address shortages that require physical presence of talent must be put in place.

#### **L. Ensuring trade security**

ABAC welcomes the establishment of APEC's Authorized Economic Operator (AEO) Working Group and their decision to commence a study on an APEC-wide AEO program. ABAC urges this group to develop a concrete program which focuses on mutual recognition and puts emphasis on tangible benefits for AEO-certified companies. Further consideration is also necessary to eliminate redundancy between the AEO program and other trade security programs.

#### **Recommendations**

- Introduce a tiered approach on the AEO status and benefits, such as allowing real "green lane" treatment for AEOs meeting the highest security requirements and grant basic benefits for AEOs meeting minimum security requirements.
- Identify specific benefits for AEO-certified entities. Benefits for various kinds of logistical service providers such as warehouses, customs brokers, freight forwarders and carriers, etc., in addition to those for exporters and importers, should be identified.



- Promote sharing of data on AEOs between customs authorities and waive pre-departure/pre-arrival data filing requirements such as the so-called “24-hour rule” and “10+2 rule” under the mutual recognition scheme.
- Study the possibility of giving special favorable consideration to an economic operator which implements internal security management equivalent to a certified AEO in an economy which has not established an AEO program.
- Develop an AEO status which recognizes not only the head office but also its subsidiaries deployed in the APEC region as an AEO unit.

#### **M. Harmonizing transportation safety regulations**

Industries engaged in international trade are concerned about moves some economies have taken towards the unilateral adoption of transportation safety regulations. Such moves include introducing overly burdensome safety standards on air transportation of lithium batteries and imposing stricter regulations on transportation of freight container by trucks. Given the global nature of modern supply chains, unilateral transportation regulations have the potential to disrupt business operations. Separately, in many cases, safety can be improved by enforcing existing regulations, instead of introducing stricter regulations.

##### **Recommendations**

- Harmonize transportation regulations on an international basis to achieve both safety and facilitation of trade by minimizing the introduction of unilateral regulations.
- Ensure that standards in each economy are in line with those set by relevant international organizations. For instance, when transporting lithium batteries by air, the standards should be set by international organizations, such as the International Civil Aviation Organization (ICAO).
- Encourage the introduction of an appropriate international framework to establish globally harmonized regulations

for areas where international standards do not exist, such as regulations to avoid overturning accidents of international freight containers during road transit.

- Promote capacity building activities to ensure transportation safety by encouraging compliance with the current regulations among relevant supply chain operators, as an alternative to imposing stricter regulations.

#### **N. Promoting safety in the logistics supply chain**

Several APEC Transport Ministers and business representatives at a meeting in Melbourne in February this year supported an initiative that addresses heavy truck safety. Attention is on more effective regulatory arrangements to utilize emerging safety and environmental technologies for heavy vehicles to tackle matters such as driver training, fatigue, road deaths and congestion. All are steps seen to assist in meeting the increasing freight challenge to allow for the smooth and safe flow of goods and services in the region.

##### **Recommendations**

- Support further work to be undertaken by ABAC on the development and application of a heavy vehicle safety guide as a means to identify areas for action as well as provide tools for decision makers and practitioners to improve their awareness of means to strengthen safety measures.
- Work with ABAC on a pilot project on developing case studies and local experience on road safety measures.

#### **O. Enhancing competition policy**

ABAC believes that cross-border trade and investment can gain momentum through further development of transparent and consistent environments which ensure procedural fairness in mergers and other competition policy-related cases. This applies to economies with mature competition policy regimes as well as those in the nascent stages of development. In February of 2010, ABAC and private sector representatives participated in a dialogue with the APEC Competition Policy and Law Group



members in Hiroshima. The requirements from business on the need for more transparency and consistency of competition policy laws and regulations implementation by relevant authorities were conveyed directly.

#### **Recommendation**

- Hold a second public-private sector dialogue to examine the best practices of procedural fairness both in mergers and other cases with the objective of establishing common principles for procedural fairness in APEC economies, reflecting consensus of all APEC competition authorities. In particular, the different stages of development among APEC economies must be fully taken into account.

#### **P. Improving business mobility**

The APEC Business Travel Card (ABTC) has improved the mobility of business people in the APEC region, and is an example of an APEC initiative that provides direct and tangible benefits to business. While ABAC welcomes the ongoing efforts of the APEC Business Mobility Group (BMG) to improve the operation of the ABTC scheme, more needs to be done especially in the area of shortening the application processing period. ABAC recommends APEC continue to enhance the operation of the ABTC scheme by extending additional benefits to cardholders such as expanding the area of usage to non-APEC economies.

#### **Recommendations**

- Continue to improve the operation of the ABTC by shortening the processing time for pre-clearance, simplifying the renewal process, improving online service, ensuring recognition of ABTC at the borders, and providing clearly marked priority ABTC lanes.
- Study the possibility of extending additional benefits for ABTC holders, such as expanding the area of usage of ABTC beyond APEC economies, especially to include the EU.
- Provide sufficient capacity building for immigration officials so as to avoid confusion at the borders.

- Consider expanding eligibility in the ABTC scheme to include highly skilled workers, such as engineers, architects, and academic researchers.
- Urge ABTC transitional economies to accelerate efforts towards full membership status, including the issuance of cards.

#### **Q. Strengthening intellectual property rights cooperation**

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 innovative domestic IP-based industries. It also attaches importance to the necessity of maintaining a proper balance between the protection of intellectual property rights of holders and the rights of the general public. Patents are an important tool for protecting intellectual property rights and promoting innovative growth. Demand management is a particular problem; explosive growth in global investment in research and development has contributed to surge in global patent applications (including patents filed in multiple economies) as well as a backlog of 3.5 million unprocessed patent applications. This strain on individual patent offices necessitates further cooperation among patent offices in the APEC region.

Border enforcement is also a very important issue given the organized manner in which counterfeit and pirated goods are produced and distributed. Enhanced information sharing among customs authorities, IP offices as well as the private sector will improve border enforcement of intellectual property. In this respect, ABAC looks forward to closer engagement and cooperation with the APEC Intellectual Property Rights Experts' Group to address a range of issues relevant to public and private sector stakeholders.

#### **Recommendations**

- Enhance and broaden patent acquisition cooperation efforts between patent offices in the Asia-Pacific to address the increase in patent applications.
- Consider eliminating unnecessary duplication of work among patent offices,



enhance patent examination efficiency and quality, and guarantee the stability of patent right.

- Improve the functioning of the Patent Cooperation Treaty (PCT) to promote efficient work-sharing among different offices in the region.
- Work towards enhanced information sharing among customs agencies as well as the private sector. APEC should also look towards the development of a framework for coordinated engagement against piracy and counterfeiting.

#### **R. Increasing transparency and fighting corruption**

APEC Leaders have recognized the central importance of increasing transparency and fighting corruption, both as vital goals in their own right and as essential contributors to sustainable development, economic growth and good governance within the Asia-Pacific region. Further, they have endorsed a number of robust deliverables to address corruption and increase transparency, including the 2004 *APEC Transparency Standards*, *Santiago Commitment to Fight Corruption and Ensure Transparency* and *APEC Course of Action on Fighting Corruption and Ensuring Transparency*.

Despite the clear support for increasing transparency and fighting corruption, evidence is scant regarding the extent of APEC action on these commitments. Public reporting would provide the best means for APEC Leaders to demonstrate that they are moving forward on these commitments. Moreover, as leading economies, reporting would demonstrate a commitment to accountability.

#### **Recommendation**

- Consider possible annual reporting on the implementation of the four *Course of Action* commitments noted above, with benchmarks and timetables for full implementation. The inaugural report could be issued by the November 2011 Leaders' Meeting in the US.

### **S. Supporting industry dialogues**

#### **1. Chemical Dialogue**

Industry participation in, and support for, the work of the Chemical Dialogue has grown significantly in 2009-2010 as the Dialogue moves to implement the principles for best practice chemicals regulation as a substantive regulatory harmonization deliverable. ABAC strongly supports this work and encourages APEC economies to ensure that it is given priority as a contribution to regional economic integration and economic growth. ABAC also welcomes the initiative of the Chemical Dialogue to develop a strategic framework for the work of the Chemical Dialogue through 2012 with the goal of developing a coordinated approach to the international chemicals agenda.

#### **2. Automotive Dialogue**

ABAC welcomes the APEC Automotive Dialogue's focus on green vehicles advanced technologies as part of an overall effort to improve energy efficiency in the region. Further, ABAC supports the Dialogue's position that governments are an essential partner with industry in accelerating the movement to advanced technology and alternative fuel vehicles, moving from research and development to the marketplace by providing sufficient economic support in funding for R&D, consumer incentives when appropriate to mitigate cost differences and development of the infrastructure necessary to accommodate new advanced technology and alternative fueled vehicles. Economies should take early action to formulate common standards and explore options to share data and experiences to advance and facilitate the transition.

#### **3. Life Sciences Innovation Forum**

ABAC has consistently supported the work of the APEC Life Sciences Innovation Forum (LSIF) as the premier high level regional forum to advance biomedical innovation and innovation in health systems. The LSIF

regulatory harmonization agenda is far advanced with the development of a multi-year strategic plan to achieve regulatory harmonization -- an initiative supported by APEC Ministers that will help reduce costs significantly and help ensure that cutting edge, safe and effective treatments get to patients in the region as quickly as possible. ABAC urges APEC to ensure that the LSIF regulatory harmonization agenda is accorded priority as a significant regional economic integration deliverable and as an initiative that promotes human health. ABAC also welcomes the extension of the landmark LSIF Framework Study on the Returns to Investment in Health Innovations to include infectious disease and the dynamic effects on economic growth and looks forward to working with LSIF as this study progresses.

#### **T. Promoting environmental-friendly goods and services**

ABAC maintains that the introduction of energy efficiency labeling accelerates dissemination of environmental-friendly goods and services (EGS) and has made such recommendations to APEC. ABAC is pleased to see many economies in the region have already implemented these labeling systems.

It is admirable that APEC has been making efforts to harmonize the different systems. Although developing a common labeling system is an ultimate goal, ABAC recognizes that it will take more time to accomplish this goal.

Energy efficiency and conservation on the demand side has a relatively low cost, and produces early results. ABAC encourages APEC to accelerate efforts to promote such actions on the demand side.

#### **Recommendations**

- Explore mutual recognition of other economies' labeling systems on a pathfinder basis.
- Explore ways to pursue policies to help dissemination such as through incentives.

#### **U. Tackling climate change**

It is unlikely that negotiations at the United Nations will close soon.

Needless to say, it is necessary to actively participate in such discussions but APEC should take flexible and effective actions based on its voluntary, non-binding, consensus-based approach. APEC should try to reduce greenhouse gas (GHG) emissions through these approaches.

#### **Recommendations**

- Ensure that any measures designed to reduce GHG emissions take into account the impact of reduction on food production and distribution, and food safety and security generally; further, target measures should have regard to individual economies' current conditions.
- Provide assistance, including transfers of technologies, to support efforts to reduce GHG emissions. APEC should consider ways to enhance the environmental PPP fund scheme to promote transfers of technologies.
- Develop standard metrics to assess efficiency, preferably by sector, to assist in measuring progress and quantify results.
- Develop an APEC Low-Carbon Pathfinder Scheme under which low-carbon policy measures by each APEC economy would be systematically and transparently prioritized and reviewed, with reports published annually or biannually so as to share experiences with other APEC economies.

#### **V. Promoting human capacity building**

ABAC believes that human capacity building must be a core feature of the APEC growth framework.

##### **1. Promoting ICT applications in human resource development**

The business sector, including SMMEs, attaches importance to the further promotion of industrial workforce training as well as of general education. However,





there are hurdles in enhancing education and training. The existing challenges include: (a) regional disparities in education; (b) lack of teachers and poor quality of education; (c) the need for diversified curriculums to meet regional variations; and (d) the need for advanced training for the industrial workforce. The use of ICT can help overcome such challenges. It is important to assess the practical application requirements in each economy before developing the ICT infrastructure.

#### **Recommendations**

- Encourage cooperation among APEC economies to promote experimental demonstrations of advanced ICT application systems in the human resource development field to evaluate their effectiveness.
- Carry out basic infrastructure development for maximum use of ICT.
- Share information on best practices in ICT applications among APEC economies and promote further diffusion to relevant schools and institutions.

#### **2. Reforming the educational system**

The educational system curriculum should support the need to develop the skills and harness the drive of emerging entrepreneurs (and the development of SMEs). It should foster in its curriculum the creativity and skills to encourage entrepreneurial drive and innovation at an early learning phase of the educational framework.

#### **Recommendation**

- Institutionalize a culture of entrepreneurial innovation and creative thinking through reforms in the educational system.
- 3. Ensuring continuity of Voices of the Future Program

The Voices of the Future Program brings together a sample of the Asia-Pacific's next class of leaders in a dialogue and interaction with current senior policy

decision makers and successful business performers, making a unique contribution to the younger generation's understanding of regional issues and their growth as regional citizens.

#### **Recommendation**

- Give the Voices of the Future Program a more permanent profile where successive host economies would routinely include the program with their preparations for the Leaders' Summit. This will provide continuity in carrying the APEC program forward with the next generation of Leaders.

#### **W. Strengthening and deepening the region's capital markets**

##### **1. Promoting stronger growth**

- (a) Adopting prudent measures for economic recovery

Amidst the nascent recovery of the global economy after the unprecedented financial crisis, the Asia-Pacific region has been recognized as an important center of growth. Stimulus programs have contributed to this growth. While there is market concern about heightened sovereign risk and G20 Leaders' decision to regain sound fiscal standing, care must be taken in selecting the timing of implementation of exit strategies. Premature implementation will ruin a nascent economic recovery while belated action will have significant side effects especially on the APEC growth center economies. Fiscal and monetary policies should reflect each economy's specific situation while maintaining close collaboration across the globe. APEC economies should also well prepare for emergencies which occur outside the region. The Chiang Mai Initiative Multilateralization agreement is most welcomed. Complementary measures to provide liquidity to the markets such as cross-border securities collateral management need to be developed promptly. Close communication and collaboration among APEC Leaders is urged to achieve regional stability and to avoid any form of protectionism through any new

trade impediments, new or increased tariff, transfer price manipulation, financial and industrial policies.

(b) Promoting regional integration through sub-regional financial integration

Today, economies face another crisis emerging outside the APEC region, which could potentially hinder them from attaining well-balanced and sustainable economic growth. The promotion of regional financial integration continues to be of immediate importance. At the 13th meeting in Tashkent, Uzbekistan on 2 May 2010, the ASEAN Plus Three Finance Ministers announced that the Chiang Mai Initiative Multilateralization (CMIM) agreement came into effect on 24 March 2010, and that consensus has been reached on all the key elements of the regional macroeconomic surveillance unit of the CMIM, called the ASEAN + 3 Macroeconomic Research Office (AMRO). ABAC supports such recent international initiatives for regional financial cooperation that provide a good model for APEC. ABAC expects that the establishment of AMRO will enhance supervision on volatile cross-border capital flows, especially into and out of emerging economies, and provide more assistance in strengthening the financial capacity building of emerging economies, including the study of Regional Monetary Unit (RMU). Development of regional structures, however, should complement, not replace or replicate, existing global institutions and structures.

**Recommendations**

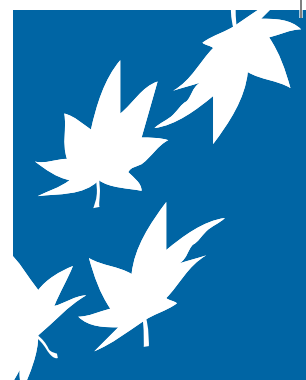
- Promote regional financial integration to mitigate vulnerability to financial contagion from outside the region. Advance CMIM as a platform to enhance financial stability in the APEC region.
- Consider further improvements in CMIM's disbursement mechanism to enhance its effectiveness, in particular, by changing the 20% threshold of the IMF support program compliance.
- Strengthen the regional macroeconomic surveillance through AMRO.

(c) Encouraging Islamic finance

The co-existence of Islamic and conventional financial systems can promote greater financial system resilience by broadening and deepening financial markets. Islamic funds, mobilized from APEC Muslim communities kept unused and funds from the Middle East, can support financial needs in the region such as infrastructure development to accelerate the region's growth. Increased access by the Islam community to finance will enhance the economic integration and stability of the community. Important values such as business ethics, conscience, responsibility, and equitable contracts between investors and investees are embedded in the basic principles of Islamic finance. Islamic finance has a direct link to the real economy and possesses certainty, supported by underlying activities. Thus, it could be a good basis for enhancing business ethics and promoting greater transparency and disclosure. In addition, Islamic finance could prevent some financial bubbles as Shariah compliance eliminates speculative transactions. Recently, the Islamic finance industry has evolved to become an essential part of the international financial system, and almost 80% of Shariah compliant assets are in Islamic Banking. Islamic finance is inclusive and is for both Muslims and non-Muslims, and can co-exist with conventional financial systems. Nonetheless, there are many impediments in promoting it in view of its transactional nature. Efforts are needed to address tax, regulatory and accounting issues to ensure a level playing field for Islamic finance to become viable in APEC economies.

**Recommendations**

- Enhance the market awareness of Islamic finance, and increase the capacity of professionals and scholars to drive growth. Establish and develop regional educational and training institutions in economies which can function as a hub of Islamic finance in the region.
- Remove such impediments as tax treatment for domestic/cross-border transactions (stamp duty; mark-ups and





treatment of profit and deposits) with enhanced collaboration among domestic tax authorities, central banks and Ministries of Finance (MOFs). Maintain regulatory frameworks, including rules and procedures, for Islamic financial products.

(d) Promoting infrastructure public-private partnership

According to a joint study of the Asian Development Bank (ADB) and the Asian Development Bank Institute (ADBI), Asia would need to invest about US\$750 billion annually on average to meet domestic and regional infrastructure needs over the period 2010-2020. There is a huge potential for PPP to help meet these needs. However, for PPP to be effectively harnessed toward this objective, key issues need to be addressed: the information asymmetry between the public and private sectors, broader and deeper capital markets and a more active role for multilateral institutions in partnership with public and private sectors. A regional infrastructure partnership among governments, international financial institutions and the private sector would help address these issues. A key element of this partnership is a structure to ensure sustained and continuous private sector inputs into the process of promoting infrastructure PPP in the region, which can work closely with APEC, multilateral institutions and governments.

**Recommendation**

- Launch an Asia-Pacific Infrastructure Partnership (APIP) as a pathfinder initiative to bring together private sector, government and multilateral development institutions to facilitate the growth of infrastructure PPP in the region.

(e) Developing bond and equity markets

While the region's bond markets have undergone significant development in recent years, emerging bond markets are still far from adequate in meeting the financing needs of the private sector. Supply constraints related to depth and

liquidity, market infrastructure and the legal, policy and regulatory framework continue to pose significant obstacles to market development, in particular for the corporate bond markets. Economies in the region also need to meet the challenges in developing the broader capital market, including equity markets.

Encouraging greater cross-border flows of funds and the introduction of new products and services will contribute greatly to the development of bond, equity and regional capital markets. The cross-listing of listed funds from outside and within the region, such as Exchange Traded Funds (ETFs), should continue to offer investors greater investment choice along with potentially lower costs and better returns. But governments should begin discussions on an important missing element – the cross-border recognition of unlisted funds.

In the absence of regional agreement on the cross-border recognition of unlisted funds, some regional economies are relying on European regulated structures (UCITS). If APEC members can agree to a set of regulations that allow for the manufacture, distribution, management and administration of unlisted funds within the region, an important new range of investment options and employment opportunities for APEC member economies would emerge. Recycling of funds within the region and regional integration would also be encouraged.

**Recommendations**

- Develop wholesale securities markets open only to professional investors (with less strict disclosure rules than those designed to protect retail investors) to encourage the expansion of the issuer base, including foreign issuers. Individual economies could establish such arrangements and eventually elaborate to develop regional arrangements for securities settlement, removing barriers to entry and undertaking further steps to create a regional professional securities market.
- Collaborate between government and regulatory officials and market players to

reduce barriers to cross-border settlement. The public sector should take the lead in addressing barriers related to tax, foreign exchange controls, investor registration, omnibus accounts and quotas. The private sector should lead efforts to address barriers related to messaging formats and pre-matching. Both public and private sectors should collaborate in addressing barriers related to cash controls, physical certificates, securities numbering and settlement cycle.

- Promote the use of foreign securities as eligible collateral throughout the region to enable major domestic and foreign financial institutions and investors to participate in cross-border collateral markets. In these markets, bonds can be actively used as collateral in money market transactions or traded in repurchase agreements, contributing toward more liquid bond markets. Existing arrangements can be considered as starting points in developing new bilateral arrangements, with a view toward a region-wide system.
- Continue collaborative efforts among governments, regulatory agencies, credit rating agencies and market players to promote region-wide convergence of accounting standards, disclosure regimes and corporate governance practices toward robust global standards.
- Establish a pathfinder initiative to introduce a funds passport scheme. Such a scheme is intended to facilitate the distribution of collective investment funds complying with a widely agreed common set of fund investment guidelines across participating jurisdictions. It should be designed to provide superior standards of retail investor protection and regulation compared to non-qualifying funds. Development of the common set of guidelines under which funds can apply for distribution across participating economies will need to be accompanied by efforts to address related regulatory and tax barriers as well as currency issues. In particular, for corporate bond markets, efforts should be made to first strengthen the enabling framework – including common rating standards, availability/transparency of

issuer informer, bankruptcy codes, etc. – before additional funds are introduced to pursue the already limited supply of bonds, driving spreads even lower and possibly distorting the capital allocation process. Investors will clearly benefit from a stronger legal, policy and regulatory framework.

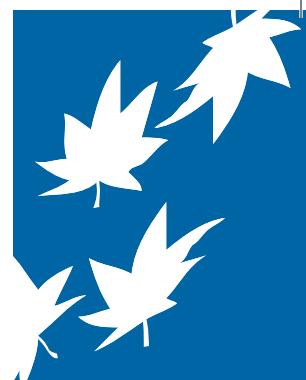
## 2. Ensuring more sustainable growth

### (a) Advancing regulatory reform

Although faster than expected, global economic recovery remains largely driven by massive fiscal stimulus undertaken by major economies rather than a recovery or private demand, and the full recovery of financial intermediation remains uncertain. In certain economies, impaired assets in financial institutions' balance sheets continue to pose a challenge. ABAC believes that sustainable economic recovery is the foundation of any growth agenda. The development of a resilient, stable and flexible business environment is extremely important.

ABAC notes that a variety of regulatory reform efforts is undertaken across the globe. ABAC would like to, however, underscore the fact that the social and economic structures, stages of development and business models of many economies in the Asia-Pacific region are quite different from those whose financial system weaknesses current regulatory reform efforts are intended to address. Most financial institutions in Asia, for example, have a relatively broader deposit base compared to their counterparts in Europe or in the US and have a stronger focus on relationship banking.

While ABAC supports the establishment of a strong global regulatory framework designed to reduce excessive risk taking by financial institutions, it believes that general increases in regulatory capital will not help significantly in accomplishing that aim and will be counterproductive by inhibiting sustainable economic recovery. Concurrent requirements for minimum liquidity could compound this problem by disincentivizing financial





intermediation and provision of needed liquidity, particularly to SMME borrowers that are a main source of innovation, financial inclusion and employment in both developing and many developed economies. Considering that the crisis was caused in large part by excessive risk taking in the investment banking and non-bank sectors, the new regulations proposed by the Basel Committee should not unduly affect the financial intermediary functions of commercial banks or equivalent lending by non-banks.

Regulations need to be coordinated globally, and implementation should take into account economic conditions, financial institutions' business model (e.g., differences between the business models of banks and insurance companies) and tax and accounting systems particular to each economy. And they need to ensure that in each economy all market participants who supply financial services on a commercial basis or in competition with other service suppliers are subject to the same laws and regulations administered by the same regulator in the same manner. Given that regulatory reform should aim to strengthen and stabilize financial intermediation, ABAC fears that while many of the proposed regulatory changes taken individually may seem to be optimal, taken together they might be damaging banks' and other regulated financial institutions' ability to intermediate finance. The Basel Committee's response to the global financial crisis, for example, should not be to advance "one size fits all" regulatory changes. New regulations should be cognizant of differences between economies. Supervisory capacities need to be strengthened to enable developing economies to effectively adapt the Basel framework to local conditions, particularly where issues are best addressed through supervisory review (Pillar 2). Most fundamentally, care must be taken that the new Basel standards and related global reform measures do not swing too far toward impeding prudent, risk-based lending to SMME and other higher-risk borrowers, a result that could imperil more broad-based and inclusive economic growth policies.

ABAC supports the G20 agreement in Toronto. In particular, ABAC agrees with their assessment that excess volatility and disorderly movements in exchange rates can have adverse implications for economic and financial stability. ABAC also welcomes their agreement to phase the implementation of the rules for stronger capital and liquidity standards of financial institutions as financial conditions improve and economic recovery is assured. It also believes it important to ensure that there is no divergence and conflict between the direction of the G20's efforts and the direction of regional efforts within APEC to develop liquid capital markets and efficient financial services, which are vital to achieving balanced growth.

### **Recommendations**

- Maintain close consultation and dialogue with the private sector to determine any threshold of important ratios, including but not limited to, capital and leverage. Review and evaluate the impact of new regulations on costs of doing business
- Consider possible withdrawal effects in introducing a capital buffer. ABAC believes it extremely difficult to adjust the size of capital in accordance with economic cycles. Thus, it is of the opinion that careful thought must be given to the intersection of reserve and capital for addressing potential losses.
- Regulate activities beyond risk-taking capabilities of financial institutions. Strengthen financial institutions' risk monitoring capabilities and financial standing.
- Undertake capacity building efforts to help financial regulators in developing economies strengthen supervisory capabilities and in effectively adapting the Basel framework to fit local conditions and business models.
- Ensure consistency between G20 regulatory reform outcomes and regional efforts to develop liquid capital markets and efficient financial services.



(b) Adopting International Financial Reporting Standards

ABAC supports the G20's initiatives to achieve a single set of high quality, global accounting standards. It believes that the introduction of robust common accounting standards such as International Financial Reporting Standards (IFRS) would enhance further development of capital markets in the APEC region, and promote sustainable economic growth. Nonetheless, various elements of IFRS should be studied to minimize cyclical effects on private sector economic activities. The studies should focus on impacts of accounting policies on the real economy and management of companies. Consistency with other regulatory frameworks such as Basel II (and its revisions) and the principles of the International Association of Insurance Supervisors should be also carefully studied. In studying these frameworks, it is particularly important to recognize that not all industries are the same. Insurance, for instance, is very different from banking despite superficial similarities.

In addition, the APEC region should commit itself to make effective contributions to the global discussions on the accounting standards. Accounting standards is one of the most important managerial tools for management to use to understand the company's operational results and create corporate value in the long run. Implementation of IFRS should have some flexibility, reflecting each economy's business practices to soothe the burdens of financial statement preparation, but should not allow jurisdictions to pick and choose which pieces of a standard to accept, nor should we allow regionally tailored versions of IFRS.

**Recommendations**

- Establish a task force to discuss studies on smooth introduction of IFRS to ensure appropriate communication among the International Accounting Standards Board (IASB), APEC and ABAC.
- Establish clear guidelines to avoid arbitrary treatment, in calculating the fair value of

non-financial information and financial products, in particular illiquid assets, for example, Level 3 assets in accordance with IFRS 7.

- Consider the costs of marking-to-market each loan extended by the financial sector and maintain close dialogue with the private sector when implementing forward looking provisioning as proposed in IAS 39.
- Coordinate diligently with the private sector in introducing changes which may have significant impact on companies' Profit and Loss (P/L) statements (for example, IAS 19 on pension accounting).

(c) Financing the environment

Business faces a much higher level of environmental regulatory risk in the post-Copenhagen world. The international community has rightly eschewed any idea of a "one size fits all" policy response to environmental challenges. Also, many policy approaches to improve environmental quality and reduce greenhouse gas emissions are highly centralized and highly prescriptive. These approaches can be far more expensive in economic terms than an approach which defines the environmental outcomes required in precise and measurable terms but lets each market participant find the particular solution that best accords with their knowledge and circumstances.

On the other hand, currently the private sector faces significant challenges to expand its activities in the area of renewable energy projects, particularly in developing economies. Enhancement of renewable energy projects needs active public sector involvement in the form of providing guarantees, subsidies or preferential tax treatment to fill any commercial viability gap, making projects feasible for private investors. Such commercial viability gaps include the retail price of electricity set at a low level by regulation or based on inexpensive energy sources (cost or hydro); risks related to each economy's credit standing; weak financial standing of power purchasers; lack of (or inadequate)

renewable incentives and regulations; lack of transparency of licensing procedures and legal systems; and lack of efficiency and liquidity of financial markets.

### **Recommendations**

- Establish a set of high level principles in a policy framework, including the following: a re-commitment to reduce subsidies on fossil fuel use; a preference for tax credits or fiscal subsidies to promote private applied research and development in energy technology and the promotion of alternative energy sources; in designing regulatory regimes, governments ought to consult with industry.
- Introduce incentives and regulations to provide sufficient cash flows for renewal energy projects. The host governments should maintain strong and viable commitments to maintain these incentive programs.
- Introduce credit enhancement for the power purchaser from the host governments or international financial institutions (IFIs). Also, measures need to be introduced to increase efficiency and liquidity of financial markets or to fill in the funding gap.

### **3. Achieving more balanced growth**

#### **(a) Expanding SMME access to finance**

ABAC has strongly supported reform initiatives to facilitate financing for enterprises, particularly SMMEs, in the areas of promoting commercial lending through an enhanced secured lending framework. SMMEs are, in general, more vulnerable and prone to be much more affected by the global economic circumstances than large corporations. Often lacking deep banking relationships, they also rely on more varied forms of asset-based financing. As SMMEs play a pivotal role in driving economic growth in the region, regulatory initiatives should be undertaken to promote a transparent and efficient legal infrastructure for secured lending, to incentivize asset-based lenders to provide liquidity to this market.

Most SMMEs have limited access to bank loans because they cannot provide land and buildings as collaterals as required by the banks. Commercial banks normally provide secured loans, i.e., loans that are backed by collaterals. Land and buildings are the most accepted type of assets to be used as collaterals as they usually have a well established ownership registration and valuation system.

In many advanced economies, the law on collaterals is extended to include inventory, machinery and equipment, as well as intangible assets such as receivables, intellectual property, equity ownership in another company, and leasehold. Companies, particularly SMMEs, that have these assets thus would have greater access to financing if more reliable secured lending laws were promoted. These improvements would include not only expanding the classes of collateral that could be subjected to liens, and perfected, but also would include provisions for unified, exclusive and publicly searchable registries of such security interests, avoiding the problem of “hidden liens” that often create uncertainty for lenders and hence chill the provision of credit to higher risk borrowers. Reforms should also look at promoting more detailed provisions for “debtor-in-possession” financing, so as to encourage the provision of liquidity to companies that are experiencing short-term cash flow problems, but with viable business models that can allow for workouts and revitalization.

In addition to improving the regulatory process for secured lending, ABAC considers it important to develop properly structured credit information systems and legal frameworks, which are key issues in expanding SMMEs’ access to finance in many economies in the region, as well as to fill in any commercial gaps for financing in the form of guarantees. Modern technological developments such as introduction of digital promissory notes may alleviate the fraud risks and expand financing tools for SMMEs. Also, it is important to remove any impediments such as taxation issues to support SMMEs in expanding their activities across the globe.



### **Recommendations**

- Launch a SMME Finance Initiative focused on helping APEC economies develop properly structured credit information systems and legal frameworks for expanding SMMEs' access to finance.
- Support business developments of SMMEs by offering some credit enhancement in the form of credit guarantees, and by introducing better regulatory framework to facilitate financial and international activities of SMMEs.
- Introduce an efficient, exclusive and transparent registry of security interests, and a reliable valuation system so that the creditor can determine with certainty prior liens, and their own relative lien priority, and move in quickly to foreclose and liquidate the collateral to pay for the loan when the loan defaults. Implement the collateral law to recognize a large variety of assets as collaterals, in addition to land and buildings, to secure the loan. Provide more opportunities for "debtor-in-possession" financing.

#### **(b) Enhancing social safety nets**

Implementation of sufficient social security policies plays a proactive role in alleviating difficulties confronted by enterprises and stabilizing employment. It also injects a strong impetus to transform the pattern of economic development. Social security policies thus contribute tremendously to sustaining economic growth, stimulating domestic demand, realizing economic restructuring and improving people's well-being.

### **Recommendations**

- Implement social security policies with the purpose of raising relevant insurances, basic pensions of enterprise retirees and minimum living standard in accordance with unique characteristics of each economy such as aging population, diversification of employment types, and acceleration of urbanization.

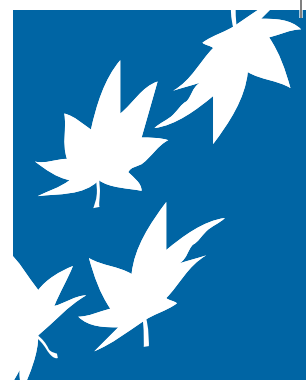
- Introduce an adequate pension system on a funded basis. APEC member economies should conclude necessary agreements to facilitate pension systems that will enable sufficient labor mobility within the region.

#### **(c) Promoting financial inclusion**

In many developing economies, a majority of the adult population, especially those at the bottom of the economic pyramid, those living in rural areas, and women, remain without access to financial services. In the past few years, microfinance has proven effective as an initial tool to address this issue on a limited basis, especially due to the introduction of technologies and innovations that have lowered the cost of providing services. APEC has great potential to contribute in a major way to expanding financial inclusion by providing an effective platform for sharing of successful experiences of policy reforms that address different aspects of promoting microfinance. Regulatory reform measures should take account of the most recent and extensive research on what policies are needed to promote financial inclusion, allowing the requisite regulatory flexibility to structure products responsive to the needs of consumers while complying with standards of financial soundness. Measures such as interest rate regulation, lending caps, disclosure requirements and underwriting norms should be included in a holistic analysis under this initiative.

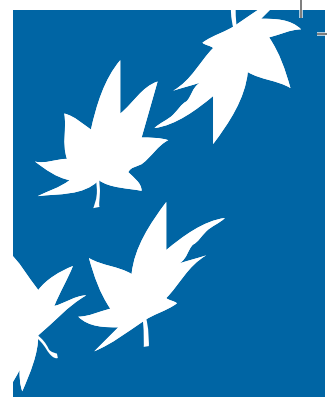
### **Recommendation**

- Launch an APEC Financial Inclusion Initiative under the APEC Finance Ministers' Process as proposed by ABAC and the Advisory Group on APEC Financial System Capacity Building in 2009.





## ATTACHMENT





# APEC NON-BINDING INVESTMENT PRINCIPLES

(as revised by ABAC)

In the spirit of APEC's underlying approach of open regionalism,

Recognizing the importance of investment to economic development, the stimulation of growth, the creation of jobs and the flow of technology in the Asia-Pacific region,

Emphasizing the importance of promoting domestic environments that are conducive to attracting foreign investment, such as stable growth with low inflation, adequate infrastructure, adequately developed human resources, and protection of intellectual property rights,

Supporting the goal of sustainable development in promoting foreign investment,

Reflecting that most APEC economies are both sources and recipients of foreign investment,

Aiming to increase investment including investment in small and medium enterprises, and to develop supporting industries,

Acknowledging the diversity in the level and pace of development of member economies as may be reflected in their investment regimes, and committed to ongoing efforts towards the improvement and further liberalization of their investment regimes,

Without prejudice to applicable bilateral and multilateral treaties and other international instruments,

APEC members aspire to the following non-binding principles:

## Transparency of Laws

- Member economies will make all laws, regulations, administrative guidelines and policies pertaining to investment in their economies publicly available in a prompt, transparent and readily accessible manner.

## Transparency of interpretation and implementation

- Member economies recognize that consistent interpretation of laws, regulations, administrative guidelines and policies governing foreign investment as well as the establishment of prompt, transparent and predictable licensing and approval implementation processes by central and local government agencies on a coordinated basis are complementary to the principle of transparency of laws.

## Non-discrimination between Source Economies

- Member economies will extend to investors from any economy treatment in relation to the establishment, expansion and operation of their investments that is no less favorable than that accorded to investors from any other economy in like situations, without prejudice to relevant international obligations and principles.

## National Treatment

- With specified exceptions in their strategic national interest or for a transitional development purpose as provided for in domestic laws, regulations and policies, member economies will accord to foreign investors in relation to the establishment, expansion, operation and protection of their investments, treatment no less favorable than that accorded in like situations to domestic investors.

## Investment Incentives

- With limited and specified exceptions in their economic interests, member economies will avoid the use of investment incentives which distort fair competition amongst themselves or which are inconsistent with these principles.



### Performance Requirements

- Member economies will minimize the use of performance requirements that distort or limit expansion of trade and investment.

### Expropriation and Compensation

- Member economies will not expropriate foreign investments or take measures that have a similar effect, except for a public purpose and on a non-discriminatory basis, in accordance with the laws of each economy and principles of international law and against the prompt payment of adequate and effective compensation.

### Repatriation and Convertibility

- Member economies will ensure the free and prompt transfer of funds related to foreign investment, such as profits, dividends, royalties, loan payments and liquidations, in freely convertible currency.

### Settlement of Disputes

- Member economies accept that disputes arising in connection with a foreign investment will be settled promptly in a variety of ways including consultations, negotiations or mediation between the parties to the dispute or through procedures for arbitration in accordance with members' international commitments or other arbitration procedures acceptable to both parties, or failing the above, through litigation in tribunals or courts.

### Protection and Enforcement of Rights

- Member economies will endeavor to ensure prompt and transparent access to dispute resolution mechanisms for foreign investors, including tribunals, courts and appeal processes, and will ensure timely delivery and enforcement of judgments and arbitration awards.

### Entry and Sojourn of Personnel

- Member economies will permit in a timely manner the temporary entry and sojourn of key foreign technical and managerial personnel for the purpose of engaging

in activities connected with foreign investment, subject to relevant laws and regulations.

### Avoidance of Double Taxation

- Member economies will endeavor to avoid double taxation related to foreign investment.

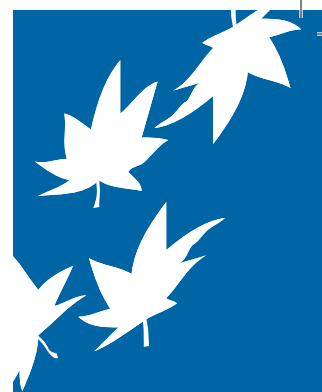
### Investor Behavior

- Acceptance of foreign investment is facilitated when foreign investors abide by the host economy's laws, regulations, administrative guidelines and policies, just as domestic investors should.

### Removal of Barriers to Capital Exports

- Member economies accept that regulatory and institutional barriers to the outflow of investment will be minimized.

## ANNEXES









APEC BUSINESS ADVISORY COUNCIL



15 February 2010

**H.E. Naoto Kan**

Chair, APEC Finance Ministers' Meeting &  
Minister of Finance  
Japan

Dear Minister Kan:

ABAC concluded its first meeting in Melbourne, Australia on February 12, where submission of a letter to the International Monetary Fund (IMF) was endorsed. The letter seeks to respond to the IMF's solicitation of comments on the potential usefulness and impact of various approaches to financial sector taxation in relation to the study requested by the G20.

We believe that imposition of a global tax is an inappropriate response and a further burden to industries, especially small and medium enterprises, and consumers in the wake of the global financial crisis. We also believe that the proposals under consideration would be harmful for a range of additional reasons, including the practical challenges of implementing any such tax. Further, we express additional specific concerns including the following:

- Key to the APEC agenda is reduction of transaction costs. The proposal is directly counterproductive to this goal.
- It would have a very significant negative impact on real economic recovery, as these additional costs are likely to further reduce financing of business activities at a time when markets remain fragile and prospects for the global economy are still uncertain.
- Industries and consumers as a whole would be unfairly penalized.
- It would further weaken financial markets and reduce the liquidity, particularly in the case of illiquid assets.
- Effective implementation would be virtually impossible, especially as opportunities for cross-border arbitrage arise from decisions of certain jurisdictions not to adopt the tax or to exempt particular activities.
- There is no global consensus why a tax is needed and what the revenue would be used for, and therefore no understanding how much is needed. Any consequential tax would need to be supported by clear consensus for its application.

We view the above considerations are important in ensuring our region's financial stability and economic recovery. While we appreciate and support G20's efforts and initiatives to strengthen the global financial systems, we hope that APEC Finance Ministers would encourage their counterparts in the other G20 economies to bear them in mind when they discuss the financial taxation issue, as well as bring these views to the attention of relevant regulators in their respective economies.

Yours sincerely,

**Gempachiro Aihara**  
ABAC Chair 2010

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

## Annex 2



APEC BUSINESS ADVISORY COUNCIL



21 May 2010

**H.E. Katsuya Okada**

Chair, Meeting of APEC Ministers Responsible for Trade &  
Minister of Foreign Affairs  
Japan

**H.E. Masayuki Naoshima**

Chair, Meeting of APEC Ministers Responsible for Trade &  
Minister of Economy, Trade & Industry  
Japan

Dear Ministers:

On behalf of the APEC Business Advisory Council (ABAC), I am pleased to submit to APEC Ministers Responsible for Trade (MRT) a progress report of our work for 2010.

Since our last meeting with APEC Ministers Responsible for Trade, the global economy has recovered at a rate that has exceeded expectations. Nevertheless, lingering uncertainties and significant risks present challenges to achieving stable and sustained growth. Economies should be prepared to take quick and coordinated actions should the crisis currently emerging in Europe persist and spread toward the APEC region. Economies must also maintain an ongoing commitment to resist protectionism and conclude the WTO Doha Development Agenda in the near term.

Against this backdrop, ABAC has adopted the theme “Working Towards Sustainable Growth for All” for its 2010 agenda which is aimed at developing recommendations that will contribute to sustained economic recovery and new growth in the region. These recommendations will address three key themes: strengthening economic structures for balanced growth; advancing regional economic integration; and enhancing economic growth in harmony with the environment. To promote inclusiveness, emphasis will be placed on SME and micro-enterprise development. ABAC urges APEC Ministers Responsible for Trade to focus on the following two points:

A key component of ABAC’s 2010 agenda is an assessment of the achievement of the **Bogor Goals** from the business perspective. ABAC’s own review clearly identifies that many member economies have become considerably more open since 1994. Industrialized economies have made significant steps towards becoming more free and open, a trend apparent among developing economies as well. There is more to be done to achieve the goal of free and open trade and investment for all economies in the APEC region by 2020. Based on the outcomes of the review, ABAC recommends that any new vision for economic integration encompass trade in goods, services, investment, ideas and the movement of people. Efforts to advance these would be enhanced through the development of a set of regional integration metrics to monitor annually each economy’s progress toward greater economic integration. We recommend Ministers agree to direct the APEC Secretariat to devise and publish these metrics.

ABAC continues to believe that the **Free Trade Area of the Asia-Pacific (FTAAP)** appears to be the most viable concept for achieving further economic and market integration in APEC. As envisioned, FTAAP is a new generation approach that goes beyond market access and addresses market integration issues including facilitating the movement of goods and services, regulatory reform, standards harmonization and matching talent needs in the region. Following on from last year’s recommendations to Leaders, ABAC is seeking from Ministers greater detail on the modalities and processes towards a FTAAP to enable active involvement by the business community.

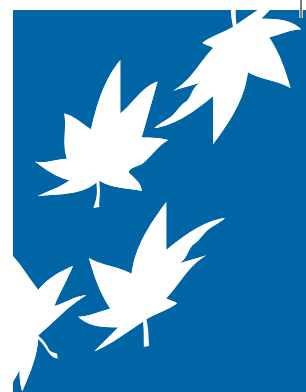
The broad nature of the global business environment requires an appreciation of a number of other issues that are relevant to achieving the ultimate goal of free and open trade and investment in the region. This is reflected in ABAC's 2010 agenda and we have provided recommendations and updates related to these issues.

We look forward to participating at your meeting in Sapporo, Japan in early June to discuss these recommendations in greater detail.

Sincerely,



**Gempachiro Aihara**  
ABAC Chair 2010





## REVIEW OF THE ACHIEVEMENT OF THE BOGOR GOALS ABAC'S KEY MESSAGES FOR APEC LEADERS

### **The Bogor Goals have delivered positive outcomes for APEC businesses**

ABAC recognizes that the 1994 Bogor Goals were groundbreaking and ambitious at the time of their creation. The principles underpinning the Bogor Goals have delivered some very positive achievements for APEC economies.

ABAC's own review of progress towards the Bogor Goals clearly identifies that many member economies have become considerably more open since 1994. The industrialized economies subject to the 2010 timeframe have made significant steps towards becoming more free and open. Developing economies subject to the 2020 Bogor Goals timeframe have also become more open. Finally, many of the binding Free Trade Agreements (FTAs) currently in place within the APEC region would not have taken place in the absence of APEC's push for freer trade and regional collaboration.

ABAC therefore acknowledges the important steps that have been taken to improve the ease of conducting business within APEC regional supply chains and value chains since the Bogor Goals were first conceived.

### **Delivering stronger business growth requires a renewed focus on removing barriers to deeper integration**

The global economy has evolved considerably since 1994, and this demands elevated efforts to promote deeper regional economic integration in line with the Bogor Goals timeline. More needs to be done to achieve the goal of free and open trade and investment in the APEC region. This needs to encompass trade in goods, services, investment, ideas and the movement of people. Trade and investment facilitation are also essential tools to enhance economic growth. With this in mind, ABAC makes the following recommendations.

#### **Recommendation 1**

ABAC recommends that Leaders should re-commit to achieving free and open trade within the APEC region. Taking account of the fundamental changes in APEC's economic and social structures over the last sixteen years, and the fact that we are now in the era of the post-industrialized knowledge-based economy, ABAC recommends that a new vision is needed, building on the Bogor Goals to reflect the changing nature of modern Asia Pacific regional supply chains and value chains. This vision should seek to liberalize flows of goods, services, investment, technology, e-commerce and people; and have a strong emphasis on balanced and inclusive growth and sustainable development.

#### **Recommendation 2**

ABAC recommends that Leaders agree that FTAAP is an aspirational but achievable vehicle for delivering free and open trade and investment within the Asia-Pacific region. Following on from last year's recommendations to Leaders, ABAC is seeking from Ministers greater detail on the modalities and processes towards an FTAAP to enable active involvement by the business community.

#### **Recommendation 3**

ABAC recommends that Leaders recognize the importance of existing and progressing regional trade arrangements such as the Trans-Pacific Partnership, ASEAN+1, ASEAN+3, and ASEAN+6/CEPEA as potential pathways to delivering an FTAAP. As these existing arrangements evolve, they should draw on previously developed APEC model FTA chapters covering goods, services and investment and other new business requirements to guide their progress. ABAC further requests

that Leaders of economies engaged in evolving regional arrangements direct their officials to share knowledge and substance about their respective negotiations in a timely and transparent fashion, while respecting the negotiating sensitivity of some issues.

#### **Recommendation 4**

ABAC recommends that as a new vision for APEC is developed, the business community is closely engaged so that policy makers draw on business leaders' expertise in identifying practical initiatives and proposing workable solutions. ABAC recommends that the links between the Senior Officials' Meeting (SOM) and ABAC processes be better defined and integrated.

#### **Recommendation 5**

ABAC recommends that as part of achieving the Bogor Goals or a new vision, Leaders direct the APEC Secretariat to develop an annual set of 'Regional Integration Metrics' to monitor each economy's progress towards greater regional economic integration and inclusive growth. Such indicators are essential for benchmarking performance and creating accountability from Leaders. ABAC recommends the creation of a one page "Regional Integration Dashboard" for each economy showing the level and change in various indicators of liberalization, including but not limited to, the flows of goods, services, investment, technology and people.



## Annex 3



APEC BUSINESS ADVISORY COUNCIL



21 May 2010

**H. E. Masayuki Naoshima**

Chair, APEC Energy Ministerial Meeting &  
Minister of Economy, Trade & Industry  
Japan

Dear Minister Naoshima:

The turmoil in global energy markets of the past two years underscores the continuing challenges we face in strengthening energy security throughout the Asia-Pacific.

In continuing to work towards greater energy security in APEC, ABAC strongly recommends continued engagement between governments and the private sector. This will ensure inclusion of private sector viewpoints as part of the official APEC energy security policy development process. This is important as the private sector, including energy producers, transporters, financiers, and consumers as well as relevant NGOs, provide essential perspective on the real impact of proposed policy and regulatory measures on actual markets, consumption patterns, and productivity.

In 2008, ABAC sponsored publication of the *Strategic Framework for Energy Security in APEC*, a document designed to guide APEC's energy security work. From our perspective, much remains to be done to implement many of the recommendations contained in this document, and we encourage APEC to continue to refer to this publication to guide its efforts.

In the near term, we encourage APEC governments to focus on improving efficiency and conservation as a cost effective approach that can be broadly applied across the spectrum of supply and demand. Expansion and diversification of energy resources remains an important piece of any comprehensive energy security approach. APEC should work to secure wider use of low-carbon fossil fuels, including promoting the use of natural gas and development of gas transport infrastructure. Nuclear energy is appropriate for many economies as a low emissions source of power generation. ABAC supports consideration of nuclear energy and studies into its feasibility in APEC individual economies. We also recommend Ministers undertake to study the possibility of establishing an APEC or Asian futures market in gas.

In addition, a comprehensive approach must include efforts to manage demand through conservation and efficiency efforts. This should include emphasis on improving the energy efficiency of power plants, promoting conservation and efficiency in buildings, and development of a common labeling system to promote dissemination of energy efficient products, including home appliances and IT products. It is also important to prioritize development of standard metrics to assess efficiency, preferably by sector, to assist in measuring progress and quantify results. We encourage Ministers to commit to establishing an APEC-wide common understanding of terminology, standards and best practices for measuring efficiency.

Eliminating distortions and promoting efficiencies in energy markets must also be a cornerstone of a strategic approach to improving energy security. Recognizing that in a group as diverse as APEC complete harmonization of standards is very difficult, we feel that in the near term a focus on transparency and information sharing in this area may be a more practical goal.

We reiterate that expanded emphasis on developing 'clean' energy and promoting innovation in energy and related technologies is a final core pillar to a complete APEC energy security approach. Such development must involve close cooperation with government through public-private partnerships and a regulatory framework that encourages private sector investment.



Recognizing the commitment of APEC Leaders to policies of sustainable growth and the need to pursue all affordable low-carbon solutions, we encourage Energy Ministers to agree that APEC economies should complement UNFCCC principles and processes by endorsing the development of an APEC Low-Carbon Pathfinder Scheme. The Scheme would be based on the successful APEC formula of voluntary, non-binding, open regionalism. Under such a Scheme, low-carbon policy measures by each APEC economy would be systematically and transparently prioritized and reviewed, with reports published annually or biennially so as to share experiences with other APEC economies.

APEC must continue to recognize that regional energy security strategies must be developed and implemented in the context of the overall global energy security situation. As such, relevant APEC agencies and sub-fora should coordinate closely with energy-related international organizations to ensure synchronicity of effort and maximize the potential for collaborative progress.

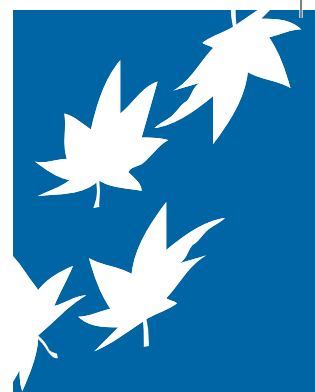
We encourage the APEC Energy Working Group (EWG) to continue to seek input from ABAC and from business and consumer stakeholders to facilitate cooperation on trade-related energy security issues, especially in the area of environmental goods and services. Dialogue with the entities which actually make investment decisions offers access to information such as which incentives are relevant determinants in final investment or selection decisions. It is equally important to compile a prioritized list of what businesses and consumers see as the major impediments to developing or using less carbon intense fuels, technologies and products. It is important to understand which tools -- fiscal, legal and regulatory -- policymakers might use to help rebalance the energy mix to a better carbon managed environment.

With the need for EWG to work closely with business, ABAC asks that EWG follow established 'protocol' for ABAC participation in APEC Ministerial meetings.

Finally, ABAC will continue to actively pursue efforts to strengthen energy security in the region and looks forward to the opportunity to engage directly with Energy Ministers next year.

Sincerely,

  
**Gempachiro Aihara**  
ABAC Chair 2010



## Annex 4



APEC BUSINESS ADVISORY COUNCIL



27 August 2010

**H.E. Masayuki Naoshima**

Chair, APEC SME Ministerial Meeting &  
Minister of Economy, Trade & Industry  
Japan

Dear Minister Naoshima:

As the less than certain economic events in 2008/2009 and the economic volatility this year indicate a less than certain global recovery, ABAC believes that governments must concentrate their focus on Small and Medium Enterprises, including Micro-Enterprises (SMMEs), support policies.

Measures to improve SMMEs' access to fundamental resources such as Financing, Information Communication Technology (ICT) and Human Resources should be intensified as they are consistent with APEC's framework of balanced, inclusive, sustainable, innovative and secure growth.

Financial inclusion and access to capital remains a major challenge for SMMEs in the APEC region. In support of new and enhanced financial platforms focusing on inclusiveness, ABAC has written to APEC Finance Ministers on the recommendation to establish credit information and legal framework for secured lending.

Nurturing the innovative capacity of SMMEs and equipping entrepreneurs and SMME workers with adequate tools to grow their business continue to be a cornerstone of future economic growth.

ICT is an important tool through which SMMEs can achieve productivity gains and expanded market reach. Affordability remains a key barrier to ICT adoption by SMMEs and ABAC recommends that economies lower the cost in the telecommunications market through increased competition on affordable incentives to support SMMEs' further utilization of broadband services and ICT-related education.

Furthermore, to encourage innovation in SMMEs, ABAC suggests capacity building programs and policies that support the creation of an institutional mechanism for shared training facilities, and the establishment of "SMME market knowledge centers". These centers may include consultancy, organizing of overseas business missions and providing integrated market research data.

A longer-term goal is to design an education system that develops the skills and harnesses the drive of aspiring and emerging entrepreneurs at an early learning phase. To inculcate such shift, ABAC believes that SME Ministers should work with SMMEs and Education Ministers in prioritizing and developing a systematic education framework. In addition, ABAC urges the need to also provide access to programs that supports continuous training and life-long learning that addresses the development of business and the ever changing economic climate.

Lastly, ABAC is advocating the establishment of reliable indicators for the review of SMME support policies across the APEC economies. We believe that these indicators can be used as benchmarks on best practices in the APEC region to further enhance SMME policies.

Yours sincerely,

  
**Gempachiro Aihara**  
ABAC Chair 2010



APEC BUSINESS ADVISORY COUNCIL



27 August 2010

**H.E. Masahiko Yamada**

Chair, APEC Ministerial Meeting on Food Security &  
Minister of Agriculture, Forestry & Fishery  
Japan

Dear Minister Yamada:

Solving the issue of food security is vital to APEC's economic growth and regional integration. As businesspersons, we know well that our customers buy food first, and that all our other products and services are purchased with what is left over. The gross numbers are well known and daunting – the need to produce 70 to 100% more food by 2050 with climate change likely to have a depressing effect on crop yields.

If food cannot be kept abundant and affordable through effective technology, policy and trade responses, then all economies and businesses will suffer. And if the situation gets out of hand, then there is the possibility of serious economic dislocation in the decades to come.

APEC member economies, and their individual citizens, have a right to food security and the sound nutrition needed to enjoy productive lives.

This is an alarm that ABAC has been sounding for over ten years in its reports to APEC.

ABAC is now very pleased that APEC Leaders in 2009 named food security, “a major priority for APEC” and that the first ever ministerial meeting on the subject will take place this October.

We urge you to now grasp the opportunity you have to be bold in undertaking a comprehensive and long-term response to this issue. It would be extremely disappointing if you can only recommend a lowest common denominator work plan to APEC Leaders and governments.

The CEO of a major agribusiness put it this way, “If it becomes every man for himself in food supply, then it is the poor who will suffer.” We agree and add that if it becomes every man for himself in food, then it is also nearly every business in every APEC economy that will suffer.

Last year, ABAC published a *Strategic Framework for Food Security in APEC*. We commend that document to you in its entirety and reiterate its key recommendations, which we hope will also become part of your recommendations to Leaders:

**Implement the Food System Approach:** Leaders should unequivocally re-commit to the APEC Food System and use this approach to integrate the regional food system, end distorting measures such as import restrictions and subsidies, and avoid ineffective piecemeal responses.

**End Export Restrictions:** Leaders should formally declare an end to all export embargoes, quantitative restrictions and export taxes for food traded between APEC economies. Simply put, no matter what else is done, food security cannot be achieved if food trade is not a reliable part of the solution.

**Establish a Coordinating Mechanism:** APEC needs an ongoing, high-level group, which includes the private and research sectors, with sufficient authority to ensure the policy and technical cooperation necessary to address the complex challenges of achieving food security and an integrated food system.



**Use the APEC Caucus to Advance Doha:** The specter of real progress on the APEC Food System could be instrumental in advancing the Doha agricultural negotiations.

Additionally, the feedback to requests we made to the private and research sectors for input on this issue lead us to the conclusion that the greatest early returns can be achieved in the short-term by reducing undernourishment. In the medium-term, APEC should work to: improve food transport logistics (especially within and between developing economies) and supply chain efficiencies; create reliable cold storage chains to ameliorate post-harvest loss; build stronger market “soft” infrastructure such as pricing signals, credit, etc.; and, encourage investment, including from agribusiness, in agricultural production.

Sincerely,



**Gempachiro Aihara**  
ABAC Chair 2010



APEC BUSINESS ADVISORY COUNCIL



16 September 2010

**H.E. Yoshihiko Noda**

Chair, APEC Finance Ministers' Meeting &  
Minister of Finance  
Japan

Dear Minister Noda:

On behalf of the APEC Business Advisory Council (ABAC), we are honored to submit the enclosed 2010 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. The Sapporo forum is one of the excellent examples of our close coordination, from which we have extracted some of our very important recommendations this year. We are thus grateful for the opportunity to once again have a dialogue with the Finance Ministers this coming 6 November in Kyoto, 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 delineating growth strategies which are balanced, inclusive, sustainable, innovative and secure. These objectives underpin the recommendations that are contained in our report, which is structured to reflect three key areas that need attention.

First, we would like to underscore the importance of **exit strategies and policy coordination among APEC economies** in light of the nascent recovery of the global economy after the unprecedented financial crisis as well as some recent conundrums, particularly in Europe. We call for the development of a mid- and long-term credible plan to restore fiscal sustainability with the careful selection of timing to implement exit strategies reflecting each economy's specific situation while maintaining close and global collaboration.

Second, we believe that **regional financial integration** should be further promoted. APEC economies should well prepare for emergencies which occur outside the region. While the Chiang Mai Initiative Multilateralization agreement which came into effect in March this year has been a great progress for this sake, further initiatives should still be sought going forward, including cross-border securities collateral management.

Third, we recommend continuous international and domestic efforts to advance **capacity building** efforts to strengthen and deepen the region's capital markets. We believe that the co-existence of Islamic and conventional financial systems can promote greater financial system resilience by promoting diversification. We call for the launch of an Asia-Pacific Infrastructure Partnership as a pathfinder initiative to facilitate the growth of infrastructure Public-Private Partnership (PPP) in the region. We propose that bond and equity markets be further promoted through various initiatives, including establishment of wholesale securities markets open only to professional investors. We call for a task force within APEC to discuss implementation of International Financial Regulatory Standards (IFRS), by ensuring appropriate communication with the International Accounting Standards Board (IASB). We underscore the importance of the public sector role to implement appropriate legal framework to promote environmental finance and SMME (Small, Medium and Micro Enterprise) finance, paying sufficient attention to the bottom of the economic pyramid.

In addition to these recommendations contained in our report, we also call for further continuation of greater dialogue between public and private sectors on financial reforms and regulatory changes, in particular in determining any threshold of important ratios, including capital and leverage.



We firmly believe that the Asia-Pacific region should be an important center of growth of the global economy. We reconfirm our support for APEC Finance Ministers' continued and coordinated efforts to promote a sound economic environment in our region, and look forward to further strengthening our cooperation in the months and years ahead.

Sincerely yours,



**Gempachiro Aihara**  
ABAC Chair 2010



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



APEC BUSINESS ADVISORY COUNCIL



## Founding and Structure

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

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

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

## ABAC in 2010

In 2010, Japan took on the Chair of ABAC, with Singapore and the United States as co-chairs, following the APEC order. Co-chairs represent immediate past and future chairs.

This year, ABAC adopted the theme "Working Towards Sustainable Growth for All" which was pursued through three sub-themes:

- Strengthening economic structure for balanced growth;
- Advancing regional economic integration; and
- Enhancing economic growth in harmony with environment.

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 2010: Melbourne, Australia (9-12 February); Taipei, Chinese Taipei (17-21 May); Bangkok, Thailand (24-27 August); and Yokohama, Japan (8-10 November). Four meetings of the Advisory Group on APEC Financial System Capacity Building were also held: Melbourne, Australia (12 February); Taipei, Chinese Taipei (20 May); Bangkok, Thailand (26 August); and Yokohama, Japan (10 November).

ABAC actively participated in various APEC meetings and related events, inter- alia: the First APEC Senior Officials' Meeting (SOM I) and related meetings (Hiroshima, Japan: 22 February – 7 March); the Seventh Senior Finance Officials Meeting (SFOM7) (Hiroshima, Japan: 18-19 February); the Extraordinary Senior Officials' Meeting (Tokyo, Japan: 20-21 April); SOM II and related meetings (Sapporo, Japan: 26 May – 4 June); the Meeting of APEC Ministers Responsible for Trade (MRT) (Sapporo, Japan: 5-6 June); the Growth Strategy High Level Policy Round Table (Beppu, Japan: 7-8 August); the APEC 2010 Customs-Business Dialogue (Tokyo, Japan: 13 September); SOM III and





related meetings (Sendai, Japan: 15-26 September); the 5th APEC Human Resources Development Ministerial Meeting (Beijing, China: 16-17 September); SFOM8 (Tokyo, Japan: 21 September); the APEC SME Ministerial Meeting (Gifu, Japan: 2-3 October); the APEC Ministerial Meeting on Food Security (Niigata, Japan: 16-17 October); the APEC Finance Ministers' Meeting (Kyoto, Japan: 6 November); and the 22nd APEC Ministerial Meeting (Yokohama, Japan: 10-11 November).

Other events organized and/or participated in by ABAC included: the Transport Ministers' Meeting on Road Transport Logistics Safety and Productivity (Melbourne, Australia: 9 February); a Public-Private Partnerships (PPPs) Forum (Melbourne, Australia: 9 February); an ABAC Knowledge-Based Growth Symposium (Taipei, Chinese Taipei: 17 May); the APEC Public-Private Sector Forum: The Development of Bond Markets and Financial Inclusion (Sapporo, Japan, 31 May); the Business Luncheon with APEC Trade Ministers (Sapporo, Japan: 6 June); the 6th SEACEN-ABAC-ABA-PECC Public-Private Partnership Dialogue for the Asia-Pacific Region (Manila, Philippines: 15-16 June); the APEC SME Summit (Lima, Peru: 12 August); the ABAC Food Security Workshop (Bangkok, Thailand: 23 August); the ABAC Transport Safety Forum (Bangkok, Thailand: 24 August); the Joint Forum with ADB on Infrastructure Finance (Yokohama, Japan: 7 November); the ABAC Energy Forum (Yokohama, Japan: 11 November) and the APEC SME Summit (Yokohama, Japan: 11 November).

#### Studies and Related Work

ABAC undertook an assessment of achievement of the Bogor Goals by APEC economies as APEC reaches the end of the first milestone of 2010. It also continued to monitor the incidence of protectionism in line with the commitment to open markets and to an effective standstill on all new trade restrictive measures, whether WTO compatible or not.

ABAC commissioned a study which examined the regional availability, access to and adoption of ICT, particularly by SMEs and micro-enterprises. The study sought to reinforce concerns of growing digital divide, draw attention to the need for APEC economies to encourage the use of broadband by SMEs and for governments to take supportive measures to facilitate greater ICT utilization by regional SMEs and micro-enterprises.

ABAC also commissioned the University of Southern California's Marshall School of Business to undertake a study which examined the investment landscape on environmental goods and services (EGS) within APEC as well as issues related to cross-border access to EGS.

#### 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, supply chain connectivity, SME and micro-enterprise development, capacity building, strengthening and deepening capital markets, energy security, food security, climate change and how ABAC could contribute to the implementation of the growth strategy.

ABAC EXECUTIVE DIRECTOR 2010

APEC BUSINESS ADVISORY COUNCIL  
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**Asia-Pacific  
Economic Cooperation**



**JAPAN 2010**



**APEC Business Advisory Council**  
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