

**Letter from the APEC Business Advisory Council
to the Economic Leaders**
The 1998 ABAC Report to the Economic Leaders

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APEC Chair 1998

Prime Minister of Malaysia

Yab Dato' Seri,

As the business advisory council of APEC, our mandate is to provide timely and relevant recommendations towards the achievement of APEC goals taking full account of the current crisis which challenges the very foundation of society, business and free enterprise in several APEC member economies.

To address this crisis, ABAC believes that it is crucial to be innovative in thinking, frank in assessing the realities, and bold in prescribing alternative and flexible solutions. Notwithstanding the contagion, ABAC continues to believe that free trade in the region by the year 2010 for developed economies and 2020 for developing economies should remain the goal of APEC. Although the liberalization of trade in goods and services has led to significant wealth creation, the ramifications of speculative currency trading are not clear. Premature liberalization of capital markets in some economies has led to unintended costs and outcomes. As a result of the severe impact associated with these outcomes, some member economies have had to introduce measures to insulate themselves from this contagion. APEC must re-emphasize the importance of the collective responsibility of member economies to ensure that our broader APEC objectives and sense of community are not lost.

ABAC believes that the Economic Leaders must act decisively and collectively to contain the severe difficulties faced by the private sector and its constituencies. This crisis will clearly test the resolve of APEC to find solutions.

Our key recommendations are targeted at restoring investors' confidence, promoting currency stability and bringing about the return of foreign direct investments and other long-term capital. These recommendations are focused on the following areas: the severe crisis in Asia, early voluntary sectoral liberalization, economic and technical cooperation, small and medium enterprises, electronic commerce, and food systems.

On the financial crisis, we urge immediate actions by the APEC economies both individually and collectively to avert its escalation into a global crisis.

Beyond the regional and national initiatives outlined below, we urge the Economic

Leaders to acknowledge the growing concerns within APEC as to the volatility associated with current financial flows.

Our proposals are aimed at providing rapid amelioration to the crisis by encouraging inflows of foreign capital, restoring liquidity in the affected economies, reforming and reinvigorating the financial process and cushioning the impact of currency volatility. We wish to emphasize that a stable financial environment is necessary for trade and investment to flourish and that without financial stability the benefits of trade liberalization cannot be fully realized.

We propose the following regional initiatives:

1. Establish a mechanism to enhance the credit of government bonds denominated in hard currencies and issued by affected economies through guarantees, exchangeable government bonds or collateralized bond obligations.
2. Develop mechanisms to cushion the impact of currency instability on the private sector, including multilateral currency swap structures where coordination of policies permit.
3. Re-emphasize that the IMF broaden its approaches to take into account the social implications of its programmes.
4. Convene an ongoing regional forum to promote and coordinate cooperative responses to the financial crisis.

In addition to these initiatives, we also strongly urge Economic Leaders to strengthen their domestic economies by taking the following initiatives:

5. Enhance domestic capital market infrastructure
 - Restructure bank balance sheets through loan sales and financing structures.
 - Encourage foreign direct investment in domestic financial institutions to strengthen the capital bases of domestic banks and enhance their global competitiveness.
 - Undertake legal reforms to facilitate financial reorganization.
 - Improve domestic capital markets through the development of liquid bond and asset-backed securities markets.
6. Alleviate corporate debt
 - Establish a mechanism for restructuring corporate debt through debt-equity swaps.
 - Develop a special exchange-rate mechanism to assist qualified companies in managing currency volatility.
7. Facilitate exports
 - Encourage the use of securitization structures of trade receivables for trade finance.
 - Enhance the role of export credit agencies to match the financing needs of export companies.

On early voluntary sectoral liberalization (EVSL), the Economic Leaders, in Vancouver, identified 15 sectors for early voluntary sectoral liberalization (EVSL), of which nine were slated for immediate action. In spite of the severe economic downturn in Asia, ABAC reaffirms its commitment to liberalize goods and services markets through the elimination of

tariff and non-tariff measures, as the most effective path to sustained growth and economic recovery in the region. EVSL is a vital part of this process. ABAC also reaffirms its support of the ECOTECH component of EVSL as a means of capacity-building in the region to ensure that all economies benefit from EVSL to the greatest extent possible.

APEC Economic Leaders committed to EVSL and economic growth in the region have a collective obligation to see the initiative succeed. This requires economies to demonstrate a willingness to end protection of the targeted sectors, even though most economies will face stiff challenges in some sectors.

ABAC continues to believe that:

- The EVSL initiative should be inclusive with sectors moving through the process together so that there is a spreading of benefits among APEC economies.
- The EVSL initiative should be comprehensive. ABAC strongly recommends that coverage be as broad as possible.
- The EVSL initiative should be credible, ideally with all APEC member economies endorsing each of the work plans.

ABAC also believes that where concessions and flexibility are needed, then the principle of tariff staging should be considered rather than an opting out of sectors or product coverage.

On Economic and Technical Cooperation (ECOTECH), we conclude our work in this area with the proposal to establish the *Partnership for Equitable Growth (PEG)*, a nucleus corporation which acts as a catalyst and engages governments in a business/private sector-driven approach to capacity-building required to push forward the liberalization agenda of APEC. In Vancouver 1997, the Leaders welcomed ABAC's intention to set up the PEG mechanism to support ECOTECH initiatives in the region. In Kuala Lumpur 1998, ABAC presents the Leaders with the imminent establishment of PEG, which carries its own distinct legal and independent personality as a non-government and market-driven vehicle.

In particular, PEG can commence work in the following priority ECOTECH areas where a clear need exists for its role as a catalyst to bring in business/private sector participation. ABAC has identified early PEG flagship projects which it believes would benefit APEC economies:

- The *Asian Gas Grid (AGG) Project* builds on the initiative of the APEC Energy Working Group which calls for removal of impediments through policy changes within APEC economies to foster a favorable investment environment. The AGG takes this further through the setting up of the APEC Resource Corporation to coordinate the development of an Asia-Pacific gas network. This network would link existing and proposed gas networks in Indonesia, Malaysia and Thailand with major demand centers in the People's Republic of China (PRC) with possible expansion to Chinese Taipei, Japan and South Korea.
- The *APEC IT Education Initiative* was first recommended in the 1997 ABAC Report and aims at drawing on the region's strengths to provide education and training in areas critical to IT development. Specifically,

in keeping with the APEC vision of an Asia Pacific Information Society (APIS), ABAC believes that PEG can provide a valuable start by supporting two essential projects (i) to assist SMEs in reaping potential benefits from E-Commerce and (ii) to develop IT technicians critical to the region.

With these issues in mind, ABAC strongly recommends to the Leaders that immediate action be taken to encourage all member economies to invest through ECOTECH initiatives to prevent a further breakdown in our global economic system. In so doing, APEC would help preserve the platform upon which we do business and set in motion a capacity-building effort towards a more level and sustainable playing field.

On Small and Medium Enterprises, ABAC recognizes the key role SMEs play in member economies where they provide the bulk of employment. There, they now face a grave situation where thousands of small businesses have already collapsed and many more are threatened. In the process, scores of workers and family members are becoming unemployed. The problem is extremely serious in a number of member economies. Immediate action is needed to ensure the short-term survival and ultimate long-term health of SMEs.

ABAC's recommendations are divided into two general categories: the financial climate needed to support SMEs, and the setting up of employment and business conditions critical for SMEs to grow. Among the initiatives that would provide a more favorable financial environment for SMEs are:

- Creation of financial institutions to support SMEs.
- Development of performance-based lending practices for SMEs.
- Encouragement of banks to allow for loan restructuring.
- Provision of credit on an equal and open basis.
- Provision of micro-lending.
- Allocation of funds from the IMF's Structural Adjustment Loans (SAL) to provide low-interest loans to SMEs.
- Provision of short-term tax relief options for SMEs.

A more favorable climate for employment and business opportunities for SMEs can be achieved by:

- Encouraging large corporations to use SMEs through sub-contracting arrangements.
- Requiring governments to utilize SMEs when purchasing goods and services.
- Accelerating infrastructure project implementation using SMEs.
- Requiring the evaluation of government infrastructure project awards to include a loading for SME set aside.
- Unbundling of components of infrastructure projects to allow greater opportunities for SME participation.
- Centralizing sales opportunities through electronic networking.
- Encouraging microbusiness development by enhancing consumer protection regulations.

On E-Commerce, ABAC believes that the private sector should lead in the development

of E-Commerce while relying on Government to lay the framework that would include cross-border consumer protection. Governments should avoid introducing new laws where existing laws can be applied and ensure the development of electronic infrastructure to provide economic and equitable access throughout the region. In this regard, public-private partnerships will be vital in realizing the full benefits of E-Commerce especially where trust and confidence need to be established in the area of electronic payment systems.

One area in which E-Commerce may be promoted in government is through maximum usage of technology in government operations, such as on-line tax payment and procurement. In like manner, E-Commerce provides great opportunities for SMEs, mindful that the need for educational and training programs will be paramount.

We also urge Government to address squarely the Y2K issue which through the very process of globalization has made the problems faced by smaller member economies systemically linked to more developed member economies. Given the interconnectedness of the present global economy, even if 20% of all systems are not Y2K-compliant, the danger to all APEC economies will be great. Output will be severely compromised and essential services and life-saving medical process will be disrupted. The cost to fix the shocks and associated problems will be tremendous. Therefore, we should focus our efforts in several priority areas such as the financial, transportation, utilities and medical services sectors.

On an APEC Food System, ABAC calls on our Economic Leaders for action in the food sector as a step vital to achieving sustainable growth and development in the region. ABAC recognizes the complexities of the food sector and the associated sensitivities. We believe a new framework is needed to achieve APEC's goals in this sector. This will be a long-term project and action must proceed according to APEC principles and objectives.

ABAC proposes an APEC Food System as a comprehensive and equitable approach to action in the food sector. The APEC Food System is a vision of a far more robust regional food system which efficiently links together food producers, processors and consumers. A regional food system which harnesses the resources of the region to more securely meet consumers' food needs will maximize the contribution of the food sector to the wealth and prosperity of all economies. The APEC Food System calls for cooperative action (in parallel) in the following areas: rural infrastructure development, dissemination of technological advances and promotion of trade in food products.

On Action Plan Monitoring, ABAC feels that, under the current economic difficulties, it is of utmost importance to encourage and facilitate the flow of capital, especially long-term capital, back into the region. We recommend, as we did in 1997, that the Economic Leaders again endorse the rapid implementation of the 1994 Non-Binding Investment Principles as the best way to achieve this. For economies who feel ready, we would also urge them to move beyond these principles. In addition, to the extent that economies are able, ABAC recommends that financial services should continue to be a priority sector for liberalization. This would greatly help in the establishment of sound domestic financial markets and provide the depth and sophistication needed for stable long-term economic growth.

In our analysis of the individual action plans, we note the following. Improvement has been made in transparency though the plans remain difficult for business people, in general, to access. However, more specific detail is needed to enable business to benefit from the action plans. The plans have likewise shown a greater commitment to action and the adoption of EVSL indicates a willingness to go beyond agreements made in other multilateral fora. With this in mind, APEC should now consider an active outreach program to the wider business community to ensure that plans are clearly and effectively disseminated. The status of APEC's work on ABAC's Flagship Recommendations from its 1996 and 1997 Reports to Economic Leaders also needs to be reflected in the Individual Action Plans.

ABAC, given the plight of SMEs and their importance to the region, strongly urges Economic Leaders to direct that Action Plans show a clear commitment to action which will contribute to the recovery of the SME sector. In more specific areas, ABAC proposes recommendations in the areas of tariffs, non-tariff measures, services and investments. The list of recommendations are appended.

In moving ahead, ABAC points to the compelling need for capacity-building to sow the seeds for future growth. The ECOTECH agenda becomes even more crucial in preserving our sense of community upon which greater openness and liberalization will depend. By working to reduce disparities among member economies, ABAC's ECOTECH recommendations will help strengthen the conditions needed to safeguard APEC and its liberalization agenda. It is thus imperative that we work on immediate confidence-building measures and enabling capabilities to build a positive contagion to overcome the current crisis. In the process, however, we should not put aside the work needed to realize the longer-term goals of APEC.

We close by advising our leaders to reflect on three thoughts: *First*, we need to maintain flexibility in the liberalization agenda to avoid losing support for it amid this crisis. *Second*, immediate capacity and community-building will speak loudly to our economies that APEC has its priorities in the right order in this crisis. *Third*, we need to address squarely the issue of governance in international financial markets to put in place the requisite order for free markets to operate effectively.

ABAC continues to believe that APEC can and should be a powerful forum. Difficult times such as these test the capability and credibility of APEC and its leadership. Our collective responsibility to the region is to provide an urgent considered response with tangible results.

ABAC looks forward to its dialogue with the Leaders.

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