



**APEC Business Advisory Council**  
Report to APEC Economic Leaders **2004**  
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**Bridging the Pacific:**

# **COPING with the CHALLENGES of GLOBALIZATION**

Santiago, CHILE



# ABAC Report to APEC Economic Leaders

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## Introduction

The global outlook is more favorable than it has been for a number of years. Global trade is rising sharply, business confidence is robust, financial markets are buoyant and commodity markets are strong. All of these support expectations for strong growth in the APEC region.

This positive outlook notwithstanding, significant challenges and risks remain. These include geopolitical uncertainties, including terrorist attacks and higher oil prices. Economic concerns include global imbalances, notably the large US current account deficit on the one hand and surpluses elsewhere; difficult medium-term fiscal situations in many industrial and emerging market economies; exchange rate arrangements in some economies; and rising global interest rates. ABAC supports the view that economies should take advantage of the global recovery to press ahead with structural reforms of their economies as well as the global economic architecture that are needed to improve growth potential, flexibility, and resilience, and to resist protectionist pressures. In particular, ABAC urges APEC Leaders to build on the framework agreement commitment made in Geneva to resuscitate the Doha Round and reinvigorate the pursuit of the Bogor Goals.

Against this background, ABAC adopted as its theme for 2004 **“Bridging the Pacific: Coping with the Challenges of Globalization”** which addresses the following issues:

- Achieving concrete results for the World Trade Organization (WTO) Doha Development Agenda (DDA);
- Reinvigorating APEC’s trade and investment liberalization and facilitation agenda;
- Coping with new challenges for trade and investment;
- Strengthening financial systems in the APEC region;
- Capacity building to face the challenges of globalization; and
- Enhancing the effectiveness of APEC.

The ABAC Report to APEC Economic Leaders elaborates on these issues and outlines recommendations in each of these areas. It updates and/or pulls together the reports earlier submitted to the Meeting of APEC Ministers Responsible for Trade (Pucon, Chile: 4-5 June 2004), APEC Finance Ministers’ Meeting (Santiago, Chile: 2-3 September 2004), and APEC SME Ministerial Meeting (Santiago, Chile: 6-7 October 2004).

### I. Achieving Concrete Results for the WTO Doha Development Agenda

ABAC acknowledges that the multilateral process of the WTO is superior to bilateral and regional arrangements for achieving trade liberalization that is nondiscriminatory. ABAC therefore welcomes the efforts made by WTO officials and WTO member economies since the Cancun ministerial meeting, to get the negotiation process back on track and move it forward. In particular, ABAC applauds the significant breakthrough achieved by the members on 31 July 2004 in approving a package of framework and other agreements that are considered the foundation for the continued negotiation in the Doha Round. ABAC further acknowledges that the breakthrough restored confidence in the WTO process.

ABAC urges APEC Leaders to immediately resume negotiations in agriculture, services and trade facilitation under the new framework; and to continue working on the specifics and elements of the modalities in non-agricultural market access (NAMA), an area where details have yet to be finalized. While the deadline for the negotiations has been deferred beyond 1 January 2005, ABAC urges WTO members to establish a new deadline to provide guidance on the negotiating activities of all members. ABAC notes the General Council's decision not to include the issues of investment, competition policy and transparency in government procurement in the work program under the Doha Round. ABAC believes that WTO members should not lose sight of the importance of these issues.

#### **A. Agriculture**

ABAC strongly supports the position that agriculture is at the heart of the DDA, and that an ambitious result on agriculture is essential for the Doha negotiations to succeed.

ABAC welcomes the adoption of a framework for establishing modalities in agriculture. The unequivocal commitment to eliminate all forms of export subsidies by a credible end date is a notable step forward. The agreement that economies having higher levels of domestic support will make greater overall reductions in order to achieve a harmonizing result is welcome. In respect of market access, ABAC agrees that all economies other than the least-developed, should contribute to the achievement of the goal of "substantial improvement" in access through a combination of tariff quota commitments and tariff reductions, and urges that the number of "sensitive products" be no more than absolutely necessary.

#### **Recommendations:**

- **Present a collective approach to maintain the momentum generated in Geneva and further advance the negotiations in agriculture to ensure that the three pillars of domestic support, export competition and market access are dealt with in a balanced and equitable manner.**
- **The reduction of tariffs, elimination of export subsidies and substantial reductions in trade distorting domestic support should ensure the following: (i) that there will be substantial improvement in market access for all products, especially those of interest to developing economies; (ii) that developing economies benefit from special and differential treatment, including not having a disproportionate burden in tariff reductions; (iii) member economies with higher trade-distorting domestic support systems will apply deeper cuts; and (iv) parallel elimination of all forms of export subsidies and disciplines on all export measures will be achieved with equivalent effect at the earliest possible date.**

#### **B. Non-Agricultural Market Access**

Successive multilateral trade rounds have resulted in significant reductions of barriers to trade in industrial products. However, tariff structures are still characterized by tariff peaks, high tariffs and tariff escalation.

ABAC reaffirms its support for the Doha mandate on market access for non-agricultural products that calls for the reduction or elimination of tariffs, including tariff peaks,

high tariffs and tariff escalation, as well as non-tariff barriers in particular on products of export interest to developing economies. An early agreement on the tariff reduction formula and on the product range coverage for NAMA is critical to the success of the DDA.

ABAC welcomes the agreement on the key elements for the framework for establishing modalities in market access for non-agricultural products.

**Recommendations:**

- **Take the lead in the WTO Negotiating Group on Market Access (NGMA) to have the specific outstanding issues identified in the NAMA framework addressed expeditiously, and to develop a specific tariff reduction formula to be used on a line- by-line basis in the negotiations.**
- **Product coverage must be comprehensive without a priori exclusions.**
- **The special needs and interest of developing economies should be recognized, including through less than full reciprocity in tariff reduction commitments.**
- **Take the lead in the NGMA to seek early agreement on the details of sectoral tariff elimination or harmonization initiatives, particularly on products of export interest to developing economies which are consistent with the Doha mandate and the framework for modalities agreed on 31 July 2004.**

### C. Services

Given the importance of services to growth and development in all APEC economies, ABAC urges APEC Leaders to take immediate steps to advance WTO negotiations on the liberalization of trade and investment in services. Even in developing APEC economies, services account for over 40% of GDP. Despite the major contribution of services to GDP, however, most APEC economies are below the world average in terms of their percentage of services exports.

ABAC notes that under the Doha Development Agenda, member economies were to submit initial offers in terms of improving national treatment and market access for trade in services by 31 March 2003. Only 44 WTO members however have submitted their services offers to date, falling short of the number needed to achieve critical mass in the negotiations. Against that background, ABAC commends for APEC Leaders' attention the August 2004 Statement of a Coalition of Services Industry Organizations to APEC on "Putting GATS Back on Track".

In the area of financial services, initial findings of a study commissioned by ABAC of the benefits of financial services liberalization in the region suggest that: (i) the ability to have commercial presence in markets is a high priority; (ii) the willingness of an economy to promote policies to facilitate financial sector adjustment also is extremely important; and (iii) more open markets have been met with a significant increase in productive investment in the financial sector from within economies and from neighboring economies. Such investment has the potential for broader economic expansion and employment growth. (The report on the "Benefits of Financial Market Liberalization" is available on the ABAC website at [www.abaconline.org/library.php](http://www.abaconline.org/library.php).)

### **Recommendations:**

- **Move quickly to table services offers in advance of the new May 2005 Doha Development Agenda deadline to bring balance to the negotiations.**
- **Collectively develop, in the WTO, rules to improve transparency of domestic regulations.**
- **Give immediate attention to the following priority areas within the services negotiations:**

#### **Movement of natural persons**

- **Take steps to improve transparency with respect to visa procedures and establish clear criteria for the application of economic needs tests.**
- **Review and clarify current visa and immigration policies, and simplify and speed up procedures for approving and processing entry visas.**
- **Support proposal for a General Agreement on Trade in Services (GATS) Work Permit or other fast-tracking procedure to enable certain types of employees to enter a jurisdiction temporarily to work for subsidiaries or on contracts for the supply of services.**

#### **Recognition and regulation of professional standards**

- **Support further GATS work on 'equivalence' in the context of mutual recognition of qualifications, technical standards and licensing requirements.**

- **Strengthen regulatory frameworks for the licensing of services professionals.**
- **Strengthen developing economies' capacity for domestic services regulation through technical assistance and their participation in international standards activities for services industries.**
- **Take steps towards the development of a mutual recognition initiative on professional credentials for key services industries within APEC economies, as a means of advancing progress on this critical issue.**

#### **Financial Services**

- **Establish a public/private sector task force to identify best practices in financial services liberalization and to identify economy-specific capacity building needs.**

#### **Additional Services Sectors**

- **Make comprehensive commitments in additional services areas such as energy, environment, and courier/express delivery services.**

### **D. Trade Rules**

Trade defense instruments are increasingly taking center stage in recent years because they have been used arbitrarily to protect domestic industries from foreign competition. ABAC notes with concern the emergence of protectionist trends such as the rise in non-tariff measures in sectors where developing countries are becoming competitive. Investigation of shrimp imports is a recent example affecting developing economies in the region.



Anti-dumping measures, in particular, have a chilling effect on trade as anti-dumping investigation impose costs to both producers and traders; and have become a source of trade disputes. ABAC is increasingly concerned that as more member economies actively use anti-dumping measures, divergences among members exist in the interpretation and application of rules in the Anti-Dumping Agreement (ADA), thus resulting to the arbitrary application of anti-dumping measures. Thus, ABAC strongly supports the Doha mandate to clarify and improve disciplines under the ADA, while preserving the basic concepts, principles and the effectiveness of the Agreement and its instruments and objectives.

**Recommendation:**

- **Support revisions to clarify and improve the rules and disciplines on anti-dumping and subsidies to: (i) prevent the use of abusive and excessive anti-dumping measures; (ii) avoid excessive burdens on respondents; and (iii) enhance the transparency, predictability and fairness of the system in the WTO Doha Round.**

**E. Trade Facilitation**

With the lowering of tariffs across the globe, the cost of complying with customs formalities has been reported to exceed in many instances the cost of duties paid. In the modern business environment of just-in-time production and delivery, traders need fast and predictable release of goods. Despite many advances however, traders are still confronted with severe obstacles in moving goods across borders.

ABAC believes that trade facilitation is a critical component of ensuring that the benefits from greater market liberalization are fully realized. ABAC takes note of the important contribution that initiatives like the Trade Facilitation Alliance and encourages businesses within the region to participate.

The introduction of clear, transparent and uniform multilateral rules on trade facilitation will bring greater certainty, reduce costs and delays, and provide more competitive import and export conditions for industry and business. Such multilateral rules however, should be complemented by capacity building efforts to help developing economies meet the regulatory and infrastructure requirements of compliance with these new obligations. ABAC therefore strongly supports the recent decision of the WTO General Council to commence negotiations on the basis of the modalities set out in the new framework on trade facilitation.

**Recommendations:**

- **Leverage APEC's trade facilitation agenda to bring definition to the WTO negotiations on trade facilitation with a view to:**
  - **Concluding a comprehensive and binding agreement devoted solely to trade facilitation within the WTO framework which would incorporate existing General Agreement on Tariffs and Trade (GATT) provisions relating to certain elements of trade facilitation.**
  - **Ensuring capacity building assistance continues to be provided to WTO developing members, with a phase-in period for any new trade facilitation disciplines that are agreed.**

### **ABAC Statement on APEC Advancing Trade Facilitation at the WTO**

On 31 July in Geneva, WTO members made a historic decision to move the Doha Round forward. WTO members agreed to a framework package that includes negotiations in such areas as agriculture, non-agricultural market access, services, and trade facilitation. ABAC members were heartened to see trade facilitation included in the negotiations as this has the potential to dramatically lower transaction costs even as tariff barriers are lowered.

As ABAC welcomes the agreement to launch multilateral trade facilitation negotiations at the WTO, it encourages APEC members to actively support the Doha Work Program of 31 July. Achieving an agreement on trade facilitation will require a pledge from Leaders, Ministers, and Senior Officials to work constructively, with a focus on achieving commitments in a manner consistent with the modalities contained in Annex D to the Doha Work Program. These commitments should include those on: transparency, efficiency, simplification, non-discrimination, procedural fairness, cooperation and capacity building.

- *Transparency* - making available and accessible necessary information on laws, regulations, policies and procedures and standards.
- *Efficiency* for traders and authorities, allowing the means for effective use of administrative resources while providing an environment for full participation in today's global just-in-time economy.
- *Simplification* of standards, rules and procedures, leading to reduced costs and improved compliance.
- *Non-discrimination* of rules and procedures to ensure confidence and stability.
- *Procedural Fairness* to ensure certainty and protect against arbitrary decisions.
- *Cooperation* between government authorities and the trading community, allowing policies to be implemented and administered more easily and effectively.
- *Capacity building* and longer time frames to enable all members to meet compliance requirements.

The launch of trade facilitation negotiations provides a real opportunity for APEC members to work to reduce customs barriers that impede the movement of goods throughout the region and the world. ABAC looks forward to working with APEC members in progressing the negotiations, and will be pleased to participate in projects and initiatives developed to support a strong and commitment-based trade facilitation agreement.

## II. Reinvigorating APEC's Trade and Investment Liberalization and Facilitation Agenda

The Bogor Goals are the cornerstone of APEC's trade and investment liberalization and facilitation (TILF) agenda. It is a commitment that has been constantly reaffirmed by the APEC Leaders. Yet, it appears increasingly unlikely that the 2010 deadline set for developed economies to achieve the Bogor Goals of free and open trade and investment will be met. This is a major concern to ABAC since it goes to the heart of APEC's credibility as a regional economic cooperation forum.

### A. Regional Trading Arrangements/Free Trade Agreements

The trend amongst APEC economies to forge regional trading arrangements (RTAs)/free trade agreements (FTAs) is also a cause for concern. Many of these RTAs/FTAs fall short of the Bogor Goal commitments of APEC member economies in terms of timelines and comprehensiveness.

These agreements, while enhancing trade relations and opening economies, may also have the potential to impose additional transaction costs on business, due to the challenges of navigating this multiplicity of RTAs/FTAs.

#### **Recommendation:**

- **Ensure that RTAs/FTAs serve as 'building blocks' toward the achievement of the Bogor Goals by developing and adopting Best Practices for RTAs/FTAs in the APEC region with key principles, including**

**consistency with WTO rules and procedures, with the Bogor Goals, and with other APEC principles such as those that apply to competition, regulatory reform, investment, government procurement and trade facilitation. The APEC Common Understanding on RTAs, developed by PECC, provides a useful reference in the development of these principles.**

### B. A Call for Bold, New Initiatives

ABAC believes that APEC must take urgent steps if it is to maintain the integrity of its trade and investment liberalization and facilitation agenda. It is ABAC's view that APEC will not achieve the Bogor Goals unless it adopts a much more ambitious and proactive approach to its TILF agenda.

This year, ABAC has examined a number of new proposals aimed at reinvigorating APEC's TILF agenda. One such proposal would call for APEC to redouble its efforts on the various trade facilitation initiatives and combine them under a single banner with a new and parallel agenda of complementary trade and investment reforms, which go beyond the WTO. The aim of this proposal is to set an ambitious over-arching agenda oriented to achieving an integrated regional market in the Asia-Pacific, in which business can operate freely anywhere in the region. Such a proposal would serve to reinvigorate APEC's trade and investment facilitation initiatives to generate greater momentum for reform and ensure more progress towards the Bogor Goals. (The discussion paper on "A 'Single Market Agenda' for Asia-Pacific", subsequently renamed Trans-Pacific Business Agenda, is available on the ABAC website at [www.abaonline.org/library.php](http://www.abaonline.org/library.php).)

**Recommendation:**

- **To expand upon the proposal for an integrated regional market, ABAC calls on APEC Leaders to undertake a joint scoping study with a view to launching by the 2005 APEC Leaders Summit an ambitious new Trans-Pacific Business Agenda.**

Another option which ABAC explored in detail this year, was a proposal for a Free Trade Area of the Asia-Pacific (FTAAP). While requiring strong political commitment from the leadership of APEC economies, a successfully negotiated region-wide agreement might have the potential to bring significant economic benefits to the region as a whole, while serving to accelerate progress toward achievement of the Bogor Goals and full global liberalization in the WTO. The objective of an FTAAP also holds the promise of minimizing the possible ill effects associated with the increasingly complex web of RTAs/FTAs in the APEC region.

Clearly, more work is needed to explore the pros and cons of an FTAAP and to consider in more detail the design features of such a region-wide trade agreement. Such factors include: a minimum number of economies participating, product coverage, implementation timetable, rules of origin, services and investment elements, safeguard provisions, anti-dumping procedures, government procurement, facilitation measures, intellectual property and dispute settlement mechanisms. (The issues paper on the proposal for an FTAAP is available at the ABAC website at [www.abaconline.org/library.php](http://www.abaconline.org/library.php).)

**Recommendation:**

- **Agree in Santiago in 2004 to further examine the feasibility and potential scope and features of an FTAAP. This process could be conducted by a high-level task force, which should be fully representative of APEC economies, and include government representatives as well as business and academic experts. Its task would be to examine the FTAAP concept in more detail with a view to presenting a report to APEC Leaders in 2005, taking into account the results of APEC's mid-term review and on-going progress in the WTO negotiations.**

### **III. Coping with New Challenges for Trade and Investment**

#### **A. APEC Trade Facilitation Action Plan**

ABAC participated at the Expanded Dialogue on Trade Facilitation held in Santiago, Chile on 1 October 2004 to present its views on the progress achieved by APEC on trade facilitation as well as on possible benchmarks for the measurement of the five percent reduction in transaction costs. ABAC submits the following recommendations on specific areas of the APEC Trade Facilitation Action Plan.

**Recommendations:**

#### **Customs**

- **Undertake a review of customs procedures in each economy with a view to identifying specific areas where time and costs of movement of goods can be reduced, including streamlining procedures for low-risk transactions,**

further automation of customs documentation, enhanced transparency, and reduction of physical inspections with the application of new technology.

- Adopt the “Time required for release of goods – time taken between the arrival of goods at seaports/airports and their release (customs’ permission)” as one of the objective criteria to measure the effect of various actions and measures on trade facilitation in APEC.

#### Standards and Conformance

- Build on existing programs to undertake detailed independent assessments of the standards and conformance infrastructure currently existing in each APEC economy with the objective of identifying weaknesses and shortfalls to be overcome, and recommending and planning actions to rectify them.
- Urge Ministers to continue to press the issue over the potential trade restricting effects of the EU’s proposed new system for the registration, authorization and evaluation of chemicals (REACH).

#### Mobility of Business People

- Participating economies in the APEC Business Travel Card (ABTC) scheme that have not yet implemented the scheme are encouraged to do so at their earliest convenience; while member economies that have not yet joined should join in the shortest possible time.

- Urge member economies to make a concerted effort to publicize the benefits of the ABTC scheme to the business community and to enhance understanding of immigration officers concerning the system and the operation of the scheme.

- Coordinate the standardization of technology requirements and enhance the harmonization of immigration procedures in order to further facilitate the mobility of business people in and around the region.

- Make concerted efforts to identify and solve operational problems, and provide capacity building for smooth implementation.

- Ensure data privacy protection in handling personal information, particularly with the requirement of certain economies for airlines to submit their passenger and crew manifests under the Advanced Passenger Processing (APP) system and the Advanced Passenger Information System (APIS).

- Proactively consult with the business sector in discussing rational cost sharing, both in terms of dollars and time, for strengthening immigration control in order not to disproportionately burden the latter in meeting security requirements.

#### B. Trade and Security

The new security environment has brought additional costs to businesses in the APEC

region associated with the need to achieve higher levels of security in the trading system. These compliance costs could jeopardize APEC's commitment to reduce trade transaction costs by five percent by 2006.

Developing APEC economies face particular challenges in adapting to the new security environment, due to a lack of sufficient financial and technical resources, which may render the region's entire security chain vulnerable.

Building upon the Bangkok security commitments, ABAC has identified a number of priority areas for action by APEC economies.

**Recommendations:**

- **Make available as much information as possible to their business communities on rules and procedures associated with new security initiatives. Authorities in all APEC economies should clearly report on the steps they are taking to communicate and consult with their business communities on the impact of these new security arrangements.**
- **New security requirements should be transparent and not be applied in a manner which could constitute a means of discrimination between economies where the same conditions prevail nor be a disguised restriction on international trade.**
- **Report on efforts to comply with new key security measures such as the International Ship and Port Security (ISPS) code and 24-Hour Advance Manifest presentation through the electronic Individual Action Plans**

**(e-IAPs). Other new security-driven initiatives should be harmonized as far as possible on the basis of international standards and employing mutual recognition arrangements for testing conformity.**

- **Cooperate with each other and in partnership with business to provide technical assistance and to exchange information on best practices associated with the adoption of new security measures. In order to assist developing economies in the region to comply with the new requirements – thus strengthening "weak links" in the security chain – APEC should seek to identify specific capacity building programs including training opportunities for APEC customs officials in implementing and maintaining security systems.**
- **Work with the region's business community in developing tools to measure possible efficiency gains due to the adoption of new security-driven technologies and procedures, which may have resulted in the reduction of transaction costs and will contribute to APEC's five percent target. ABAC proposes that a study be undertaken in 2005 to measure the impact of the new security environment on trade transaction costs.**

**C. Investment Facilitation**

ABAC highlights the crucial importance of long-term cross-border investments, particularly foreign direct investment (FDI), in promoting economic growth in the region. ABAC notes that APEC economies are pursuing

a number of measures to facilitate the flow of investments in the region. These include reducing impediments to investments, implementing business facilitation measures to strengthen APEC economies, and initiating investment promotion and facilitation activities. ABAC urges consideration of additional measures to further facilitate investment flows in the region.

**Recommendations:**

- **Strengthen protection of intellectual property rights (IPRs), *inter alia*, enforcement of IPRs by promoting cooperation among enforcement agencies in the region.**
- **Strengthen functioning of markets with robust economic legal infrastructure through the development of effective insolvency and creditors' right systems.**
- **Take concerted efforts to develop a common accounting framework, in line with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), giving due consideration to the situation of markets and the views of the private sector.**
- **Implement effective environmental protection policies aimed at fostering recycling-based economy which creates new jobs, facilitates technology transfer, and develops new industries thus contributes to sustainable development of the region.**
- **Enhance transparency in investment-related regulations and procedures, particularly through the implementation**

**of the APEC Transparency Standards and measures to reduce/eliminate corruption and improve administrative efficiency.**

**D. E-Commerce**

**1. Privacy**

ABAC recognizes and applauds the efforts made by economies to develop the APEC Privacy Framework that encourages the development of common, effective privacy protections and ensures the free flow of information in the region. The goal of the implementation phase is to create a streamlined approach in the APEC region for approving and recognizing organization-wide rules such as Codes of Conduct concerning privacy protection. This approach would ensure that Codes of Conduct recognized in one APEC member economy are recognized by other APEC economies. Codes of Conduct would also eliminate the cost and uncertainty that arise as a result of the administration of complex contractual arrangements across a global enterprise and would permit a code recognized by one APEC economy.

**Recommendations:**

- **Ensure that the set of core agreement contained in the APEC Privacy Framework are adopted and implemented by all member economies and look to develop an implementation mechanism.**
- **Ensure the core privacy agreement reflected in the final APEC Privacy Principles must remain consistent across all member economies in order for companies to devise meaningful**

**global privacy solutions for their cross border data transfer/transactions.**

- **Promote Codes of Conduct, as part of the implementation mechanism, as one of the methods to implement the APEC Privacy Agreement.**

## **2. Paperless Trading**

Paperless trading has direct benefits in the reduction of transaction costs, achieves both facilitation and security, and meets APEC's Trade Facilitation goals.

To date, fifteen economies have prepared Paperless Trading Individual Action Plans. These IAPs outline the steps APEC economies are taking to meet APEC's target to reduce or eliminate the requirement for paper documents needed for customs and other cross-border trade administration and other documents and messages relevant to international sea, air and land transport, that is, "Paperless Trading" (for trade in goods), where possible, by 2005 for developed and 2010 for developing economies, or as soon as possible thereafter.

ABAC recognizes the good work done by the subgroup and will work to bring this to the attention of businesses around the Asia-Pacific region, highlighting the opportunity for business input in this effort.

### **Recommendation:**

- **Encourage all APEC economies to participate in the work of the sub-group for greater input.**

## **IV. Strengthening Financial Systems in the APEC Region**

ABAC's focus this year, continues to develop from the platform established over recent years to strengthen financial systems and to deepen capital markets – and in particular bond markets – but also considers some newer challenges for the region arising from international agreement to implement new accounting standards. ABAC believes that more efforts are needed to help vulnerable economies in APEC deal with the potential adverse implications of volatile short-term capital movements.

The improving global outlook presents an excellent opportunity to press on with and indeed to accelerate reforms to financial systems, to improve financial system security and, against the background of the recent breakthrough in the WTO Doha Development Agenda, to take major initiatives to promote financial services liberalization in the Doha Round.

The Advisory Group on APEC Financial System Capacity Building (jointly developed by ABAC and PECC) has developed a number of recommendations to enhance the skills and the institutional frameworks in both the public and private sectors. ABAC proposes to continue to focus efforts to build capacities in the clear knowledge that even if best policies and practices are adopted across the region and across all major sectors, there is little hope for their successful implementation unless human skills and sound policy frameworks are in place.



## A. Strengthening Financial Systems

### 1. Measures to Support the Implementation of Basel 2

There is wide support, including from the Asian Bankers' Association, for the new Basel 2 capital accord to strengthen banking systems through the promotion of sound risk management practices. While some economies will not be in a position to implement Basel 2 till some years after its implementation (late 2006), banks are intending to adopt and develop risk management systems to eventually qualify for the advanced risk management approaches under Basel 2. There is a welcome trend by regulators to move toward risk-based management supervision. Against the failure of some supervisory regimes evident in the Asian financial crisis, ABAC strongly endorses and supports these supervisory developments. There is increasing emphasis in risk management supervision in the insurance sectors and in other financial sectors and indeed in the corporate world. Increased cooperation between regional regulators and with relevant international agencies, in particular the Bank for International Settlements (BIS), should be pursued and support given to capacity building initiatives to support the implementation of Basel 2 in banking and improved regulatory arrangements in other financial sectors.

#### **Recommendations:**

- **Endorse the implementation of Basel 2 in the region's banking systems and increase the capacities and resources of regulatory agencies to support the implementation of Basel 2 standards,**

**and to improve regulatory standards in other financial sectors.**

- **Endorse measures to increase cooperation between regional regulators, relevant multilateral and regional agencies and private financial groups to implement Basel 2.**

### 2. Promote Domestic and Regional Bond Markets

APEC economies stand to greatly benefit from having deep, liquid and robust capital markets with bond markets as the integral component facilitating long-term financing and yield structures, vital for a diversified financial system by widening investor and borrower opportunities. Bond markets lessen the vulnerability to crises by diversifying financial sources and by reducing currency and maturity mismatches. ABAC has consistently supported efforts to develop domestic and regional bond markets and in response to a call by APEC Finance Ministers at their last meeting in Phuket for further private sector advice on the subject, ABAC and PECC jointly organized a major conference of experts and practitioners from a wide range of institutions active in regional and global bond markets. The conference, held in Taipei in May, yielded valuable insights and recommendations to develop and strengthen domestic bond markets and the emergence of regional market, including important capacity building initiatives that will be needed to support these objectives. (The Executive Summary of the report of the Conference is included as an attachment to this Report and the full report is available on the ABAC website at [www.abaconline.org/library.php](http://www.abaconline.org/library.php).)

### **Recommendations:**

- **Endorse the implementation of the conclusions and recommendations arising from the ABAC/PECC Taipei bond market conference, as contained in the conference report.**
- **As an initial step toward the implementation of the recommendations, concerned APEC economies should adopt the template proposed by ABAC to undertake a self-assessment, in consultation with the private sector, on the institutional structures and other conditions for the development of bond markets. This to help ABAC identify priority areas for regional capacity building efforts.**

### **3. Measures Relating to Development of International Accounting Standards**

ABAC supports convergence to and early adoption of The International Financial Reporting Standards as proposed by the International Accounting Standards Board. However, complex issues remain for jurisdictions and firms in interpreting the concept of "fair value" and in comprehensive income reporting, and there is considerable potential liability of company directors and others who may unwittingly, incorrectly interpret financial reporting requirements. These risks are real, particularly in the light of more exacting legal requirements in some jurisdictions. A significant number of APEC emerging economies are not represented on IASB and they have had little or no input into the development of IFRS. Coordination within the region would therefore be helpful in promoting convergence.

### **Recommendations:**

- **Promote convergence to and early adoption of the IFRS as contributing to improved accounting measures and to supporting capital flows between economies.**
- **Promote a regional forum of domestic accounting standard-setting bodies to help expand regional inputs into the development of global standards and to encourage the convergence to those standards, including through appropriate capacity building initiatives.**

### **4. Policies to Deal with the Adverse Consequences of Volatile Short-Term Capital Flows and Highly Leveraged Institutions**

Significant benefits arise from increases in capital flows to emerging markets. While there is a general risk to the level of flows because of rising interest rates, this should be accommodated through a relatively smooth market adjustment. Of continuing concern however are risks associated with short-term capital flows and which may be susceptible to sharp reversals – as occurred in some economies during the Asian financial crisis. There are also risks to financial system stability (in some economies, but potentially across economies) associated with the activities of hedge funds and highly leveraged institutions. Both the Financial Stability Forum (FSF) and the BIS have recently issued commendable recommendations on measures to minimize the impact of adverse consequences of volatile flows and the activities of highly leveraged institutions. The Manila Framework is working to improve monitoring, reporting and disclosure standards on capital flows.

However, because some emerging APEC economies, which may be most vulnerable to risk are not well represented in the FSF and the BIS, ways are needed to ensure that their interests in these international fora are properly reflected.

**Recommendations:**

- **Implement measures recommended by the FSF and the BIS aimed at stabilizing capital flows and ameliorating the impact of highly leveraged institutions and support regional fora such as the Manila framework in developing effective monitoring and reporting standards and disclosure on capital flows.**
- **Require central bank governors of the Asian Consultative Council to request the Council to inform the BIS, FSF and associated groups, of concerns arising from the operation of hedge funds and highly leveraged institutions.**
- **Request the International Monetary Fund (IMF) to ensure effective surveillance of payments developments of particular relevance to APEC's regional economies.**

**5. Strengthening Corporate Governance and Transparency**

ABAC has previously recommended the adoption of the Organization for Economic Cooperation and Development (OECD) Asian Roundtable White Paper priority recommendations to support the strengthening of corporate governance in the region. The International Institute of Finance

(IIF) has proposed that the OECD move from a general set of principles to one that provides more direct guidance to stock exchanges, investors and corporations to emphasize shareholder rights and the APEC seminar in Kuala Lumpur in April noted that serious efforts must be taken to ensure that corporate governance practices meet the challenges brought on by the rapid integration of economies and the intensity of competition. ABAC believes that more major public/private sector coordination is necessary to promote improved governance in the region, involving international agencies, institutes of Directors, business and governments. ABAC proposes "An APEC Regional Public/Private Sector Action Program for the Promotion of Good Corporate Governance and Transparency" and intends to launch the program in a major conference to be organized in 2005.

**Recommendations:**

- **Endorse the IIF recommendations to the OECD to make more explicit its guidelines on corporate governance to strengthen shareholder rights.**
- **Endorse and promote the concept of "An APEC regional public/private sector action program for the promotion of good corporate governance" including the proposal to launch the program at a major conference in 2005.**

**6. Support for the Unidroit Convention on International Interests in Mobile Equipment**

The Convention provides a framework for the creation and enforcement of security and leasing interests in high-value mobile

equipment that move across borders in the ordinary course of business, for example, aircraft, ships, oil rigs, railway rolling stock and space equipment. It will be supplemented by protocols for different categories of Equipment. The Convention came into effect in April 2004, but the "Protocol on matters specific to aircraft equipment," has not yet received the necessary ratifications to give effect to the Convention. In 2002, ABAC recommended that APEC economies support the Convention as an important instrument to reduce risks associated with cross-border financing in contributing to more secure financial systems. Those reasons for supporting the Convention and its associated protocols remain entirely valid.

**Recommendation:**

- **Give priority to ratifying the Unidroit Convention and the related Protocol on matters specific to aircraft equipment, and support the extension of protocols to other categories of mobile equipment.**

**B. Improving Financial System Security**

Previously, ABAC has made a series of recommendations concerning financial system security arrangements to combat money laundering and terrorist financing. ABAC seeks to ensure adequate protection of the bona fide interests of customers and financial institutions within an appropriate legal framework as security policies are implemented, and the maintenance of efficient payment systems. There is a need to deepen consultation between the public and private sectors and to raise broader understanding of financial system security

issues, and the OECD/Asian Development Bank (ADB) Anti-Corruption initiative and action plan, at both the Chief Executive Officer (CEO) level in financial institutions and non-financial institutions and at operational level with regulators and officials. ABAC is working with the Asia Pacific Group (APG), based in Sydney, to explore areas of cooperation involving the private sector in these matters.

**Recommendations:**

- **Deepen the consultative processes between public agencies and regional and international bodies with private sector groups to ensure the development of practical and market efficient anti-terrorist funding, anti-money laundering and anti-corruption measures, backed by relevant legal safeguards to protect the bona fide interests of institutions and their customers and to ensure efficient payments systems.**
- **Endorse joint ABAC/APG initiatives to raise high level corporate awareness of these issues and to develop appropriate capacity building initiatives.**

**C. Enhancing Regional Financial System Capacity Building**

ABAC and PECC have launched the Advisory Group on APEC Financial System Capacity Building to provide guidance and advice on the most effective ways of involving the private sector in support of identified capacity building needs. Relevant international financial institutions are invited to participate to ensure consistency in needs' identification and to avoid duplication in programs. The Advisory Group

is focusing on initiatives which involve private sector institutions – some of which provide specialist training resources on a pro bono basis. Some initiatives are impeded by lack of funding – mainly in regulatory agencies – to cover the costs of accommodation and travel to allow their officials to participate in APEC sponsored programs. Some modest financial support by emerging APEC economies themselves to contribute to these costs should be encouraged.

ABAC in its mid-term business assessment of APEC proposed high-level coordination to oversee the development and implementation of capacity building initiatives. Given the overwhelming importance of capacity building to realize the Bogor Goals, this proposal should be implemented.

**Recommendations:**

- **Establish a new APEC Ministerial Committee on Regional Technical Cooperation, as recommended in ABAC's mid-term assessment of APEC.**
- **Endorse the role of the Advisory Group on APEC Financial System Capacity Building and encourage economies to allocate funding to regulatory and policy agencies to enable their officials to participate in APEC sponsored programs and which would augment contributions from international and regional agencies and from the private sector.**

## **V. Capacity Building to Face the Challenges of Globalization**

Last year, ABAC endorsed a three-level capacity building framework for identifying capacity gaps in the region in seeking to achieve the

Bogor Goals. This framework is aimed at addressing the need for capacity building at the institutional, organizational and human level within the APEC region. This year, ABAC has identified a number of priority areas aimed at addressing regional capacity building needs at each of these three levels.

### **A. Institutional Capacity Building**

#### **1. Enhance Policy Coherence between Health and Trade**

Increasing international trade and travel have increased the risk of a rapid spread of infectious diseases, posing new challenges to public health. The concern of business is that responses to these new health challenges could be used consciously or unconsciously as impediments to free and open trade and investment.

There is much common ground between trade and health objectives, and health and trade policymakers can benefit from closer cooperation to ensure coherence between their different areas of responsibilities. APEC provides an excellent framework in which capacity building towards ensuring coherence between trade and health policy can be developed and implemented.

Current efforts in the APEC Life Sciences Innovation Forum to promote investment in health and innovative treatments and in the agricultural biotechnology forum are examples of successful convergence of health and trade policy. ABAC supports the establishment of a high-level APEC Health Forum.

### ***Recommendations:***

- **Take steps to enhance greater collaboration between trade and health negotiation delegations within APEC, in which key trade and health issues could be identified and taken into account in the early stage of policy making.**
- **Encourage strong liaison between the APEC Trade Ministerial process and the Health Ministerial meeting for more formal involvement in the APEC structure to ensure compatibility in public health interests with the goals of free and open trade and investment.**
- **Encourage APEC economies' health authorities to take a more proactive and strategic approach to ensure early consideration of public health issues as they relate to trade.**

## **2. Promote Standards and Conformance**

Progress on developing and implementing domestic and international standards has been extremely slow and disappointing and participation in international standards setting bodies is inadequate. Lack of progress in this area continues to hamper achievement of the Bogor Goals and also the targeted five percent reduction in trade-related transaction costs.

### ***Recommendations:***

- **Undertake enhanced capacity building in the area of standards and conformance assessment to ensure an effective standards infrastructure in each APEC economy.**

- **Establish a program of APEC-wide seminars promoting the business case for the adoption and implementation of an internationally recognized standards infrastructure, building on existing programs.**
- **Identify and rectify shortfalls which prevent participation in the activities of international standards setting organizations and to develop adequate capacity building programs.**

## **3. Build Critical Logistics Infrastructure**

As globalization progresses, integration into the global supply chain of vendors, becomes increasingly important. ABAC recognizes various logistics capacity gaps in the region, including poor inland transportation systems, outdated facilities, inadequate maintenance, intricate customs clearance, and poor transparency. Addressing these gaps would foster balanced and equitable economic growth in the APEC region.

### ***Recommendations:***

- **Identify bottlenecks in regional supply chains associated with gaps in cross-border logistics infrastructure.**
- **Enhance the capability of logistics critical infrastructure to resist, respond, and recover from acts of terrorism and piracy. Such efforts could include development of coordinated vessel and cargo monitoring systems in the APEC region.**
- **Promote comprehensive capacity building in critical logistics infras-**

**structure by the international financial institutions and other funding sources.**

#### **4. Strengthen Enforcement of Intellectual Property Rights**

The enforcement of intellectual property rights remains a big challenge in the Asia-Pacific region. There continues to be rampant sale and distribution of counterfeit and pirated goods.

APEC recognizes that strong respect for IPR (including patents, copyrights, trademarks, and design rights) is essential to promote innovation. Throughout the APEC region, much greater cooperation and capacity building is needed to facilitate the recognition of IPR, including as it relates to the digital economy.

##### ***Recommendations:***

**In order to strengthen the enforcement of intellectual property rights, ABAC proposes that APEC economies:**

- **Take steps to further promote cooperation and information exchange between enforcement agencies, including administrative authorities, customs authorities, judges, prosecutors, patent attorneys, and police organizations in the region. These steps should include practical measures to: (i) enhance information-sharing regarding infringement; (ii) strengthen the capacity of APEC member economies to address new and emerging forms of IP-related crimes through policy development, legislative measures, training activities, and allocation of sufficient resources for enforcement; and (iii) increase cross-**

**border collaboration at the operational level.**

- **Make all capacity building programs and toolkits available in the languages of developing member economies so that as many people as possible can participate in the programs. ABAC believes that the private sector in the region can contribute to the capacity building efforts of APEC member economies given their advanced technologies, experiences and human resources.**

- **Make IPR-related laws, regulations, judicial decisions and actions taken by member economies available in English. Comparing such information published by member economies will help identify areas where capacity building is necessary and will improve business confidence on the protection of IPR in the region.**

- **Explore measures in the coming months such as APEC regional IPR cooperation and harmonization that will foster greater innovation and diffusion of new technologies.**

#### **B. Organizational Capacity Building in the Services Sector for SME Development**

Despite the importance of services SMEs, many governments and business associations in the APEC region have overlooked their contribution and have not adequately taken into account the needs of small services companies when developing their policies and programs. ABAC believes that there is a need for greater awareness in all APEC

economies of the important role of SMEs in services trade – and greater capacity building efforts by governments and business associations alike to support services SMEs.

This year, ABAC undertook a survey of all APEC economies to determine what governments and business associations in the region are currently doing to support SMEs in the services sector. Based on these findings, which were presented to APEC SME Ministers, ABAC is able to offer the following key recommendations. (The final report on ABAC's survey on services SMEs in the APEC region is available on the ABAC website at [www.abaconline.org/library.php](http://www.abaconline.org/library.php).)

#### **Recommendations:**

- **Set targets for increasing services trade by SMEs, such as doubling the number of SME service exporters in each APEC economy by 2007.**
- **Improve reporting on services data within APEC, including adding services trade data to the Economic Indicators on APEC's website; launching an initiative, in partnership with business associations, to identify which services are being traded between which APEC markets; and analyzing administrative data in existing business registers in the APEC region.**
- **Provide technical assistance to APEC developing economies on services exporting, including analysis of services exporting capacity and identification of priority services for export promotion, training of SMEs in successful services exporting, training to business associations and trade**

**promotion agencies on how to assist SME service exporters, regional networking of associations in support of SME service exporters, and training of government services trade negotiators to link export capacity in negotiating strategies.**

- **Build regional best practice networks to support SME services trade by establishing a network of SME services exporting focal points/champions in each of the APEC economies, with the responsibility of reporting each year to the APEC SME Ministerial.**
- **Give priority in both the WTO and APEC to addressing barriers to SME services exporting.**

#### **C. Human Capacity Building in Development of an APEC Business Schools Network**

There is a need to provide quality training in leadership and management best practice for APEC regional executives and professionals.

The promotion of the English language throughout the region as the business language of choice is a fundamental aspect of intra-regional communications on APEC-related subjects.

ABAC applauds APEC Education Ministers' endorsement of the concept of an "APEC Business Schools' Network (ABSBN)" that would aim to build partnerships among regional tertiary/training institutions; foster mutual recognition of qualifications (especially MBA degrees); encourage academic and educational exchanges; develop common standards; share resources; identify best



practices; enhance career prospects; and, strengthen the place of English as the regional medium for training and business intercourse.

To date, eight member economies have nominated fourteen business schools to be founding members of the ABSN.

**Recommendation:**

- **Encourage more economies to nominate one or more business schools to be founding members of ABSN.**

## **VI. Enhancing the Effectiveness of APEC**

Noting that the landscape facing APEC economies has changed dramatically since the establishment of the Bogor Goals of free and open trade and investment in 1994, ABAC undertook a review in 2003 of APEC's progress. ABAC found that while there was progress in a number of areas, much more needs to be done. This conclusion carries a disturbing message that, without a strong new and concerted APEC resolve to succeed, the achievement of the Bogor Goals will be under threat.

ABAC believes that it is timely for APEC to take steps to enhance the effectiveness of the APEC process, ensure its continuing relevance, and advance the Bogor Goals. In particular, APEC should strengthen its implementation mechanism, including by improving the clarity and specificity of IAPs and promoting greater use of pathfinder initiatives. The coming APEC mid-term review scheduled for 2005 would be an opportune time to do this.

ABAC offers a number of specific proposals where implementation of APEC commitments could be strengthened.

### **A. Formal Feedback Mechanism**

ABAC urges APEC economies to put in place a system of formal feedback to ensure that its recommendations are fully evaluated and to facilitate the preparation of subsequent ABAC recommendations.

**Recommendations:**

- **Designate relevant APEC fora to evaluate ABAC recommendations.**
- **Provide ABAC the list of APEC fora responsible for implementing ABAC recommendations by the end of the Informal Senior Officials' Meeting, usually held in December of each year.**
- **Provide a written response on the evaluation of ABAC recommendations by the second ABAC meeting of each year. Where an ABAC recommendation cannot be implemented, an explanation should be made available to ABAC.**
- **Stress the importance of ABAC recommendations in each member economy.**

### **B. APEC Non-Binding Investment Principles**

ABAC recognizes the benefits of investment liberalization and the necessity of measures to cope with various problems regarding investment issues faced by the private sector in the APEC region. Currently, the APEC Non-Binding Investment Principles (NBIP) serve as the framework for strengthening the efficiency of investment administration, eliminating investment obstacles, and establishing a free and open investment environment in the

region. Acknowledging that greater predictability for investors will lead to the expansion of investment inflows, ABAC made an assessment of the NBIP with the view to improving the environment for cross-border investment. The review process gave due consideration to WTO rules (limited to the GATS and the Agreement on Trade-related Aspects of Investment Measures (TRIMS)), provisions of bilateral and regional trading arrangements entered into by member economies, and the differences in the stages of economic development of APEC member economies.

**Recommendations:**

- **Amend or clarify the wordings of the NBIP particularly in the areas of: (i) transparency; (ii) non-discrimination between source economies; (iii) national treatment; (iv) performance requirements; (v) repatriation and convertibility; (vi) entry and sojourn of personnel; (vii) avoidance of double taxation; and (viii) removal of barriers to capital exports.**

- **Add a new principle concerning intellectual property rights.**

- **Provide the following definition of “investment” in order to clarify the Principles:**

*“For the purpose of these Principles, the term “Investment” means assets directly or indirectly owned or controlled by investors, and includes direct investment, rights conferred under contracts, and intellectual property rights. It shall exclude short-term financial transactions for speculative purposes. Direct*

*investment shall comprise investment undertaken by foreign investors for the purpose of permanent profit. In accordance with the IMF definition, direct investment shall mean those investments where ratio of stocks and other holdings by foreign investors, comprising stock capital, reinvested profit, capital related to borrowing between companies, or other capital is ten percent or more of the total capital.”*

- **Implement the APEC Non-Binding Investment Principles as a Pathfinder Initiative.**

**C. Anti-Corruption in Government Procurement**

Corruption is a scourge that undermines good governance, erodes the rule of law and hampers economic development. Given that the perverse economic impact of corruption is large enough to derail fair trade, ABAC believes that this needs to be addressed forcefully by governments and businesses in the APEC region.

**ABAC recommends that APEC governments:**

- **Commit in Santiago to adopt an APEC Convention on Combating Bribery of Foreign Public Officials in International Business Transactions at their 2005 Summit consistent with the UN Convention on Anti-Corruption, which would be binding on participating economies. The following measures to actively combat bribery should be incorporated in the convention:**

- **Ensuring the existence of domestic legislation with dissuasive sanctions which effectively and actively**

**combat the offence of bribery of public officials.**

- **Ensuring the existence and effective enforcement of anti-money laundering legislation that provide for substantial criminal penalties for the laundering of the proceeds of corruption and crime consistent with the law of each economy.**
- **Ensuring the existence and enforcement of rules to ensure that bribery offences are thoroughly investigated and prosecuted by competent authorities; these authorities should be empowered to order that bank, financial or commercial records be made available or be seized and that bank secrecy be lifted.**
- **Strengthening of investigative and prosecutorial capacities by fostering inter-agency cooperation, by ensuring that investigation and prosecution are free from improper influence and have effective means for gathering evidence, by protecting those persons helping the authorities in combating corruption, and by providing appropriate training and financial resources.**
- **Strengthening bilateral and multilateral cooperation in investigations and other legal proceedings by developing systems which – in accordance with domestic legislation – enhance (i) effective exchange of information**

**and evidence, (ii) extradition where expedient, and (iii) cooperation in searching and discovering of forfeitable assets as well as prompt international seizure and repatriation of these forfeitable assets.**

- **Develop other specific anti-corruption initiatives. These could include expanding APEC’s current peer review of government procurement regimes to include an examination of the existence and performance of anti-corruption legislation and encouraging all APEC economies to redouble capacity building efforts to promote transparency in government procurement activities.**

Efforts by government to end corruption, however, cannot succeed without the active support of business. Together with government, business has a leadership role in developing and implementing anti-corruption principles and practices. ABAC members, as leaders of Asia-Pacific business, have pledged to operate their businesses with the highest level of integrity and ethics. Further, they have agreed to work within their own economies to foster the development of anti-corruption principles and practices.

To support ABAC’s efforts in the fight against corruption, ABAC urges Leaders to encourage businesses to adopt the following principles:

- ❖ The enterprise shall prohibit Bribery in any form.

Bribery (“Bribery”) is the offering, promising or giving, as well as demanding or accepting, of any

undue advantage, whether directly or indirectly in order to obtain, retain or direct business or to secure any other improper advantage in the conduct of business.

- ❖ The enterprise shall commit to the continuation or implementation of an effective Program to counter Bribery.

An enterprise should develop a Program that clearly and in reasonable detail articulates values, policies and procedures to be used to prevent Bribery from occurring in all activities under its effective control.

#### **Scope and Guidelines**

##### *Bribes*

The enterprise should prohibit Bribery in all business transactions that are carried out either directly or through third parties, specifically including subsidiaries, joint ventures, agents, representatives, consultants, brokers, contractors, suppliers or any other intermediary under its effective control.

##### *Political contributions and charitable contributions*

The enterprise, its employees or intermediaries should not make direct or indirect contributions to political parties, party officials, candidates or organizations or individuals engaged in politics, as a

subterfuge for Bribery and all political contributions should be transparent and made only in accordance with applicable domestic law. The enterprise should ensure that charitable contributions and sponsorships are not used as a subterfuge for bribery and all charitable contributions and sponsorships should be transparent and made in accordance with applicable domestic law.

##### *Facilitation payments*

Where facilitation payments are prohibited under the anti-bribery laws of an economy, enterprises should support their identification and elimination.

##### *Gifts, hospitality and expenses*

The enterprise should prohibit the offer or receipt of gifts, hospitality or expenses whenever such arrangements would be in violation of applicable domestic law.

In addition, ABAC urges greater priority attention to be given to a number of initiatives where implementation has been inadequate.

#### **D. Multilateral Agreement on the Liberalization of International Air Transportation – Cargo**

In 1999, ABAC recommended that Leaders implement the eight steps for more competitive air services, and identify and implement further steps toward liberalization of air services in line with the Bogor Goals.

APEC Leaders agreed to support the Council's recommendations in the Auckland Declaration in 1999.

**Recommendation:**

- **Support liberalization of aviation by endorsing participation of APEC economies in the Multilateral Agreement on the Liberalization of International Air Transportation on an all-cargo basis. Urge APEC economies to further support implementation of the eight steps.**

**E. APEC Food System**

The Third APEC Senior Officials' Meeting (SOM III) in 2003 commissioned the Agricultural Technical Cooperation Working Group to "organize a high-level dialogue on rural poverty, food safety, food security, trade, rural development, sustainable agriculture, natural resource conservation, multi-functionality of agriculture and impediments to agriculture and food production." ABAC is aware that a meeting of some APEC Ministers for Agriculture was held on the margins of the World Agriculture Forum during 2003.

**Recommendations:**

- **Urge Ministers of Agriculture to meet in the Summer of 2005; one economy to offer to host.**
- **Urge one or more APEC ministers of agriculture to offer to "champion" the process to implement the APEC Food System.**

- **Ask PECC to provide a stocktake on progress to date with the APEC Food System, and carry-out an assessment of trends in food demand in the past five years and projections of demand over the next five to ten years, to be completed by Spring (April) 2005.**
- **Urge the World Bank to consider ways of assisting developing APEC economies adjust to the full implementation of the APEC Food System, to be advised by Spring (April) 2005.**
- **Declare in Busan in November 2005 that APEC economies will be free of all export constraints – subsidies, embargoes, taxes – by 2010 or earlier.**

**F. Digital Economy**

APEC Ministers agreed on the importance of effective intellectual property protection consistent with existing regimes and international agreements as critical to fuel human genius and creativity, and to promote investment in the creation of culturally diverse materials, and agreed to continue to work under the Digital Piracy Initiative to create the regulatory and enforcement environment needed to eliminate the production, import, export and distribution of pirated optical media. In order to achieve the full benefits of the digital economy, additional work is needed in raising public awareness of the importance of technology choice, IPR protection, and the benefits to be derived from an effective enforcement regime. Under the Leaders' Digital Economy Pathfinder Statement, Ministers instructed officials to continually pursue new work areas in IPR.

### **Recommendations:**

- **Implement the Leaders' Digital Economy Statement adopted in Los Cabos and additional measures adopted in the Bangkok Leaders' and ministerial declarations with a final report for submission to Ministers Responsible for Trade next year, which would include:**
  - **The Comprehensive Strategy on IPR in APEC and the Digital Piracy Initiative, specifically to stop optical disk piracy.**
  - **The formation of demand-driven capacity building projects that would help developing economies benefit from digital trade.**
  - **Providing information on enforcement practices to enable a final report on Enforcement Best Practices in the APEC Economies to Combat Optical Disk Piracy to be submitted to Ministers.**
  - **Allowing technology choice for governments, businesses and consumers, including through the development, adoption and implementation of the technology choice policy principles supporting government procurement based on value and merit; the use of voluntary, industry-led, and where appropriate, international technology standards developed consistent with international practice.**
- **Raising public awareness of the importance of technology choice, IPR protection and the benefits to be derived from an effective enforcement regime.**
- **Both this year and next, explore updating the APEC Digital Economy Statement or other relevant APEC instruments, as appropriate, to incorporate the full range of policies necessary to promote digital trade, innovation, inclusion, accessibility, security, safety, integrity and investment regime.**

### **G. Security of Energy Resources**

Energy is the critical foundational resource for growth and development, and the APEC region is expected to experience tremendous growth in energy needs as the economies in the region more than double in size by 2020. This growth will create a massive demand for energy, and natural gas is increasingly the fuel of choice to meet these rising energy needs. Currently, in addition to producing nearly half the world's liquefied natural gas (LNG) supply, APEC economies account for nearly 3/4 of global LNG imports.

Rising energy prices combined with unstable political and economic environments create a timely and critical need to ensure medium and long-term supply of adequate energy to meet the development needs of the APEC region. APEC economies must have reliable energy sources on which to depend as they serve as the foundation to growth and capacity building. Identifying stable energy sources will not be enough. To meet the growing demand, APEC economies must clarify their

regulatory environments attract major investments in production, transportation, distribution and supply facilities throughout the region.

The single most important trade/investment issue to help expand production supplies is to ensure strong international financing and investment rules, including access to international arbitration to address disputes. Contract sanctity and commitment to rule of law is absolutely key.

ABAC commends the progress made by the APEC Energy Working Group and the APEC Energy Business Network on key energy issues and supports them in their continued efforts to advance energy related initiatives such as energy security and the following areas.

**Recommendations:**

- **Where necessary, clarify regulations and procedures to promote the production, importation, transportation, distribution, and supply of natural gas (piped and liquefied) and other energy sources, with an aim to increase competition for the security of long-term energy resources and to benefit consumers.**
- **Identify critical energy needs and work to ensure that relevant systems and regulations are in place to provide stable energy supply, distribution and storage to economies throughout the region.**
- **Undertake to recognize the availability of stable and reliable energy sources as a critical foundation to all of the Bogor principles and encourage measures that**

**will facilitate private sector financing and investment in the infrastructure necessary to continue and enhance the development process.**

**H. Recycling-based Economy**

Last year, ABAC recommended that APEC promote a recycling-based economy through the implementation of the 3Rs of environmental protection (namely: reduce, reuse and recycle) to cope with the growing environmental challenges in the region. ABAC welcomes the capacity building efforts in this area initiated by the APEC Human Resources Development Capacity Building Network (HRD-CBN). ABAC recognizes that there are still barriers to the international flow of goods and materials to achieve cleaner production by recycling and remanufacturing, since the related legal system and infrastructure are not well developed.


**Recommendation:**

- **Work closely with the G8 Ministerial Conference in spring 2005 with a view to implementing the 3Rs of environmental protection.**

**Conclusion**

It has been a year of greatly increased business attention to trade policy. The Council has worked intensively to carry out its duties of providing timely and relevant advice to APEC.

ABAC reaffirms its full continued support for the WTO negotiations and calls on APEC Leaders to summon with urgency the will to complete the Doha Development Agenda. Much is at stake because the future prosperity



of the Asia-Pacific region hangs on a positive outcome.

ABAC's own work this year has focused on what needs to be done to reinvigorate APEC's agenda and its relevance to business. ABAC believes that the Bogor Goals will not be achieved unless APEC adopts a much more ambitious approach. ABAC observes that increasingly, the will for trade and investment liberalization in the region is being channelled into RTAs/FTAs. While ABAC acknowledges that these arrangements may enhance trade relations between individual economies, ABAC urges APEC Leaders to ensure that they are designed and implemented to serve as 'building blocks' toward the achievement of the Bogor Goals and progress at the multilateral level.

ABAC has also examined a number of new ideas and initiatives. ABAC has tabled a proposal for an ambitious Trans-Pacific Business Agenda and calls for a joint scoping study with a view to launching this initiative

by 2005. ABAC also recommends the establishment of a high level task force to examine a proposal for a Free Trade Area of the Asia-Pacific.

ABAC's work this year also covered a number of other areas that are central to the needs of business and economic prosperity. ABAC had extensive work on trade facilitation and ABAC's contribution to this effort culminated in its chairing of the Expanded Dialogue on Trade Facilitation. ABAC examined the impact of the new security threats on business costs, the need to strengthen financial systems and improved financial security, the importance of building capacity at all levels, the continued relevance of APEC's work on standards and conformance, and the urgent need to address the debilitating effects of corruption on business.

ABAC looks forward to receiving a response to its recommendations and hopes that these would be reflected in the 2004 Leaders' Declaration.





A Conference Jointly Organized by:  
**THE APEC BUSINESS ADVISORY COUNCIL**  
**THE PACIFIC ECONOMIC COOPERATION COUNCIL**  
In Partnership with:  
**The Asian Bankers' Association**  
**The Association of Credit Rating Agencies in Asia**



**DEVELOPING BOND MARKETS IN APEC**  
**MOVING FORWARD THROUGH PUBLIC-PRIVATE SECTOR PARTNERSHIP**

**CONFERENCE REPORT**  
**EXECUTIVE SUMMARY**

During their dialogue with ABAC and the PECC Finance Forum in Phuket, Thailand on September 5, 2003, the APEC Finance Ministers expressed the need for in-depth business sector inputs into their ongoing work on bond market development within the region. In response, ABAC and PECC jointly held a conference with experts and practitioners from a wide range of firms and institutions that are actively involved in the region's bond markets. This conference was held on May 10-11, 2004 in Taipei.

Expert presentations and discussions provided insights into the development of markets and policy measures being pursued in the region. These focused on fundamental operational aspects of bond markets, the legal infrastructure, the role of credit rating agencies and accounting standards that are necessary to support markets. The conference highlighted capacity-building initiatives that would assist in the development of these markets.

Participants acknowledged that the development of domestic bond markets in many developing economies is still at an early stage, and that in others the market may be too small for effective bond issuance. It was also acknowledged that a commercially driven regional bond market within APEC is a long way off and dependent ultimately on open capital accounts and flexible exchange rate arrangements. Regional initiatives to develop bond market infrastructure and to improve access to long-term funding in smaller economies will, however, greatly contribute to the realization of this longer-term goal, and should be vigorously pursued. Broader participation within APEC in these initiatives, including the Asian Bond Fund and the Asian Bond Market Initiative, should be welcomed.

There is a very keen interest on the part of the private sector in the development of domestic and regional bond markets in APEC, and in working together with the public sector to more quickly and effectively achieve this goal. Bond market development, however, is a complex issue, involving a broad range of policy areas and sectors and a large number of institutions and market players. Properly sequenced concomitant reforms and capacity-building measures, undertaken in partnership with the private sector, are therefore needed in these areas.

*\*This report was prepared on behalf of the AEC Business Advisory Council and the PECC Finance Forum and under the authority of the Conference Chairman, Dr. Jeffrey L.S. Koo, by Dr. Julius Caesar Parreñas (d10261@tier.org.tw) and Mr. Kenneth Waller (waller@cba.com.au). It reflects the views expressed by participants at the conference, and not necessarily those of ABAC and PECC unless properly endorsed by them. All conference papers, as well as other related information are available at the conference website (<http://www.tier.org.tw/pecc/conference/bondmarket2004.htm>).*

Following are the key recommendations from this conference:

## I. Key ingredients for domestic and regional bond market development

- A. Focus on the following elements to ensure the success of efforts to develop and strengthen domestic bond markets:
- effective coordination among government agencies and close public-private sector partnership;
  - simultaneous development of market width (the variety of product types), depth (the robustness of the investor base), and market infrastructure;
  - enhanced transparency and market integrity;
  - competition among market participants and openness to many players;
  - conducive tax regimes for the holding and trading of bonds; and
  - special measures to support long-term financing, where markets do not have the scale needed to provide liquidity and depth; (measures should be commercially based to avoid pricing distortions and inappropriate risk assessment)
- B. Concentrate efforts to develop a regional bond market on:
- moving toward open capital accounts and flexible exchange rate arrangements;
  - strengthening regional policy coordination and cooperation; and
  - developing domestic and regional credit enhancement facilities reflecting the market price of capital.

## II. Capacity-building in key areas

To accelerate the development of domestic bond markets and the emergence of a regional bond market, governments need to intensify regional capacity-building efforts in partnership with the private sector. Four particular areas where APEC regional cooperation could play a significant role are the following:

- A. **Expanding the region's institutional investor base.** APEC should undertake policy dialogue and cooperation involving the private sector to encourage broader cross-border investment by institutional investors in domestic bond markets. These efforts should focus on helping economies provide an enabling environment with respect to:
- government bond issuance program to support the yield curve;
  - tax regimes;
  - documentation and practices in markets;
  - the environment for assessing risk and return in traded instruments; and
  - regulations governing markets and settlement systems.
- B. **Developing a strong regional credit rating industry.** APEC should strengthen the credit rating industry in the region and lay the groundwork for the commercial and technical viability of regional ratings. Efforts should focus on:
- analytical skills and best international practices in domestic credit rating agencies;
  - key areas crucial to the performance of rating agencies (corporate governance, accounting standards,

disclosure, regulation and open markets);

- harmonization of rating practices in the region to make ratings more comparable and understandable to cross-border investors;
- cooperation among domestic rating agencies to develop regional default studies; cross-border rating exercises and regional ratings; and
- deepening the understanding of credit culture and the role of credit ratings in capital markets within the region.

**C. Promoting effective domestic and region-wide insolvency and creditor rights systems.**

Much has been done to identify measures and develop principles for improving insolvency and creditor rights systems within the region. APEC should focus on promoting the timely adoption of these measures and principles, particularly with respect to:

- cross-border recognition of insolvency administrations;
- balance and consistency between the secured transactions and insolvency law regimes;
- the environment for informal workouts; and
- capacity-building projects involving education and training, access to information, best practice guidelines, public-private sector partnership, and voluntary efforts by individual economies to undertake reforms.

**D. Promoting region-wide convergence toward robust global accounting standards.**

APEC should address issues related to the development and adoption of global accounting standards and to accelerating convergence with these standards within the region. These efforts should include:

- promoting a regional forum of domestic accounting standard-setting bodies within APEC to help expand regional inputs into the further development of global accounting standards;
- a common policy statement on convergence; and
- a policy initiative to help document domestic convergence plans, develop a regional convergence plan, identify capacity-building resources, and provide technical and financial support for region-wide convergence

The private sector welcomes the efforts of APEC economies, and particularly the APEC Finance Ministers, to promote public-private sector partnership at the regional level in addressing issues related to financial market development. Participants expressed their desire to work with APEC toward deepening and broadening this partnership, which is seen as crucial for the success of ongoing efforts. An informal *APEC Bond Market Network*, with the PECC Finance Forum providing institutional support and working closely with ABAC, is to be developed toward this end.

