

EMPLOYING PEOPLE AND IDEAS FOR SUSTAINED GROWTH IN ASIA-PACIFIC



Peruvian President Ollanta Humala (standing, middle) welcomed the APEC Business Advisory Council (ABAC) and formally opened its 3rd Meeting for 2011 held on 22-24 August in Lima, Peru.

ABAC calls for close Government liaison with business to stabilize global markets

Lima, Peru – The APEC Business Advisory Council (ABAC), which comprises over 60 of Asia's leading business executives, has called on the region's Governments to liaise closely with business in tackling the festering global financial crisis.

In Lima, Peru, for ABAC's third meeting in 2011, ABAC called on political leaders to make progress in stabilising global financial markets, in developing credible plans for debt reduction, and in creating the foundations of sustainable growth and job creation. Absent such progress, they said Asia's businesses would remain reluctant to resume investment for growth. They also warned that protectionist pressures would rise.

At the August 21-24 meeting, with a wide-ranging agenda focused intensively on preparation for the business leaders' key dialogue with the 21 APEC Leaders in Honolulu in November, ABAC urged APEC leaders to raise public awareness of Business Continuity Planning and emergency preparedness when natural disasters strike. Establishing support mechanisms to build resilient societies and businesses, particularly the SMMEs, is cited as a critical factor in the pursuit of long-term balanced growth. A related recommendation from ABAC Russia to develop an APEC Unified Voluntary Risks Code Initiative to ensure interoperability of supply chain port infrastructures is one of the many specific measures agreed in Lima.

ABAC fully recognizes the importance of supporting the growth and trade expansion of SMMEs. The call for financial, technical and policy support to SMMEs is a cross-cutting issue between ABAC working groups and specific recommendations have been elevated to APEC. It was further noted that public-private partnership could expand the participation of SMMEs in trade as supply chain providers, and ABAC Korea will present ABAC's proposal on how PPP can work in this area in Honolulu.

In promoting trade and investment liberalization, ABAC underscored the importance of promoting progress towards regulatory coherence in the region. It urges the improvement of the process by which economies develop regulations, identify best practices, and establishing common standards that does not result in market distortion nor increase barriers and burdens to business.

Strategies for 'Green Growth' were also discussed and identified during this meeting. Among others, ABAC recommends the reduction of tariffs and non-tariffs for environmental goods and services (EGS) technologies to promote the growth of the EGS sector. The Council points out that this would not only conserve resources but would also raise energy efficiency and increase quality jobs in the region.

ABAC's 2011 report and recommendations will be submitted and presented to APEC Leaders in November. ■

ABOUT ABAC

The APEC Business Advisory Council (ABAC) was created by the APEC Economic Leaders in November 1995 to provide advice on the implementation of the Osaka Action Agenda and on other specific business sector priorities, and to respond when the various APEC request information about business-related issues or to provide the business perspective on specific areas of cooperation.

ABAC Working Groups

Regional Economic Integration Working Group (REIWG): focuses on creating the pathway to FTAAP, next generation trade issues, and the smooth facilitation of movement of goods, services, investments and people.

SMME and Entrepreneurship Working Group (SMMEEWG): suggests and endorses policies that promote the establishment of new businesses and business models, the longevity of SMEs, and the economic inclusion, including women's issues.

Sustainable Growth Working Group (SGWG): focuses on food, energy, and water security, including environmental goods and services.

Finance and Economics Working Group (FEWG): defines and develops finance-related recommendations related to objectives of other ABAC groups. It also monitors and assesses regional implications of G20 developments, and provides macro-economic overview for the Council. Through its Advisory Group on Financial System Capacity-Building, it also tackles in detail proposals for reform of the APEC region's financial systems.

Action Plan and Advocacy Working Group (APAWG): tracks APEC action on ABAC recommendations, develops advocacy strategies to promote adoption of ABAC recommendations, and collaborates on capacity building programs with APEC.

Visit ABAC online at www.abaconline.org

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Uncertainties Loom Anew but Crisis Unlikely

Volatility in trading markets triggered by renewed concerns on debts and credit ratings downgrade. What is its impact on APEC economies?

Lima, Peru – The August 2011 analysis of the ABAC Finance and Economic Work Group (FEWG), presented by FEWG Chair John Denton (ABAC Australia), revealed further volatility and trade imbalances primarily caused by renewed global financial woes. Concerns over the European debt crisis and the downgrading of the US sovereign credit rating by Standard & Poors have created financial market instability.

Inflationary pressures have led APEC economies to focus on monetary policies to contain these pressures. Hong Kong, Singapore, China and the Philippines all have inflation rates rising above 5%. Thailand and Korea posted rates above 4%, while Viet Nam's consumer prices ballooned by more than 20% year on year in the past couple of months. However, the recent declining trend of commodities prices, such as crude oil, metals and agriculture prices, has raised hopes of suppressing global inflationary pressures.

Meanwhile, outlooks for the United States, Japan and China remain bleak. The US economy only grew at an annualized rate of 0.8% per annum in the first half of the year - and this sluggish growth makes the country susceptible to internal and

external shocks. Even the measures undertaken by the Federal Government and the US Federal Reserve, such as an extended lowered interest rates and the rounds of quantitative easing, have yet to prove its effectiveness in making a significant impacts in the US's economic recovery. According to the FEWG paper, it will take some time before confidence in the US economy is restored, but self-sustaining recovery efforts are well on its way.

In another case, Japan's economy had a bad fall this year after the Tohoku earthquake and tsunami destroyed lives, properties and businesses earlier this year. While the FEWG observed that Japan's economy is "picking up again," much is to be fixed from both the political and economic fronts. The level of public debt is incredibly high, business and consumer confidence remains "fragile", and the political situation remains "uncertain".

On the other hand, China's economy grew in the second quarter by 9% from the same period in 2010. While the economy has somewhat slowed it is not enough to raise concerns for especially since key areas in the economy continue to perform well. Construction activity remains strong while demand for steel and electricity consumption remains robust.

Export-heavy East Asian economies of Korea, Chinese Taipei, Hong Kong, and Singapore grew relatively slower compared to the 2010 export rebounds and business fixed investment they posted from the low levels of 2009. The disruption of the supply chain from the Japan disaster also had a pronounced impact on these countries' growth levels, as with Malaysia's and Thailand's. But unlike its Asian neighbours, Indonesia expanded remarkably with 6.5% growth in the first half of 2011 following a strong exports performance and rising foreign direct investment.

Despite the uncertainties and current trade imbalances, the ABAC FEWG doesn't foresee a global financial crisis looming around the corner and dismissed the likelihood of another global recession on account of the growing momentum in emerging and developing economies. The working group warns against governments slipping into protectionist or trade distorting measures.

Meanwhile, U.S. Senior Official to APEC, Kurt Tong, shared in Lima APEC's current financial and economic priorities. These included focused rebalancing of global growth, investing in infrastructure particularly through public-private partnerships (PPPs), and expanding financial services to develop inclusive growth. ■

Overcoming Insecurities

Recognizing the immediate need to act on food security threats, ABAC identifies key issues to address

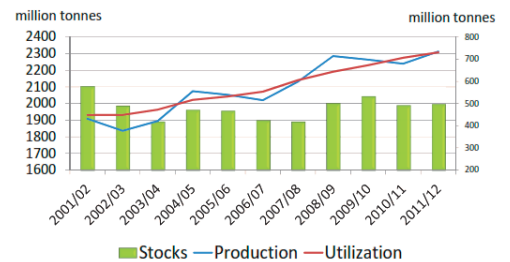
Lima, Peru – During the ABAC Sustainable Growth Working Group meeting in Lima, Peru, ABAC China raised nagging concerns over global food security and the need to create a coherent action agenda in APEC to address this. Three overarching challenges that threaten food security were presented during the meeting, the first of which is the tightening balance between total global food demand and supply.

Frank Gaoning Ning of ABAC China presented key highlights of the August 2011 Cereal Supply and Demand Brief of Food and Agriculture Organization (FAO), that forecasted cereal production reaching 2,307 million tonnes in 2011 is closely matching the 2011/12 forecasted cereal utilization 2,304 million tonnes.

Other identified challenges include the worsening imbalance of regional distribution of food and the higher, more fragile, food prices. ABAC members recognize these challenges and have agreed in Lima to fully support the call for APEC Leaders to enhance international cooperation, particularly in technology transfer and setting international standards on food, and in increasing financial support to developed economies.

The Council urges each economy to develop a set of guidelines for a balanced and efficient use of food sources for consumption by human, animals and energy sectors. Some of the suggested ways to achieve this are through agricultural land-use zoning, designating clusters for efficient use of water supply, adopting zero waste consumption, using genetically modified organisms (GMO) for energy sector use, and reducing trade barriers for proper pricing signals. Furthermore, ABAC is proposing that APEC governments focus on enhancing food production and pursuing policies that increase agricultural

Cereal production, utilization and stocks



Source: FAO

productivity such as, but not limited to, improving the knowledge base of farmers, ending export subsidies and restrictions, and developing irrigation systems and water resource management.

Lastly, it was agreed during the Lima meeting to elevate ABAC China's proposal to establish a strong regional cooperation in APEC aimed at strengthening supervision on grain market speculation as this uncertainties negatively impact the end consumers. ■

Linking economies in a seamless commercial environment

To unleash the growth potential of the Asia Pacific region, ABAC urges APEC to explore a common understanding of the supply chains and value chains affecting regional trade in goods and services

Lima, Peru - At the recently concluded ABAC meeting held in Peru, the Regional Economic Integration Working Group has decided to recommend to APEC leaders the adoption of an integrated supply chain and value chain approach to facilitate the development of trade in the region.

REIWG Chair, Tony Nowell, discussed the conceptual framework to be submitted to APEC leaders for better understanding of the complex process of trade in goods and services within APEC. In understanding each step and component in the supply chain and value chain, it is hoped that APEC and ABAC can focus on region-wide business initiatives to address chokepoints at each stage of the chain. The end goal is to achieve a seamless commercial environment within the Asia Pacific region.

The framework below shows the integrated regional supply chain for both goods and services. The pathway for goods begins with the primary resources such as land, water, minerals being processed and then delivered to end-consumers. The pathway to market for services begins with the primary services, or set of knowledge and skills being offered and demanded, and delivered directly to businesses and consumers.

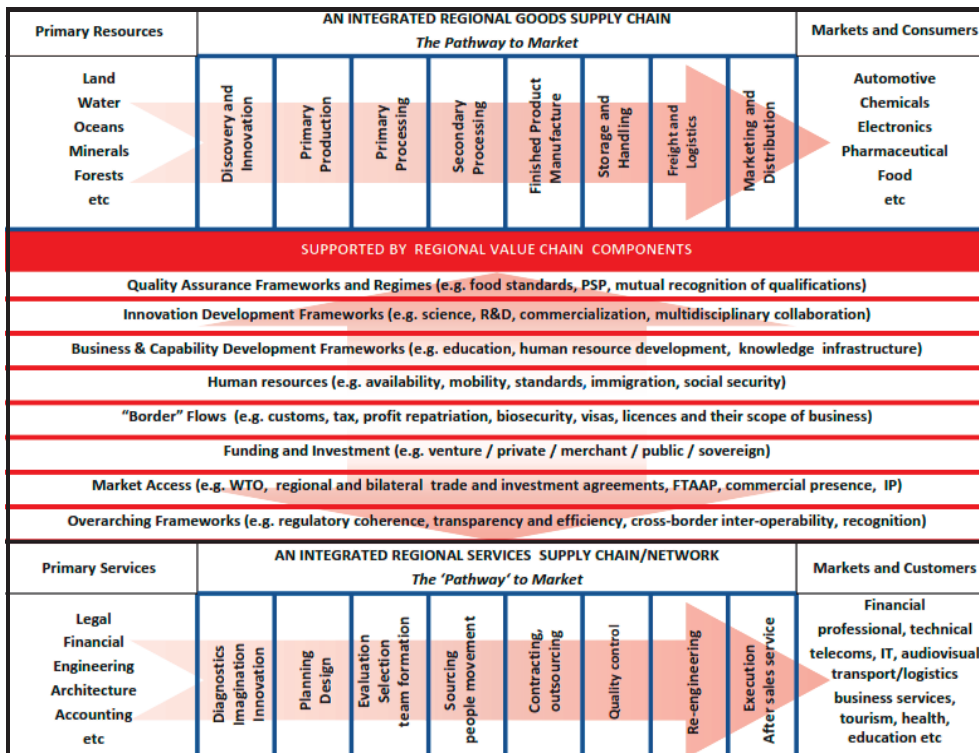
Reducing Chokepoints

Chokepoints are barriers to the flow of goods and

services that counters growth and competitiveness. These are also sources of waste in terms of time and monetary expenditures. ABAC believes that by identifying and addressing chokepoints in the pathway, economies would be able to increase productivity and provide higher value-added services leading to a higher standard of living of their citizens.

As shown in the framework, one of the key components that provide support to the goods supply chain and the services supply network is market access. This year, ABAC has started to aggressively push for the establishment of a comprehensive and high quality Free Trade Area of the Asia-Pacific (FTAAP). But in the process of creating the pathways to FTAAP, strategies in addressing the existing barriers to trade and investment, particularly the identified 'next generation issues', must be incorporated in the FTAAP, and this is when the understanding of the global and regional supply chain becomes significant.

There are a number of regional undertakings that could serve as pathways towards an FTAAP, including ASEAN+3, ASEAN+6, and the Trans-Pacific Partnership (TPP). In addition to FTAAP, work is also continuing on the Comprehensive Economic Partnership in East Asia (CEPEA) and East Asia Free Trade Area (EAFTA). ■



SMME Development

Hindrances to Trade

Small, micro and medium-sized enterprises (SMMEs) play important roles in economic and social development particularly in creating jobs and promoting innovation. ABAC, this year, has focused on identifying barriers to SMME's entry and engagement in cross-border trade and providing recommendations to overcome the challenges faces.

The following are the top nine barriers relating to SMME cross-border trade identified by ABAC:

1. Lack of access to financing
2. Lack of capacity to internationalize and difficulty in identifying foreign business opportunities
3. Difficulty in navigating differing legal, regulatory and technical requirements
4. Need for open and transparent business environments
5. Inadequate policy and regulatory frameworks to support cross-border electronic commerce
6. Inability to protect intellectual property
7. Excessive transportation and related costs
8. Customs clearance delays, including difficulties in navigating overly complex customs requirements and documentation
9. Difficulty in taking advantage of preferential tariff rates and other aspects of trade agreements

Of these, four are being prioritized due to their critical role to business growth. The primary issue is lack of SMME financing. ABAC recommends the promotion and implementation of reforms to ensure a clear legal infrastructure for lending. The Council also encourages available financing for SMMEs and start-up businesses such as venture capital and micro-finance solutions. Private-public co-investment approaches may be explored in seeding the formation of innovation-based micro enterprises.

The other main concern is the lack of capacity to internationalize and difficulty in identifying foreign business opportunities. For this, ABAC recommends APEC to create a market knowledge center and promote better use of online technology and ICT infrastructure.

Transparency in business environments lower costs associated with handling different policy and regulatory requirements, and SMMEs need this type of environment as they venture into foreign markets in order to thrive and compete. ABAC stresses the need to create codes of ethics in APEC industries to support openness.

Lastly, ABAC urges APEC economies to establish IPR support centers and to review and enhance patent laws to encourage SMME innovation. ■

When Disasters Strike

ABAC calls for its governments to prioritize emergency preparedness in the midst of the recent, successive natural catastrophes



Lima, Peru – In the early part of the year, the world witnessed two horrible natural disasters that rocked the APEC region. The first was a 6.3-magnitude earthquake that shook New Zealand in February, followed by a twin-catastrophe of an earthquake and a tsunami that swept across cities in Japan in March. These are just two

glaring cases of large scale natural disasters to hit the region where about 70% of natural catastrophes in the world occur.

In response to these incidents, ABAC Japan raised specific recommendations during the ABAC III meeting in Lima, Peru. These proposals call for a higher level of public awareness for emergency preparedness in the region and the need to make our societies resilient, if not more, against calamities and other natural adversities.

The grave impact of these recent disasters to global trade and flow of supply chains was also raised by ABAC Japan, noting how these multiplied further the economic impact of the unfortunate events. In addition, as a critical component of resurrecting a damaged community, business activity must quickly recover to facilitate the vital flow of goods and

services in their locality.

Thus, ABAC has agreed in Lima to adopt the recommendations of ABAC Japan and elevate these to the APEC leaders for consideration. In particular, ABAC recommends APEC leaders and ministers to implement policies to support regional and economy-wide joint public-private efforts for emergency preparedness.

The Council also emphasized the need to raise public awareness of these efforts, such as increased sharing of information to enhance capacity building for Business Continuity Preparedness within a country and among APEC economies, with special attention to providing recovery support to SMMEs. ■

ABAC in Peru!



Regulatory Coherence Explained

A framework on enhancing regulatory coherence provides a clearer view on what it is, what it aims to do, and how to achieve it.

Lima, Peru – The hot topic of 'regulatory coherence' and the critical role it plays in achieving APEC goals beg for a clearer understanding of what it is exactly. At the 3rd ABAC meeting, Kevin Thieneman of ABAC USA explained in detail the definition of 'regulatory coherence', what it entails, and how to approach it.

Regulatory coherence, he explained, is about improving the process by which economies develop regulations, develop best practices, and finding common standards acceptable to multiple economies. And contrary to some perceived notion that this promotes less regulation, he stressed that regulatory coherence is neither about reducing nor increasing regulation but better, effective regulations that would allow markets to be more competitive and innovative. It creates an environment with higher degree of confidence in the standards of traded products and services while facilitating the smooth entry of SMMEs into foreign markets.

While APEC has successfully removed tariffs and quantitative restrictions, it should now recognize behind-border issues particularly non-tariff barriers concerning standards and qualifications at the domestic level as well as the high cost of doing business. A harmonized international standards



should be used as basis for setting domestic regulation. Meanwhile, regulatory institutions should strive to relieve business from the unnecessary burdens and costs of doing business (e.g. duplicative requirements). And one way to align regulations is by consulting with all stakeholders. This is encouraged to also promote accountability from institutions.

Indeed, transparent and equitable enforcement must be part of regulatory coherence. The presented success stories of Japan's electronics sector, New Zealand's dairy industry, and USA's off-highway vehicle emission serve as proof that regulatory coherence might just be the thing that industries need to prosper. ■

ABAC 2011 KEY DATES

✓ 08-10 November
4th ABAC Meeting for 2011
Honolulu, Hawaii, USA

✓ 10 November
**ABAC Entrepreneurs Roundtable
ABAC SME Symposium**
Honolulu, Hawaii, USA

✓ 11-12 November
APEC CEO Summit 2011
Honolulu, Hawaii, USA

✓ 13 November
ABAC Dialogue with APEC Economic Leaders
Honolulu, Hawaii, U.S.A.