



Gempachiro Aihara
ABAC Chair 2010

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The Honorable
Katsuya Okada
Minister of Foreign Affairs
Japan

The Honorable
Masayuki Naoshima
Minister of Economy, Trade & Industry
Japan

Dear Ministers:

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

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

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

A key component of ABAC’s 2010 agenda is an assessment of the achievement of the **Bogor Goals** from the business perspective. ABAC’s own review (please see *Annex 1*) clearly identifies that many member economies have become considerably more open since 1994. Industrialized economies have made significant steps towards becoming more free and open, a trend apparent among developing economies as well. There is more to be done to achieve the goal of free and open trade and investment for all economies in the APEC region by 2020. Based on the outcomes of the review, ABAC recommends that any new vision for economic integration encompass trade in goods, services, investment, ideas and the movement of people. Efforts to advance these would be enhanced through the development of a set of regional integration metrics to monitor annually each economy’s progress toward greater economic integration. We recommend Ministers agree to direct the APEC Secretariat to devise and publish these metrics.

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

The broad nature of the global business environment requires an appreciation of a number of other issues that are relevant to achieving the ultimate goal of free and open trade and investments in the region. This is reflected in ABAC's 2010 agenda and we have attached at *Annex 2* recommendations and updates related to these issues.

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

Sincerely,


Gempachiro Aihara
ABAC Chair 2010

Review of the Achievement of the Bogor Goals ABAC's Key Messages for APEC Leaders

The Bogor Goals have delivered positive outcomes for APEC businesses

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

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

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

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

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

Recommendation 1

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

Recommendation 2

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

Recommendation 3

ABAC recommends that Leaders recognize the importance of existing and progressing regional trade arrangements such as the Trans-Pacific Partnership, ASEAN+1, ASEAN+3, and ASEAN+6/CEPEA as potential pathways to delivering an FTAAP. As these existing arrangements evolve, they should draw on previously developed APEC model FTA chapters covering goods, services and investment and other new business requirements to guide their progress. ABAC further requests that Leaders of economies engaged in evolving regional arrangements direct their officials to share knowledge and substance about their respective negotiations in a timely and transparent fashion, while respecting the negotiating sensitivity of some issues.

Recommendation 4

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

Recommendation 5

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

**ABAC Progress Report to
APEC Ministers Responsible for Trade**

- 1. Adopting prudent measures for economic recovery.** ABAC specifically welcomes APEC Leaders' commitment in Singapore in November 2009 to "ensure that our macroeconomic, regulatory and structural policies are consistent with a more sustainable and balanced trajectory of growth, both within and across our economies" and urges that these measures be employed to avoid protectionism. Care must be taken in selecting the timing of implementation of exit strategies. Premature implementation will ruin a nascent economic recovery while belated action will have significant side effects. ABAC underscores the need to consider each economy's specific situation, and to undertake close collaboration among economies in the region and provide sufficient dialogue between private and public sectors. Decisive progress should be made on structural reforms that foster private demand and therefore enhance long-run growth sustainability with sound fiscal figures.
- 2. Facilitating trade flows and ensuring trade security.** There remains a strong need for APEC economies to simplify, harmonize and clarify the policies and procedures for conducting transactions across borders. The ABAC Customs Work Plan, which was submitted to APEC in 2009, contains a comprehensive list of areas that the regional business community has identified as priorities for action by APEC. Particular attention should be paid to harmonization of transport safety regulations, improved access to tariff and rules of origin information in preferential trading agreements as well as input provided to APEC regarding the implementation of the Supply Chain Connectivity Framework (SCCF). Further, APEC is currently in a position to forestall the emergence of another regulatory "noodle bowl" by achieving mutual recognition of Authorized Economic Operator (AEO) trusted trader programs. ABAC welcomes the establishment of the AEO Working Group and urges this group to set an ambitious agenda toward the achievement of mutual recognition between AEO programs in APEC. Initiatives such as the creation of a common AEO application form and common risk management principles will be important steps in this process.
- 3. Facilitating investment flows.** Removing barriers to both domestic and foreign direct investment will create more opportunities for the private sector to achieve sustained growth in the region. ABAC urges a proactive and results-oriented implementation of the Investment Facilitation Action Plan and recommends that, where possible, APEC utilize existing key performance indicators to measure progress. In addition to addressing facilitation-related issues, it is equally important that APEC economies make further progress towards aligning their respective investment regimes with APEC's Non-Binding Investment Principles. ABAC recommends the establishment of consultation mechanism to enhance opportunities for the private sector to provide specific input on investment issues to APEC.
- 4. Promoting infrastructure public-private partnerships.** There is a huge potential for public-private partnerships (PPP) to help meet the infrastructure needs in the region, with Asia alone requiring an annual average investment of US\$750 billion over the period 2010-2020. New investments in roads, power plants, ports and railways, among others, will be needed to enhance physical connectivity, increase trade and investment flows, and ensure continued growth in the region. However, for PPP to be effectively harnessed toward this objective, key issues need to be addressed: the information asymmetry between the public

and private sectors, broader and deeper capital markets and a more active role for multilateral institutions in partnership with public and private sectors. A regional infrastructure partnership among governments, international financial institutions and the private sector would help address these issues. A key element of this partnership is a structure to ensure sustained and continuous private sector inputs into the process of promoting infrastructure PPP in the region, which can work closely with APEC, multilateral institutions and governments. ABAC therefore urges APEC economies to launch an Asia-Pacific Infrastructure Partnership (APIP) as a pathfinder initiative to bring together private sector, government and multilateral development institutions involved to facilitate the growth of infrastructure PPP in the region.

5. **Enhancing intellectual property rights cooperation.** Patents are an important tool for protecting intellectual property rights and **promoting knowledge-based growth**. Explosive growth in global investment in research and development (approximately \$1.3 trillion annually) has contributed to a backlog of 3.5 million unprocessed patent applications. Critical to addressing this increase in patent applications will be enhancing and broadening patent acquisition cooperation efforts between patent offices in the Asia-Pacific, a region that is responsible for the bulk of the growth of patent applications. Agreement by APEC to develop a uniform digital patent application form and increased sharing of examination results are important first steps in addressing this issue. In the meantime, APEC should further explore the ways to maximize the use of intellectual property with a view to achieving knowledge-based growth in the region.
6. **Ensuring food security.** ABAC is pleased APEC is addressing the important issue of food security. The recommendations contained in ABAC's document "Strategic Framework for Food Security in APEC" should be fully integrated into APEC's food security work plan.
7. **Tackling climate change.** ABAC supports on-going efforts to tackle climate change but is concerned that potential gains in energy efficiency are being held hostage to the failure in the WTO Doha negotiations to take action on measures on environmental goods and services (EGS). ABAC believes opportunity exists for action by APEC to achieve important short-term gains through an initiative on EGS.
8. **Addressing talent shortages.** Rapid economic growth in the APEC region has led to documented talent shortages across a range of industries in both developed and developing economies. Over the long-term, forecasts portend continued talent shortages despite the negative effects of the economic crisis. To ensure this lack of talent does not become a brake on sustained economic growth, economies need to develop and maintain policies and programs to manage their talent needs. A comprehensive people management system would include: (a) a facility for economy-wide skills mapping; (b) programs for targeted training/retraining of domestic human resources; (c) means to assess where shortages can be addressed through delivery of services from remote locations; and (d) policies that enable industries to address shortages that require physical presence of talent. APEC should take actions including capacity building and sharing of best practices to ensure each economy is able to **promote inclusive growth** through the implementation of effective people management systems.
9. **Accelerating SME and micro-enterprise capacity building efforts.** There is a pressing need, in recognition of the economic contribution by SMEs and micro-enterprises, to create a conducive environment to strengthen their role in APEC economies by delivering inclusive, sustainable and knowledge-based growth. ABAC encourages targeted policies in

the areas of productivity, innovation, financial inclusion and export fostering. SME education is another important capacity building activity as raising awareness on tools and resources, such as ICT, skills development programs and new business models, can help SMEs and micro-enterprises grow their business. Outreach programs to capture, disseminate and foster micro-enterprise activities would secure inclusiveness and broaden the base for economic contributions.

- 10. Increasing transparency and fighting corruption.** APEC Leaders have recognized the central importance of increasing transparency and fighting corruption, both as vital goals in their own right and as essential contributors to sustainable development, economic growth and good governance within the Asia-Pacific region. They have endorsed a number of robust deliverables to address corruption and increase transparency; however, evidence is scant regarding the extent of APEC action on these commitments. Public reporting would provide the best means for APEC Leaders to demonstrate that they are moving forward on these commitments. ABAC calls for APEC Leaders' to commit in 2010 to annual reporting on implementation on transparency and anti-corruption commitments, with benchmarks and timetables for full implementation. The inaugural report should be issued by the November 2011 Leaders' Meeting in the United States.

- 11. Enhancing competition policy.** Cross-border trade and investment can be facilitated through the further development of transparent and consistent environments which ensure procedural fairness in merger and other competition policy-related cases. There is still latitude to improve procedural fairness and transparency across economies, even in economies with mature competition policy regimes. ABAC urges APEC to continue to engage directly with the business community through dialogues on this important issue. Further, ABAC recommends that APEC economies adopt and implement a common set of best practices in competition policy regulation enforcement as a near-term objective.