



16 May 2003

To APEC Economic Leaders

Honorable Leaders,

We, the official voice of business in APEC write to you at a **time of grave dangers to the economies and peoples of the Asia Pacific**. As you are well aware, we face at this time the prospect of global deflation, financial instability and disruptions to trade and investment arising from the threat of terrorism and the SARS epidemic. If there is a time for APEC to demonstrate the steadfastness of its resolve and the relevance of its mission, now is the time.

At this critical time for APEC, we urge you - the Leaders of our economies - to act decisively in the following priority areas, which we highlight in the interim report accompanying this letter. We believe that **decisive action** in these key areas **is crucial to restoring business confidence, trade and investment in our region**.

What can and should APEC do?

Firstly, we urge you to **be resolute in making concrete progress towards the achievement of free and open trade and investment in the region** as embodied in the Bogor Goals. At a time of new threats to our prosperity from terrorism and the SARS epidemic, we would reiterate our conviction that a fragile global economy needs more – not less – trade and investment; and that the **way forward lies in more trade and investment liberalization on a multilateral basis**.

We would therefore urge you to **take the lead in advancing the Doha Development Agenda and in resolving the key issues that stand in the way of its progress**. In this regard, negotiations in the WTO on anti-dumping, reduction of customs barriers, elimination of tariff peaks and tariff escalation, development of investment rules and liberalization of trade in services are especially relevant. Agriculture trade policy issues, which include high tariffs, domestic support and export subsidies are of critical importance. The importance of strengthening intellectual property rights protection is underscored in our report.

Secondly, we urge you to **ensure that the need for security is constantly reconciled with the need to facilitate the flow of trade and investment in the region**. In this report, we highlight for your attention actions required to strengthen security in financial systems and in trade.

While trade security is of paramount importance to the economies of the region, measures to achieve it must be undertaken with care to **ensure that APEC achieves its goal of reducing transactional cost by 5% by 2006**. Similarly, measures to curtail terrorist funding through the financial systems must be efficient and cost-effective, while minimizing the impact on transactions, ensuring the privacy of bona fide customers and maintaining the integrity of payment systems.

Thirdly, we urge you to **ensure that tangible progress is made in capacity building for sustainable growth**. We believe that the various crises we face from financial instability, terrorism and now the SARS epidemic underlie that capacity building at the institutional, organization and human levels is not an option but an essential complement to APEC's liberalization goals. Our report highlights measures to support financial stability, reinforce trade and investment, support SMEs and micro-enterprises, strengthen critical infrastructure through education and training, expand broadband access, and promote a recycling based economy.

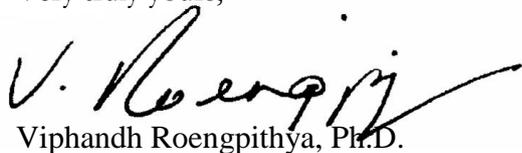
Fourthly, we urge you to **continue to work with the private sector to facilitate corporate governance and transparency** at the international, regional and domestic levels as part of APEC's continuing efforts to restore trust in markets. We have provided practical initiatives which can be undertaken to enhance corporate governance and transparency practices, and call for the **implementation of the APEC transparency standards**.

Fifthly, we urge you to **ensure that APEC and its work remain accessible to business input and participation in the widest possible way**. In this report, we suggest some ways for facilitating business input in the Individual Action Plans. Further, we recommend that the peer review program should be continued after its current end date of 2005, and should cover all member economies.

Finally, in the wake of the SARS epidemic we urge you to **facilitate the capacity of APEC economies to respond quickly and effectively to regional crises in the future and to ensure that new challenges are not used as an excuse for protectionism and do not distract us from the achievement of our liberalization and facilitation goals**. The SARS experience underlines the importance of strengthening APEC's ability to coordinate collective responses to crises and underscores the importance of transparency and effective communication.

Honorable Leaders, this letter and our accompanying report are submitted in the spirit of public and private sector cooperation that lies at the heart of APEC. It is submitted ahead of our final report for the year in the hope that you will find early business input useful as you, your ministers and officials prepare for the APEC Summit in October. It is also submitted in the belief that the great challenges APEC face at this time call for decisive and vigorous responses to ensure the continued relevance of APEC and the prosperity of our region.

Very truly yours,



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ABAC 2003 Interim Report to APEC Economic Leaders

Executive Summary

ABAC presents its 2003 Interim Report to APEC Ministers during a period of grave uncertainty and fragility for the global economy. With APEC economies facing new threats and ongoing difficulties, business confidence in the region remains low.

Financial markets have suffered major falls in equity values, rising risk premiums, a slowdown in capital flows and a sharp fall in global activity. There are many contributing factors, including over-investment in certain sectors, inappropriate exchange rate policies and financial regulatory arrangements, as well as uncertainties caused by terrorism and major corporate governance failures.

Severe Acute Respiratory Syndrome (SARS) is having a devastating impact on travel and service industries in many APEC economies, and is curtailing business mobility in the region. There are concerns within the regional business community that SARS may soon begin to affect global manufacturing and supply chains, causing a much broader regional economic slowdown.

The ongoing war on terrorism, as well as the US-led attack on Iraq, has put increasing strains on the US economy, with repercussions for the rest of the region. Regional security concerns threaten to slow investment and curtail the movement of goods and people throughout the APEC region.

Against the backdrop of recent events, there remains the ongoing challenge of promoting balanced and equitable growth in the region, ensuring that globalization is accompanied by capacity building and full participation for all APEC citizens.

The APEC Business Advisory Council believes that APEC economies must take immediate action to address these challenges, allowing business to expand their commitment to regional investment, trade and employment.

Recognizing the critical role of capacity building in regional economic recovery, ABAC has chosen as its theme this year, **“Harmony in Diversity: Achieving Balanced and Equitable Growth”**. We believe that capacity building is essential in strengthening financial systems, building critical infrastructure and assisting small and medium enterprises. At the same time, we encourage APEC to continue to vigorously promote free and open trade in the region; enhance security in ways that continue to allow the free flows of goods and people; and confront critical challenges in corporate governance and transparency.

The following are ABAC's key messages to APEC Economic Leaders:

Remain committed to free and open trade and achieving the Bogor Goals

- APEC must re-affirm its commitment to the achievement of the Bogor Goal of free and open trade and investment in the region. In this respect, there is an urgent need to revive the momentum of the on-going negotiations on the Doha Development Agenda. The negotiations in WTO on anti-dumping, reduction of customs barriers, elimination of tariff peaks and tariff escalation, particularly on agricultural products; elimination of export subsidies; development of investment rules; and liberalization of trade in services, are especially relevant. The continued existence of barriers to trade and investments places in jeopardy the achievement of the Bogor Goals.

Facilitate trade and investment...while addressing security and health concerns

- Enhancing secure trade is of paramount importance to economies in APEC region. However, care must be taken to ensure that heightened security does not unduly increase business costs as this will defeat APEC's objective of facilitating trade and investment.
- Business strongly supports the objectives of curtailing terrorist funding through the financial systems and seeks to ensure that measures are efficient and cost-effective, minimize the impact on transactions and respect the privacy of bona fide customers and maintain the integrity of payment systems.
- [Insert bullet on SARS]

Capacity building is key to achieving balanced and equitable growth

- Capacity building is critical to restoring public confidence and support for APEC's trade and investment liberalization and facilitation agenda and in achieving the Bogor goals. The benefits of liberalization and facilitation cannot be fully realized without building capacity for sustainable development. ABAC reiterates its call for APEC Economic Leaders to adopt a balanced approach to globalization - one that combines market opening, capacity building and full participation.

Address corporate governance

- Last year's significant corporate governance failures in developed economies demonstrated that inadequate checks on company behavior are faced throughout APEC economies of all sizes and levels of development. APEC must implement its past recommendations and ensure that new measures developed in the wake of the recent highly publicized failures continue to emphasize open market mechanisms and reinforce global trade and capital market liberalization.

Ensure APEC is business-friendly

- Monitoring the progress of APEC member economies towards achieving the trade and investment liberalization objectives set out in the Bogor Goals is one of ABAC's major interests. APEC's peer reviews of Individual Action Plans is the instrument for gauging progress. ABAC considers that the peer reviews as now conducted are effective and rigorous. It recommends that the review program should be continued after its current end date of 2005, and should cover all member economies.

To give substance to these messages, ABAC calls on APEC to Economic Leaders to:

- Commit themselves to working together to solve the critical issues in the Doha Round negotiations affecting trade in agricultural products - achieving substantial reductions in high tariffs and improvements in market access; elimination of export subsidies; and continuing reductions in domestic farm production support programs.
- Ensure that liberalization programs undertaken by economies are fully comprehensive and cover all sectors and products, including sensitive sectors such as agriculture.
- Adopt measures to deal with the causes of financial instability and strengthen financial institutions and regional cooperation in key areas, including: (1) the deepening and strengthening of financial markets by improving risk management in banking sectors, ensuring sound insolvency systems, market development in bond, venture capital, asset-backed securities and credit guarantees in emerging economies, as well as robust and private sector-supported WTO financial services agenda; (2) greater public-private sector cooperation in developing commercially operable measures to stop the movement of terrorist funds through financial systems; and (3) region-wide action to improve corporate governance and transparency in the financial sector, international financial institutions and all sectors in which private and public funds are invested.
- Pursue measures to strengthen the global reinsurance industry and to minimize the risk to commerce and the movement of people arising through terrorist activities, measures to improve the development of equity markets (to broaden the basis of capital funding for development) and greater cooperation to strengthen the regional and global financial architecture.
- Implement effective measures to achieve both trade facilitation goals and a secure supply chain, while ensuring transparency. These measures include implementing paperless trading through development of a Single-Window System, developing and adopting advanced risk management methodology, and improving transparency of customs and other trade-related laws, regulations and procedures. ABAC believes these measures enable expansion of trade in a safe and predictable environment.

- Take expeditious steps to ensure adequate protection and effective enforcement of intellectual property rights, including by establishing APEC IPR Service Center in each economy, implementing effective and expeditious remedies to combat infringement, promoting public awareness of IPR, and developing a Comprehensive Strategy on IP Protection in APEC. The adequate protection of IPR will ensure long-term economic benefits in the APEC region.
- Implement capacity building measures to support financial stability, reinforce trade and investment liberalization and facilitation, enhance management skills of SMEs and facilitate their access to ICT, expand broadband access, support critical infrastructure and promote a recycling based economy.