

## **PROLOGUE**

Our world is changing at an unprecedented pace. As we begin the gradual recovery from economic downturn and cowardly terrorist attacks, we must also ponder how to respond to the unabated trend of globalization, China's accession to the WTO and the future of the Doha Round. Now more than ever, APEC must be cognizant of the importance of its mission. APEC must be a catalyst for long-term economic growth, stability and improved social conditions that will allow all segments of society to share in the benefits of globalization. Recognizing the linkage between economic growth and security post September 11th, ABAC has selected as its theme for 2002 "Sharing development to reinforce global security." APEC is the ideal vehicle to bring together the complementary goals of security and shared development. The APEC process seeks to integrate trade and investment liberalization and facilitation with economic and technological cooperation, including capacity building initiatives in achieving economic growth among its members. The combination of these basic APEC principles serves to empower the disenfranchised to share in the growth of the international economy and promotes the sense of an APEC-wide community. In particular, ABAC supports micro-financing as one of the main themes for Mexico's Chairmanship of APEC in 2002 and its interest in delivering concrete and tangible results for the Leaders Meeting in Los Cabos.

Faced with the realization that the private sector needed to play a more active role in the APEC deliberations, in August 2001, ABAC decided to modify its work programme. The ABAC Final Report to Leaders was often produced under a different timetable than the deliberations of the various APEC fora and, as a result, the opportunity was lost to include many of ABAC's recommendations into the Leaders Declaration. Therefore, ABAC has decided to produce this Pre-Report. The Pre-Report is designed to incorporate ABAC's recommendations into the ministerial process in a more timely fashion. ABAC believes that these recommendations are realistic, measurable and deserving of urgent attention and specific actions by the time we present our Final Report to Leaders in Los Cabos.

## **I. SHARING DEVELOPMENT**

We must accept the undisputed fact that globalization is much more than a simple economic phenomenon. The forces of the international marketplace must be harnessed to become a conduit to a more inclusive world that leads to economic growth, social stability and improved living conditions for the majority of our citizens. Our key challenge today is to narrow the gap between the haves and the have-nots by helping developing APEC members integrate more thoroughly into the global economy through trade and investment liberalization. APEC must also work to create the economic and business environment that will free the entrepreneurial spirit in our populations through progressive programmes that allow micro, small and medium enterprises (SMEs) to flourish. Given their flexibility and resilience, SMEs should be promoted and encouraged to play a larger role in developing economies, including through innovative capacity building programmes.

The dual forces of globalization and rapid technological advancement represent new challenges and opportunities for SMEs in the APEC region. APEC governments can promote entrepreneurship and support small businesses growth through their policies, regulatory environment, and by improved access to information, technology, and financing.

### **Multilateral Trade Negotiations**

Background: The launch of the new World Trade Organisation round of multilateral trade

negotiations, as mandated in the Doha Development Agenda, calls for a concerted response from the APEC member economies.

The need for progress in the negotiations is highlighted by recent actions intensifying restrictions on trade in certain products, and by the threat of increased domestic and export subsidies for agricultural products in ways that distort international markets. These actions run counter to the intentions of the Doha Agreement and to the Bogor Goals. Urgency in achieving results from the negotiations is crucial to businesses in member economies. They cannot be expected to wait from three to five years for a more predictable and less distorted business environment.

This is the time for APEC economies to reaffirm their commitments to the principles of trade liberalization and deregulation of markets for goods and services. Priority should be given to actions to implement the Bogor Goals; to capacity building programmes; and to initiatives to secure desirable outcomes from the WTO negotiations at the earliest possible time. ABAC is preparing recommendations to Leaders on capacity building initiatives which will focus on means to enhance the ability of developing country member economies to negotiate effectively, implement WTO commitments including those in the SPS and TBT Agreements, and lock in gains from the liberalization of trade and investment. In addition, Leaders will be urged to initiate informed debates in their own economies about the vital importance of successful outcomes in the Doha Round and the achievement of the Bogor Goals.

### **Action required**

ABAC considers it imperative that APEC economies develop this year a concerted plan of action as an immediate and visible declaration of commitment by APEC to the reform and liberalization of trade policies and to support the Doha Development Agenda. The initiative should comprise actions consistent with WTO negotiating objectives and the achievement of the APEC Bogor Goals.

Elements of an action plan could include:

- Reaffirmation of the pledge in the Doha decision to reject the use of protectionism;
- Agreement to refrain from intensifying or introducing new trade limiting measures during the course of the WTO negotiations;
  - Agreement to seek priority results (an "early harvest") from the negotiations in areas widely regarded as requiring urgent actions to maintain the momentum of Uruguay Round outcomes and build confidence in the process among all participants. The selected areas should include:
    - agricultural products: initiatives to continue the programme of progressive increases in market access and reductions in domestic support and export subsidies, as implemented in the Uruguay Round.
    - anti-dumping measures: clarification and improvement of disciplines in the WTO texts. ABAC invites Ministers Responsible for Trade to instruct officials to report with urgency on a programme for concerted action to be put before Leaders for adoption at the October Los Cabos Meeting.

### **Micro-finance**

Background: ABAC recognises the importance of microfinance in promoting entrepreneurship among the least wealthy members of our societies unable to participate in economic development or to obtain access to the formal finance system.

ABAC believes effective development of the microfinance model would give practical effect to the concept of shared development, in particular through programmes aimed at the poor and expanding the participation of the underdeveloped sections of society in economic activity. ABAC is placing special emphasis this year on enhancing the role of microfinance institutions (MFIs) in APEC economies. Developing the role of MFIs on a more meaningful scale will require support for upgrading the quality of MFI management, improved accounting and administration, and facilitating links between MFIs and public institutions providing existing flows of aid funding, as well as new private donors keen to enter the field. Linkages between commercial banks and other financial institutions will be promoted in some economies, but should be accompanied by supervisory oversight.

### **Action required**

- APEC authorities should promote an enabling and conducive legal, regulatory and business environment, including through various incentives - for example in the tax system - for the creation and development of microenterprises and MFIs.
- APEC members should promote and support capacity building measures that help build the foundation for expanded microfinance funding:
  - examine existing MFIs to determine "best practices" for microfinance programmes.
  - call on the World Bank, IMF and Development banks to create a ratings system that will reflect the credit worthiness and competences of MFIs.
- ABAC recognises that aid funding is a critical component of microfinancing and it should be continued and expanded.
- Ministers should encourage the involvement of commercial financial institutions in microfinance programmes, which could be undertaken in one of the following ways:
  - as part of the institution's community engagement or philanthropic activities
  - as part of lending activity; in which case banks should conform with sound prudential standards and, where appropriate, use guarantee mechanisms such as the IFC GMEF programme.
- Regulators should separately measure the size of bank lending to MFIs and consider these loans as a particular category of lending with an appropriate capital weighting ratio applying to them.

## **II. REINFORCING GLOBAL SECURITY**

Trade and other economic activity cannot take place fully without a secure environment. The APEC community must join forces to create a unified and coordinated strategy to advance terrorism prevention, response and consequence management programmes. The public and private sectors must work together to develop and implement effective security solutions that also respect the interests of legitimate commerce. Terrorism has effects that go well beyond the political arena and impact directly on the entire business environment. Terrorism stifles and erodes consumer confidence and effectively hijacks economic growth. Thus, ABAC has developed recommendations that will help create a more secure and agile global business environment. ABAC has been working on several initiatives that will limit the infiltration of the financial system by terrorists, promote the viability of the re-insurance industry, facilitate the movement of business travelers and protect the international transportation network. Also, ABAC strongly believes that the adverse effects of heightened security measures implemented after September 11th can be mitigated by the proper use of technology. In an effort to jump-start the implementation of many of these recommendations, ABAC Mexico has taken a leadership role through development of its flagship project for 2002, a pioneering approach to cargo

transportation called the Trans-Pacific Multimodal Corridor Model Project. The project promotes key APEC principles such as customs cooperation, capacity building, public-private partnerships while using technology to create a seamless and more secure transportation system.

### **Cost and Availability of Insurance Cover and Curtailing Terrorism Financing**

Background: The commercial and economic consequences of the September 11 terrorist attacks, felt immediately in the US, is now acutely affecting all APEC economies. The FTF examined two issues in particular: the increased cost and reduced availability of insurance and efforts to curtail the financing of terrorism. Each issue affects the efficient workings of economic systems and each warrants consideration of greater collaboration between business and governments at the national, regional and global levels. In order for the insurance and reinsurance industries to recover from the claims experience and capital dilution - particularly in the world-wide reinsurance sector - in the post-September 11 environment (and earlier crises in the industry), and ensure their viability into the future, several steps must be taken.

In order to curtail financing of terrorist operations, concurrent action on the part of governments and industry is important.

In both areas, business stands ready to support security efforts, but notes the importance of solutions that ensure maximum efficiency and cost-effectiveness and minimise the impact on transactions so as not to disrupt economic activity. Interests of bona fide customers' privacy and the integrity of the global payments system need to be fully protected.

#### **Action required**

- Insurance companies must first be allowed (free of pricing or other legislative constraints) to respond on a market basis through premium adjustment and/or limits to coverage and availability.
- APEC economies which have witnessed excessive compensation payments as a consequence of judgments in their tort law systems, should reform that system; this in turn, will build and give sustainability to insurance coverage.
- In those APEC economies where emergency government reinsurance backstops are established, these should fully price risk and have planned exit strategies as the private market recovers.
- To curtail terrorism finance, governments should ratify the Financial Action Task Force measures. Governments should co-operate with the private sector as the sector seeks to implement the spirit and the principles reflected in the Wolfsberg Statement on the Suppression of the Financing of Terrorism.

#### **Security - Movement of Goods & People**

Background: The ramifications of the terrorist attacks on September 11 have directly affected the movement of goods and people across borders, producing cataclysmic effects for business and trade, raising the cost of doing business, and underscoring the interconnectivity of the global trading system. Economies now face the challenge of balancing enforcement of security measures while endeavoring to reduce transaction costs. While the business community recognizes the need for increased vigilance and seeks to work with government authorities to address security concerns; restoring economic growth to the region requires facilitation of cross border trade without compromising streamlined flow of goods and people across borders. Currently, there are a number of on-going or proposed efforts to address increased security for

cargo shipments and safety of passengers, which could serve as useful models for a joint initiative between government and business. Already in existence, APEC Business Travel Card has 12 participating economies and ABAC looks to Ministers to move towards greater participation in this scheme. The use of advance technologies and intelligent systems can also help streamline operations and increase border security while simultaneously promoting cross border flow. This effort would help secure the supply chain, build confidence and create growth in the region.

### **Action Required**

Ministers should develop a coordinated plan to secure supply chains and facilitate the movement of goods and people. This action plan must take into account concerns about abuse of private information. Any new security procedures should be open, transparent, comprehensive and encourage participation. The new plan should minimize the disruptions and costs to business of the movement of goods and people, and the plan should draw on the experience of existing initiatives and pilot projects including:

- Movement of goods: Business Anti-Smuggling and Security Coalition, US Container Security Initiative, US/Canada Smart Borders project, US/Mexico Smart Borders project and Operation Safe Commerce - Pacific.
- Movement of people: APEC Business Travel Card, Advance Passenger Processing, Simplified Passenger Travel, and possible use of biometrics.
- Effective government-industry leadership in developing and implementing new security procedures.

These measures should be implemented with greatest urgency. Once the action plan has been developed, economies may consider utilizing APEC's "Pathfinder" mechanism.

### **Technology to Strengthen Security**

Background: Both governments and business in APEC economies are wrestling with how best to advance business facilitation and remain focused on meeting the Bogor Goals while at the same time meeting increased security demands. While technology can help provide tools to manage risk better and at the same time create efficiencies, it is important for economies to have a deliberative approach that begins by defining security problems and the processes to be used first. Once these processes are stabilized and can be trusted, both existing and emerging technologies can assist.

Information technology has played an important role in creating efficiencies in international trade and economies can build on this success by integrating security-related measures into evolving management systems. Policy challenges for "trustworthy computing" will require enforcement and international consistency in cyber crime laws, laws that are technology neutral and promote innovation, a balance between privacy and security, meaningful penalties for online piracy, and balanced rules for online intermediaries.

Many other technologies such as electronic seals, container tracking and intrusion detection technology, biometrics, x-ray machines and others may also facilitate solutions once problems and processes are clearly defined. Financing solutions for any new technologies employed as well as training will be critical.

The need for a public-private partnership cannot be overemphasized, as innovations and new and improved technologies will come from the private sector. APEC economies should

accelerate their efforts to share lessons learned and best practices through relevant working groups and ad hoc seminars and workshops. Pilot projects to test and implement new technologies, applications and systems can be highly effective at refining and sharpening tools and ultimately answers.

A number of pilot projects are already underway in the region; two examples are the Australian Advance Passenger Processing project and the US/Canada Smart Border project on mobility of people. Projects such as these may serve as possible models for other economies. Tighter security regulations and operations should not impede APEC's efforts to achieve its trade and investment liberalization goals.

### **Action required**

ABAC urges Ministers to identify and start to implement projects with the private sector by October 2002 to test possible technological solutions to enhance security, including cyber-security, once needs are clearly defined. Economies should share results widely, explore effective financing, and develop training modules for broad dissemination.

## **III. ADDITIONAL ABAC RECOMMENDATIONS**

To reinforce these themes of sharing development and global security, ABAC makes the following specific recommendations:

### **Standards, Mutual Recognition and Conformance**

Background: The lack of harmonisation and/or mutual recognition of standards remains one of the most significant constraints to the growth of regional trade flows. ABAC is disappointed with the advances made to date in achieving its "one standard, one test, accepted everywhere" objective.

While some progress has been made, not all member economies are on track to achieve the targeted 100 per cent alignment with international standards in the original four priority areas. And very little has been achieved with respect to mutual recognition. APEC needs to identify and resolve impediments to faster progress. One explanation for the lack of progress in delivering Mutual Recognition Agreements (MRAs) lies in the fact that the standards and conformance infrastructure is unevenly developed across the region.

ABAC sees a need for human resource capacity building to facilitate developing member economies' participation in international standards setting bodies. Capacity building is also required to build technical competence to the point where regulators have the confidence to cooperate actively and governments can move to the treaty status obligations of MRAs.

ABAC applauds the practical progress, which has been achieved to date in cooperative activities at the voluntary level within the Specialist Regional Bodies on Standards, Laboratory Testing, Certification and Accreditation, Measurement and Legal Metrology. This work will provide an improved basis for mutual recognition at the government level. ABAC considers projects that support these critical confidence-building activities should now be made directly eligible for TILF funding.

ABAC also welcomes the Chemical Dialogue effort to facilitate implementation of the Globally Harmonized Systems on Hazardous Chemicals. ABAC notes that although neither the APEC

Telecommunications MRA nor the APEC Electronic Products MRA have sufficient signatories to enable them to become operational, large subsets of the APEC membership have signed onto the information exchange components of both Agreements. ABAC recommends that signatory member economies move, without any further delay, to implement the information exchange components of both Agreements. Such action would constitute pathfinder initiatives of real interest to the regional business community and help to move the implementing economies towards greater acceptance of the other components of the two Agreements.

ABAC also considers that more widespread adoption of a performance-based approach to standards setting could contribute to unblocking problems being experienced in APEC's work on standards in specific sectors such as building materials. ABAC suggests that APEC members undertake a study to analyze and promote throughout the region the economic benefits of moving to performance-based, rather than prescriptive standards.

### **Action Required**

- ABAC recommends that APEC Ministers act immediately to enable APEC TILF funding to be made available to support confidence building projects put forward by the Specialist Regional Bodies. ABAC recommends that funding applications from these Specialist Regional Bodies, to which all APEC members belong, should become directly eligible for TILF funds, independent of any requirement for individual member economy sponsorship.
- ABAC urges APEC Ministers to explore the possibility of immediate implementation by signatories of the information exchange components of the APEC Telecommunications MRA and the APEC Electrical Products MRA. ABAC calls on APEC Ministers to adopt the Globally Harmonized System on hazard classification and labeling of chemicals and safety data sheets and to set a timeline for implementation by the end of 2006.

### **Support the Involvement of APEC Agricultural Ministers in the APEC Food System**

Background: In 1998 and 1999 ABAC urged the adoption of an APEC Food System. In 1999 the Leaders approved the APEC Food System and ordered its implementation. In 2001 the Leaders called for "accelerated implementation of the APEC Food System initiative." In 2000 and 2001, citing concerns about inaction, ABAC made very specific recommendations designed to jump start implementation. In 2001, Ministers instructed Senior Officials to respond to ABAC's recommendations. In 2002, ABAC sent a letter to Senior Officials expressing concern that responsibility for action on the APEC Food System was too diffused and urged the Senior Officials to find, "a structure within APEC that will take responsibility to reliably implement the AFS in the accelerated manner the Leaders have called for.

"One of ABAC's 2001 recommendations was that the APEC Agriculture Ministers have to get involved in the APEC Food System. To our knowledge the Senior Officials have not addressed this issue in their deliberations to date on how to respond to the 2000 and 2001 ABAC recommendations. We find it strange that APEC should try to create a food system but have no role for its Agriculture Ministers and we ascribe much of the lack of implementation to date to the fact that the issue has not necessarily been handled by the right players.

ABAC notes that the prestigious World Agricultural Forum has recognized the potential importance of the APEC Food System, and with the consent and cooperation of the Mexican government, is putting on a conference in Guadalajara, Mexico September 18-19 that will focus on the APEC Food System. Although this is not an official APEC meeting, it will examine

closely an important APEC issue and will bring distinguished private sector, NGO, think tank, government, and expert participants from throughout the world to the conference. The World Agricultural Forum will invite the APEC Agriculture Ministers to participate in the conference and will make provision for them to meet privately among themselves during the conference.

ABAC believes that if the APEC Agriculture Ministers attend the September conference and become involved in the APEC Food System that de facto the ABAC recommendation calling for an Agriculture Ministers meeting will have been accepted and fulfilled by APEC.

### **Action Required**

ABAC recommends that Trade Ministers communicate directly and immediately with their Agriculture Minister colleagues and encourage them to attend the World Agricultural Forum event and become involved in the implementation of the APEC Food System.

### **Strengthening the Business Environment through Judicial Training**

Background: A judicial system that effectively resolves conflicts in accordance with established legal norms and within the culturally defined notions of fairness in each economy is a vital element for business facilitation. In order to positively impact the institutional and human capacities of each economy's judicial system, APEC member economies should contribute to a growing cadre of professional educators with enhanced skills and expertise in the area of judicial training. ABAC strongly believes that involvement of the private sector in legal education programmes is of critical importance

### **Action Required**

Therefore, ABAC recommends that the Leaders develop a model judicial training programme for judges and magistrates in substantive areas such as intellectual property protection, unfair trade practices, competition policy, consumer protection, environmental law, e-commerce, international contracts, as well as in non-substantive areas including docket management, use of innovative technologies for the administration of justice, alternative dispute resolution, and codes of ethics.

### **e-Commerce Enabling Environment:**

Background: To achieve maximum benefits from information technology and electronic commerce requires a consistent legal and regulatory framework that is technology-neutral, based on international norms, benefits from an interoperable infrastructure and is supported by appropriate trade policies.

One new element of the digital economy has been the advent of electronic signatures and the need for them to have the same legal effect as handwritten signatures and seals. A number of economies, including Hong Kong, Malaysia, Japan, Korea, Peru, the Philippines, the United States, Brunei, and Singapore have enacted required laws and it is expected that necessary legislative processes should be completed in 2002 for New Zealand and Chinese Taipei. Methods for authenticating transactions are available in most of these economies as well.

Consumer trust is key for the development of online transactions and in a number of economies legislation already covers such transactions. In the area of commercial disputes, alternative



dispute resolution mechanisms that are used in more traditional areas are also available for online transactions in Hong Kong, Korea, New Zealand, and Singapore.

In the Shanghai Accord, Leaders recognized the importance of adopting appropriate trade policies for the new economy, instructing officials to exchange information, such as that on the status of liberalization of services and adherence to tariff and intellectual property regimes by mid-2002, so that economies may develop targets by the Joint Ministerial Meeting in October 2002. ABAC has previously underscored the importance of adherence to WTO provisions, such as the Information Technology Agreement (ITA) that economies ranging from Hong Kong, Korea, the Philippines, Indonesia, and Chinese Taipei have implemented on schedule. Efforts within APEC to develop a pathfinder initiative to encourage remaining economies to join should be supported. Peru, Japan, New Zealand, Singapore, and Korea are among those who have also implemented the commitments in the WTO Telecommunications Reference Paper on establishment of an independent regulator, cost-oriented interconnection pricing, non-discrimination and other pro-competitive policies.

### **Action Required**

ABAC calls on APEC economies to expedite implementation of laws such as those on digital signatures to expand digital economy opportunities and report progress in their IAPs. After exchanging trade policy information on the status of liberalization of services and adherence to tariff and intellectual property regimes, Ministers should agree on targets by the Joint Ministerial Meeting in October 2002, as implementation of the important trade policies highlighted in the Shanghai Accord can maximize the benefits of the digital economy.

### **e-Government Benefits to Business**

Background: Believing that e-government can produce significant efficiencies and opportunities for business, ABAC is focusing on customs and procurement as two key areas where e-government initiatives can make a significant impact. The ability of customs agencies to receive and process data electronically at the desktop and dock and have data for all ports of entry electronically integrated can increase efficiencies. Such systems are already in use in some economies, including the Philippines, Peru, Indonesia, and Singapore. While Hong Kong is a free port, it has already mandated the submission of import and export declarations using electronic data interchange and has set a 2002 target date to go completely paperless for the submission of air, sea and rail cargo manifests.

Previous ABAC recommendations have emphasized that SMEs in particular can gain from online procurement opportunities. Economies such as Chinese Taipei, United States, and Hong Kong have developed systems whereby bid documents are available online and bids can subsequently be submitted online for purchases by at least some government agencies. ABAC understands that more comprehensive e-procurement systems are currently under development in economies such as New Zealand, Mexico, Malaysia, and the Philippines.

### **Action Required**

ABAC calls on Ministers to develop a timetable by February 2003 with implementation targets to broaden and deepen electronic customs processing and online government procurement operations. ABAC urges Ministers to direct officials to use the July High Level Symposium on e-government in Korea and the e-Commerce Steering Group Meeting e-government workshop to

share best practices and build capacity in APEC governments so that all economies can move forward quickly in these two important areas. Progress will provide significant improvements in efficiency and transparency for business, especially for SMEs.

## **Biotechnology**

Background: ABAC commends APEC's decision to hold a policy-level Dialogue on Agricultural Biotechnology this past February. Agricultural biotechnology is a new, emerging technology that fosters new business growth and all signs indicate that it could lead to a new revolution in productivity. There should be convergence and harmonisation of regulations, standardization of patent processes, etc. If each economy takes different and asymmetrical approaches in regulating agricultural biotechnology, then the resulting complexity could stifle this industry and affect its safe use. The benefits of this technology should be safely introduced and shared by all, with efforts made by APEC economies to help bring a balanced understanding to all citizens. ABAC pledges to assist if private sector input is desired.

### **Action Required**

ABAC calls on Ministers by the Los Cabos meeting to direct the High Level Policy Dialogue on agricultural biotechnology to develop an effective programme that addresses all the major aspects affecting the introduction of agricultural biotechnology, such as science-based benefit/risk assessment and public education.

## **Measures to Improve Corporate Governance**

Background: One element fuelling today's uncertain business environment has been some significant corporate failures in a number of APEC economies, raising fundamental questions on corporate governance, the role of independent auditors and financial advisers, and application of accounting standards. The immediate need is to fully understand the causes that lie behind the current spate of failures. ABAC notes that major reviews are ongoing in a number of jurisdictions. It is unacceptable in a globalising world that economies seek to utilise independent accounting standards.

ABAC cautions against precipitate legislative action until the causes of failure are fully understood. At the same time, we recognise that new measures may be necessary to improve confidence in the business sector to engender continuing support for open market mechanisms and to reinforce measures for trade and capital market liberalisation.

### **Action Required**

- APEC economies should move to the adoption of one set of internationally accepted accounting standards at the earliest possible date, promoting principles rather than the rule-based standards. Each economy should have in place by 2003 processes for sharing and analysing information on board structures and practices with a view to developing APEC best practices governance models. Governments should cooperate with private sector Institutes of Directors in this effort.
- Each APEC economy should ensure that governance standards are of a quality that is attractive to domestic and international investors by reflecting high standards of ethical behaviour, the avoidance of conflict of interest and insider trading, the fair representation of minority interests, transparency in reporting and audit independence.

## **Sovereign Debt Restructuring**

Background: The IMF recently proposed a state bankruptcy law to smooth procedure for rescheduling sovereign debt to remove problems that arise because of disputes between creditors on the terms of rescheduling. While there is support for the new measures, the IMF proposal raises questions about the practicalities of implementation and the equitable treatment of private capital. The G7 has recommended improvement to voluntary case-by-case rescheduling and for market solutions, including the adoption of new clauses in debt contracts to provide for arrangement on debt restructuring.

APEC economies view with some caution the IMF proposal for a state bankruptcy system, noting the practical issues involved in implementing it, and urge consideration of a more effective mechanism of debt rescheduling to be agreed to by the IMF aimed at early resolutions on rescheduling, and which would seek to maintain private capital flows.

### **Actions Required**

- APEC economies should adopt the G7 proposals of 20 April 2002 for the inclusion of contingency clauses in new debt contracts.
- APEC Finance Ministers should set a timetable for agreeing standard collective action clauses in sovereign bond contracts to be implemented by around mid 2003 as an effective measure in facilitating timely agreement to debt rescheduling by widely dispersed bond holders. APEC economies support the establishment of consultative arrangements between the IMF and regional private financial groups to discuss financial developments relevant to the region, including such matters as regional financial cooperation, early warning systems and proposals for debt restructuring.

## **An Enabling Policy Environment For SME Growth**

Background: A top priority for all APEC economies should be to create a policy environment that is conducive to entrepreneurship, innovation and sustainable growth of SMEs.

This consists of a regulatory environment that does not impose undue administrative burdens on SMEs; good governance and greater accountability in public administration; fair and transparent competition policy; and the implementation of effective anti-corruption measures. APEC governments can also take steps to promote access to information and technology; education and training; and work to reduce impediments to market access both domestically and internationally.

In order to effectively identify gaps or weaknesses in the policy environment, ABAC calls on Ministers responsible for SMEs to clearly report on their policies to support small businesses. As a first step in this regard, sixteen APEC economies have participated in an SME Policy Questionnaire that identifies where policies are in place to support SMEs in the areas of information access, finance, technology, HR and training, market access and administrative burden.

### **Action Required**

ABAC asks all APEC Ministers Responsible for SMEs to insure that their officials have completed the APEC SME Policy Questionnaire by the end of this year. Background: An

important component of an enabling policy environment is a tax system that is fair and equitable, stable, transparent, non-discriminatory and encourages investment in SMEs. In addition, various tax initiatives can be used to stimulate entrepreneurial activities by promoting research and development, modernization and expansion, start-ups and re-investment for growth.

### **Action Required**

As part of their review of policies to support SMEs, ABAC encourages Ministers Responsible for SMEs to identify what tax initiatives are in place to promote entrepreneurship and SME growth, including reduced tax rates for SMEs to encourage reinvestment of profits for growth.

### **Using Technology to Access SME Information**

Background: Many APEC governments offer a range of information programmes and services to SMEs. Awareness of these resources amongst the small business community is often very low and accessing the information is difficult. Last year, ABAC encouraged APEC to take steps to provide one-window access to all programmes and services available to small business through the development of an APEC SME Portal. Such an APEC SME Portal should provide links to information in each APEC economy on programmes available to assist small business, including finance, marketing, international trade, human resources management, legal, tax and accounting issues, business diagnostic tools, and e-commerce. We are pleased to learn that initial funding for an APEC SME Portal has been approved and look forward to providing input on its development. The success of the Portal will be determined by its user-friendliness, availability in the local language of its intended users, and in its proper maintenance and promotion.

### **Action Required**

ABAC encourages Ministers Responsible for SMEs to ensure that all relevant government departments are made aware of and provide links to the APEC SME Portal.

Background: In order for this or any portal to be effective, the capacity of SMEs to access the internet must be strengthened. Many APEC economies are actively seeking to improve SME access and awareness to information technology tools and business opportunities online. These include specific training programmes to promote SME e-commerce preparedness, as well as on-line business training and diagnostic tools.

### **Action Required**

ABAC calls upon all APEC Ministers Responsible for SMEs to share their timetable, with implementation target dates, for improving access and usage of online services by their SME communities.

### **Promoting SME Partnerships**

Background: The forces of globalization and liberalization can be viewed as a threat by local small businesses that find themselves in a newly competitive environment. It is critical that SMEs are included in the globalization process and not isolated. Market opening can offer new export opportunities for SMEs seeking to 'go global'. APEC economies can facilitate business-to-business solutions to assist small enterprises to adapt to changes in their business environment.

A variety of approaches to small business collaboration have emerged around the region, including SME 'clusters' and SME linkages with transnational corporations (TNCs). SME clusters allow small companies to achieve economies of scope and scale and efficiency gains through joint marketing, mutual credit guarantee associations, sponsorship of joint training, and more efficient division of labour amongst enterprises. Clusters also enhance SME abilities to participate in international trade. SME-TNC linkages strengthen SME competitiveness and assist in bringing SMEs into the global marketplace. These linkages may take the form of mentoring programmes to coach SMEs in total quality management, access to corporate training, and assignment of staff temporarily to SMEs.

ABAC will examine opportunities to promote SME partnerships at its Third meeting in Hong Kong, with a view to providing further input as to what steps governments can take to facilitate these partnerships.

### **Action Required**

ABAC invites APEC Ministers Responsible for SMEs to identify what steps they are taking to facilitate and support SME clusters and TNC linkages and to share their 'promising practices' with other member economies.

### **SME Access to Financing**

Background: This year, ABAC provides key recommendations in the area of micro-finance, aimed at narrowing the gap between the haves and have-nots in developing economies. It is important to note that the objectives and the methods of delivering micro-financing are very different from those aimed at small and medium-sized businesses in the region.

Since its creation in 1996, the APEC Business Advisory Council (ABAC) has presented a range of recommendations to APEC Leaders on SME financing. Nevertheless, access to financing remains the highest priority for SMEs in the APEC region. Banks in many economies have improved access to debt funding for SMEs. However, access to equity and growth capital remains a challenge in all APEC economies. Lack of equity is a factor that puts many SMEs at risk. ABAC believes that the deepening and strengthening of capital markets, with particular emphasis on the development of equity markets can contribute to the growth of SMEs.

### **Action Required**

ABAC asks APEC Ministers to review the range of financing options available to SMEs in their economies and identify 'financing gaps' that may exist, with particular emphasis on equity financing. We encourage APEC to examine incentives that will encourage private sector investment in SMEs and the creation of venture capital.

Background: ABAC encourages APEC economies to consider steps they can take to encourage banks to look more favourably at lending to SMEs. Banking regulation could differentiate in the weightings placed on capital provisioning between large loans to individual corporate borrowers and much smaller loans to a large and diverse SME sector - the latter involving a lower risk weighting.

## **Action Required**

Bank supervisors should consider lower risk weights for SME loan portfolios where those portfolios are secured, more diverse than corporate loan portfolios, priced for risk and where the enforceability of securities is certain under local legal systems. APEC economies should propose immediate changes to the BIS Accords to give effect to lower risk weights in the lead-up to the BIS 2 Accord

## **Improve the e-IAPs for Business Friendliness**

Background: ABAC applauds the full placement of the Individual Action Plans (e-IAPs) online. This was a past ABAC recommendation. It also applauds the improved IAP peer review process and the encouragement of private sector input into the reviews. However, in its review of the e-IAPs, ABAC still finds them not yet to be an effective tool by which business can make investment and marketing decisions. As they stand now, the e-IAPs are more the domain of governments, written by government officials for other government officials. It is a longstanding ABAC belief that an economy's roadmap to liberalization by 2010 or 2020 should be a dynamic tool regularly consulted by business. In fact, ABAC has found that businesses don't know of the existence of the e-IAPs and, if they do, often consider them too cumbersome or obscure to use. ABAC has decided to contact prestigious business schools in the region to ask them to have their MBA students do projects in which they integrate the use of the e-IAPs and the BizAPEC website. The schools will then feed back to ABAC evaluations of the business-friendliness of the e-IAPs. ABAC expects this to be an ongoing project, year after year. It hopes the project will also serve to introduce APEC to new MBAs and through them the companies they go to work for. APEC needs to realize that government is not the only audience for the e-IAPs. As 2010/2020 approaches the e-IAPs will increasingly be scrutinized by business as well as academia and the media, and judgements as to the efficacy of APEC will be made accordingly.

## **Action Required**

APEC needs to put special emphasis on ensuring that the IAPs are looked at with fresh eyes. The IAPs need to be improved for clarity, specificity and business friendliness. APEC should create procedures for doing this, including being open to accepting the critiques of the region's business schools as ABAC forwards them.

Ministers should, at or before the Los Cabos meeting, instruct Senior Officials to have the APEC Secretariat undertake a programme both for reaching out to the private sector and other sources of critiques of the e-IAPs, and for funneling the information received through ABAC from the business schools into improved IAPs.

## **Prevent the Growing Use of NTMs and Misuse of ADMs**

Background: Last year in its report, ABAC noted that, "as tariffs come down, it is increasingly important for APEC to tackle other impediments to trade." ABAC is concerned that as liberalization measures resulting from the implementation of the Uruguay Round and APEC's Bogor Goals take effect, there is an increasing use of Non-Tariff Trade Barriers, and misuse of legitimate tools such as Anti-Dumping Measures, to create a new brand of protectionism. Data from a May 2000 Pacific Economic Cooperation Council study, as well as preliminary data from a study commissioned by ABAC, indicate that indeed there might be a disturbing pattern concerning the use of NTMs and the misuse of ADMs.

## **Action Required**

APEC member economies need to recommit themselves to avoiding the use of NTMs and the misuse of ADMs and to work collectively in the Doha Round on both issues to prevent protectionist abuses. We strongly urge APEC economies to participate in the review of NTMs and the WTO Anti-Dumping Agreement, with the aim of strengthening rules to prevent protectionist abuse of such measures. At the Puerto Vallarta meeting, APEC's Trade Ministers begin a process of communication and coordination on how APEC will collectively address in the WTO negotiations the issues of the increasing use of NTMs and the misuse of ADMs. APEC should reach out to the private sector for input. At the Los Cabos meeting, Ministers should announce an APEC roadmap to collectively push for an effective agenda in the WTO on these issues.

## **Engage in Even More Dialogue and Partnerships with the Private Sector**

Background: ABAC believes APEC is best when it engages the private sector. There have been several successful examples such as the Auto Dialogue, the Chemicals Dialogue, the Shanghai Model Port Project, etc., and many of the Working Groups work closely with business. And there are other examples. However, ABAC has received feedback that there is "dialogue fatigue" in APEC and that many officials do not welcome more engagement with the private sector.

While the strain on human resources for many economies is understood, ABAC believes there is no substitute for private sector input if APEC policies are to reflect the up-to-date needs and realities of the business community. Rather than avoiding dialogue with the private sector, we believe more APEC fora should seek it in issues such as energy, transportation, security, telecommunications, and rural development.

## **Action Required**

APEC should commit itself to successfully carrying out the programmes it has begun with the private sector such as the Auto Dialogue and the just started Chemicals Dialogue as well as recommit itself to projects started in the past such as RISE (Regional Integration for Sustainable Economies). In addition, APEC should welcome new initiatives that may arise in the future in key sectors and not reject serious dialogue with the private sector on important issues or projects even if they may seem to represent a "proliferation."

At or before the Los Cabos meeting, Ministers should instruct Senior Officials and all APEC fora to seek private sector input where practical and to invigorate the efforts of the Auto and Chemicals Dialogues. They should also instruct that future requests by the private sector to engage APEC on specific issues should be weighed primarily on their merits in promoting trade liberalization/facilitation or economic and technical cooperation.

## **APEC Formal Feedback to ABAC on its Recommendations**

Background: ABAC has noted that little action has been taken on many of its past recommendations. ABAC often lacks feedback that its recommendations were ever evaluated by APEC.

## **Action Required**

ABAC recommends that APEC create a formalized feedback system for informing ABAC what action or evaluation APEC undertakes on future ABAC's recommendations. Specifically, ABAC recommends that the APEC Secretariat be tasked to collect this feedback from all APEC fora and formally present it to ABAC prior to the second (April/May) meeting of ABAC each year (covering recommendations ABAC made the previous year).

The APEC Secretariat Executive Director should attend the second ABAC meeting of each year to discuss the results of the Secretariat's report directly with the ABAC. Additionally, to begin this feedback process, ABAC would like to know, at its meeting in Hong Kong in August 2002, what action has been taken on the six ABAC recommendations from the past that are listed below. ABAC believes these recommendations were especially relevant and achievable, but feels it has not received sufficient feedback on what happened to them. ABAC invites the Executive Secretary of the APEC Secretariat to attend the Hong Kong meeting to discuss these past recommendations:

International Standards: Status of participation of member economies in international standards and mutual recognition agreements. This has been a repeated ABAC recommendation.

- APEC Food System: Response to and implementation of the ABAC's 2000 and 2001 recommendations on the APEC Food System
- Government Online: ABAC's 2000 recommendation of a clear timetable for putting government services online.
- Participation in ROSCs and FSAPs: ABAC's 2000 recommendation that APEC economies participate in and undertake completion of the IMF's and the World Bank's Report on Observance of Standards and Codes (ROSCs) and Financial Sector Assessment Programmes (FSAPs) process.
- Development of Bond Market Coordinating Bodies: ABAC's 2000 recommendation that APEC economies commit to establishing high-level domestic coordinating bodies to oversee the development of bond markets.
- Strengthen IPR Enforcement: ABAC has repeatedly made recommendations on this subject, the first time in its 1996 report. It supports the establishment of IPR Service Centres to accumulate information on IPR infringement measures taken by rights holders, share information between governments and business communities, promote public awareness, and strengthen enforcement through capacity building.

At the direction of Ministers, the Senior Officials should task the APEC Secretariat with this standing formal feedback function and the one-time review of the selected past recommendations above.

## **EPILOGUE**

APEC is at an important cross-road as it approaches the midway point with respect to the Bogor Goals. We must pause and ask ourselves if we have the necessary instruments, programmes and mechanisms in place to reach our highly ambitious Bogor Goals. An unwavering commitment to reaching the Bogor Goals will also serve as a catalyst for a successful negotiation of the Doha Round. Business has a critical role to play in the road ahead. It is our hope that the recommendations contained herewithin will lead to specific actions and concrete results by the various APEC economies before the Leaders Summit in Los Cabos. The implementation of ABAC's recommendations will help create greater confidence in the international trading system.



Business facilitation, legal certainty, corporate governance, institutional development and capacity building are important items in the ABAC 2002 agenda.