

# **ABAC 1999 - Report to APEC Economic Leaders**

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## **EXECUTIVE SUMMARY**

Trade and investment liberalization is vital to improve the competitiveness of our businesses, to encourage economic growth, and to increase the welfare of our communities. We urge all APEC economies, large and small, to take concrete steps, both collective and unilateral, to achieve the goal of free and open trade and investment by 2010/2020. ABAC calls on APEC Trade Ministers and Leaders to work together on taking that agenda forward in the WTO.

For businesses to succeed internationally, they need open, transparent and efficient domestic markets. All APEC members must ensure that their economies support business in this way. APEC can help economies build their capacity to cope with and benefit from the challenges of a competitive global market.

### **APEC's Individual Action Plans**

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These are the principal way for all APEC economies to clearly identify how they will achieve their commitment to free and open trade and investment by 2010 and 2020, and also the main way for business to assess APEC's effectiveness. Previous concerns remain valid regarding lack of transparency, specificity, and comprehensiveness. The individual actions being taken by member economies are not ambitious enough, in content or timeframe, to meet the goals of free trade and investment by 2010/2020.

### **Capacity Building**

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Moves to liberalize trade and investment in the region need to be complemented by a program to build the capacity and infrastructure of APEC member economies to cope with the transition to more open, competitive markets. We recommend a more coherent APEC ecotech program which also details the scope for business input.

### **Finance**

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Recovery appears to be within reach, but keeping the region on the road to recovery depends upon continued momentum in the areas of financial reform and corporate restructuring. We have developed specific proposals to promote early economic recovery within the region, and to lay the foundation for long-term stability and sustainable growth.

### **Food**

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We reconfirm our 1998 recommendation on establishing an APEC Food System, and suggest possible first steps towards implementation of an APEC Food System including the creation of an APEC export subsidy-free zone.

### **E-commerce**

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We will continue to work with the wider private sector and governments in the region to develop principles governing e-commerce and a template to assist economies in developing e-commerce in their own economy. We recommend that APEC Leaders seek agreement in the WTO not to impose any new customs duties on electronic transactions over the internet.

### **Air services liberalization**

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We support a strong, open and competitive international air transport network. We urge Leaders to implement the recommendations of the APEC Transportation Working Group, and take further steps towards the removal of barriers to trade and investment in air services.

### **Partnership for Equitable Growth (PEG)**

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PEG is now formally incorporated as a non-profit organization based in Kuala Lumpur and has begun work on several of its flagship projects.

### **Y2K**

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We call for regional cooperation within APEC on Y2K issues, including urgent dissemination of best practice measures, and examination of international plans for short-term liquidity support/emergency aid.

# LETTER TO THE APEC CHAIR

16 August 1999

**Rt Hon Jenny Shipley**

Prime Minister of New Zealand

APEC Chair 1999

Parliament Buildings

Wellington

New Zealand

Dear Prime Minister

The APEC (Asia Pacific Economic Cooperation) process is unique in seeking direct business input into its work. It is therefore well-placed to respond to the economic challenges facing the region. As the official representative of business, the APEC Business Advisory Council (ABAC) is committed to ensuring that APEC responds to these challenges effectively by providing clear and independent advice on business priorities.

Trade and investment liberalization is vital to improve the competitiveness of our businesses, to encourage economic growth, and to increase the welfare of our communities. We urge all APEC economies, large and small, to take concrete steps to achieve the goal of free and open trade and investment by 2010 for developed economies and 2020 for developing economies. These dates are coming up fast, particularly for developed member economies.

For businesses to succeed internationally, they need open, transparent, and efficient domestic markets. It is up to all APEC members to ensure that their economies support business in this way. APEC can help economies build their capacity to cope with and benefit from the challenges of a competitive global market. We strongly support closer linkage between APEC's economic and technical co-operation (ecotech) activities and the needs of business.

Our specific recommendations for this year are outlined below. Background papers and more detailed recommendations are provided in the accompanying document.

## **Trade and Investment Liberalization**

We reaffirm our support for liberalization of goods and services markets by eliminating tariff and non-tariff barriers by 2010/2020, and urge all member economies to continue to pursue collective and unilateral liberalization within APEC. Real progress on trade liberalization must be made at all levels - national, regional, and global - to ensure economic recovery and growth in our region. The call by APEC Trade Ministers for industrial products to be included in a new round of World Trade Organization (WTO) negotiations is a welcome step toward ensuring that the agenda for a new round will be comprehensive. ABAC urges APEC Trade Ministers and Leaders to work together on taking that agenda forward in the WTO.

On the completion of APEC's early voluntary sectoral liberalization initiative (EVSL), we wrote to Trade Ministers in March and May this year, supporting the call by Leaders in Kuala Lumpur for implementation of tariff reductions in the priority eight sectors by the end of 1999, through referral to the WTO as the Accelerated Trade Liberalization (ATL) initiative. We welcome progress on the important non-tariff, facilitation and ecotech aspects of the eight sectors, and urge Ministers to make similar progress on the same areas of the back six sectors by September.

It is disappointing that Trade Ministers referred the tariff component of the back six sectors to the WTO before agreeing on the targets and timetable for tariff reductions. A successful transfer of the EVSL/ATL initiative to the WTO is important, both in terms of the pressure it can exert on the upcoming WTO negotiations, and for maintaining APEC's credibility with business.

### **Individual Action Plans (IAPs)**

The IAPs are the principal way for all APEC economies to clearly identify how they will achieve their commitment to free and open trade and investment by 2010 and 2020. It is imperative that all APEC members economies – large and small - continue to take comprehensive action to liberalize their economies and to include this in their IAPs. The IAPs are one of the key measures by which APEC's effectiveness is judged by business. With the focus on sectoral liberalization shifting to a new WTO round, APEC's work on unilateral liberalization becomes even more important. ABAC wrote to Ministers in June following its review of the 1998 Action Plans. We found that many of our previous concerns remained valid, specifically the need to improve their transparency, specificity, and comprehensiveness. Moreover, the individual actions being taken by member economies are not ambitious enough, in content or timeframe, to meet the goals of free and open trade and investment by 2010/2020.

Our initial evaluation of the highlights of the 1999 IAPs continues to support this view. We welcome the decision of some economies to reduce tariffs and open their markets to greater competition, but we still need to see more serious and substantial commitments, especially from developed economies. With the target date of 2010 now only 10 years away, business is looking to the developed economies to provide leadership in the APEC process and show clearly how the Bogor goals are going to be achieved. We look forward to discussing this with you in September.

This year we have targeted our review at three areas in the IAPs of particular interest to business:

- **Investment:** Not enough progress has been made in this area despite the window of opportunity opened by the urgent need for APEC members to further liberalize their investment regimes in the current economic environment. Foreign direct investment (FDI) fell in 1998, particularly in developing economies, and attracting investment back to the region is crucial to its recovery. FDI can provide development capital for the private sector but equally importantly will bring with it better technology, management skills and other expertise. To attract investment, business needs a transparent and stable investment environment. ABAC endorses the 'Menu of Options' approach developed by the Investment Experts Group (IEG), which identifies concrete policy measures for investment liberalisation for economies to choose from. ABAC strongly urges APEC members to include as many of these options as possible in their IAPs and bind themselves to implementing them as soon as possible.
- **Tariff and non-tariff barriers to trade:** Although APEC member economies are taking steps to reduce tariffs, business still sees them as a significant impediment to trade. APEC members need to reduce tariffs further, including in the agriculture and automobile sectors. ABAC considers non-tariff measures (NTMs) an even more significant barrier. Despite continued efforts by APEC officials to streamline customs procedures, business continues to tell us that there are still serious obstacles to trade in this area. Further steps to eliminate NTMs in the areas of standards and conformance, and efforts to improve transparency in government procurement, are also business priorities.

- **Services:** ABAC notes the efforts of some APEC economies to liberalize their services markets but considerable impediments to trade in services remain. To be able to compete effectively on a global basis, services providers and partnerships must be free to establish themselves in other economies and compete on a level playing field. An important step would therefore be to extend the principle of national treatment to all service sectors. This would allow companies in previously restricted domestic services sectors to be subject to global competition and thereby improve their competitiveness. Liberalization in trade in services must be accompanied by capacity building at the national level so that appropriate competition policy can be implemented.

## Capacity Building

Moves to liberalize trade and investment in the region need to be complemented by a program to build the capacity and infrastructure of APEC member economies to cope with the transition to more open, competitive markets. Capacity building involves the exchange of information and experiences which help define, then implement, best practice policy making. ABAC recommends a more coherent economic and technical cooperation (ecotech) program which focuses on four key elements:

- The **promotion of international standards for economic governance** in the public and private sectors, including supervision and monitoring of financial markets, the introduction of a new system of rules and principles for corporate governance, regulatory reform and competition policy, and bench-marking of government processes. Important principles include transparency and the promotion of competition. The development of human resources in the public and private sectors is also critical.
- **Complementing the trade facilitation and liberalization work of APEC.** A first priority in this area should be implementation of the work being done in APEC to improve customs procedures and standards and conformance. Success in these areas will require in-depth skills training for the officials who manage the new systems.
- **Meeting longer term challenges to growth in the resource and infrastructure sectors.** The program should anticipate possible constraints to growth in, for example, the areas of food, energy, water and waste disposal; help economies develop the policies and institutional capacity to respond; and thereby sustain growth.
- The **development of better communications systems** in member economies to create new business opportunities and facilitate capacity building activities.

ABAC also recommends a new ecotech reporting process which details the scope for business input in particular. This will facilitate joint ventures with multilateral aid agencies and the private sector. Given the minimal funding allocated to APEC's ecotech program, ABAC believes that APEC must leverage funding from governments, multilateral agencies and business. Business will contribute on a commercial basis if the policy environment is right. Investment from the private sector can, for example, contribute to the strengthening of capital markets, build infrastructural capacity, provide training or develop databases. Business organizations in member economies have also expressed interest in sponsoring training seminars, including one for company directors. These activities will enhance the capacity of SMEs to compete in open markets.

ABAC believes that the current capacity building work in APEC fails to integrate work by the Finance Ministers. ABAC notes that the Finance Ministers are working on programs for capacity building in priority areas and requests that all capacity building activity be reported in one place in an accessible form.

## **Financial Issues: Promoting Recovery and Sustainable Growth**

For real economic recovery and growth to take place in the economies of the APEC region, there has to be renewal of confidence in their financial sectors. ABAC applauds the important and often painful policy measures undertaken by many APEC economies to address the causes and effects of the financial crisis. Recovery appears to be within reach, but keeping the region on the road to recovery depends upon continued momentum in the areas of financial reform and corporate restructuring.

While ABAC acknowledges the importance of on-going discussions on the global financial architecture, our focus is on those actions that can be taken by member economies and their private sectors. ABAC has developed specific, detailed action plans to promote early economic recovery within the region, and to lay the foundation for stability and sustainable growth. These plans are included in the accompanying document and are summarized below. The proposals will assist all business, including small and medium enterprises, which have suffered disproportionately from the effects of the financial crisis.

### **A. Promoting early economic recovery**

- i) Measures which should be given immediate priority:
  - Restoring workable access to capital.
  - Recapitalisation and restoration of the domestic banking sector.
  - Encouraging foreign investment.
  - Enabling rapid corporate reorganization, through legal reforms, improvement of domestic credit markets and trade finance.
  - Addressing concerns about regulatory standards and practices for financial and other institutions.
  - Building on the Asian Growth and Recovery Initiative and the New Miyazawa Initiative at the 6th APEC Finance Ministers meeting in Langkawi, Malaysia in May 1999 to provide credit enhancements to government bonds and working capital for restructuring corporations.
  
- ii) Financial infrastructure and banking system improvements:

These proposals are designed to maximize private sector participation, use a market-driven approach and require stable and transparent government policies.

  - Restructuring bank balance sheets.
  - Encouraging foreign investment in domestic banks.
  - Legal, accounting, regulatory and corporate governance reforms to improve financial reorganization.
  - Improvement of domestic credit markets.
  - Facilitating trade finance securitization.

ABAC also suggests the following optional proposals:

- Debt-to-equity swaps similar to those in Chile and Mexico.
- Exchange rate mechanisms to cushion currency instability similar to those used in Chile and Mexico's FICORCA.

## **B. Beyond the crisis: Laying the foundation for stability and sustainable growth**

ABAC proposes the following measures to deal with the longer term issues and to strengthen financial systems and markets, especially within developing APEC economies to reduce their vulnerability to financial turmoil:

- i) Developing domestic debt markets
  - Several components of the measures listed above are relevant to the development of local debt markets:
    - Issues related to laws/debt markets, development of local credit rating agencies, participation of foreign financial institutions in domestic debt markets, taxation of local and external debt financing and bankruptcy;
    - Promoting high standards in financial disclosure and accounting; and
    - Establishing benchmark government securities with a standard set of maturities.
  - Early adoption of the Voluntary Principles in Promoting Financial and Capital Market Development contained in the 1997 Joint Ministerial Statement from the APEC Finance Ministers Meeting in Cebu, Philippines, and other initiatives on developing domestic debt markets currently undertaken by APEC.
  - Upgrade market infrastructure and the quality of available macroeconomic information.
  - Promote efficient financial market institutions, focusing on the development of pension funds and the insurance sector.
  - Develop debt market instruments with international financial institutions.
- ii) Financial sector capacity-building

Develop effective and timely measures to harness the financial expertise within APEC member economies to assist other member economies with their implementation of measures required for strengthening the capacity of central banks, financial and corporate restructuring, improved corporate governance, legal reform and capital market development.
- iii) Strengthening the global financial architecture

ABAC strongly supports continued dialogue and work that has been done by APEC Finance Ministers, the Group of 7, and the IMF/World Bank on the strengthening and restructuring of the global financial architecture.

### **Recommendations for action in specific sectors:**

#### **Food**

We reconfirm our 1998 recommendation that Leaders establish an APEC Food System to harness the resources of the region, and welcome the Leaders' instruction to Ministers to explore this proposal further. ABAC has followed up this year with recommendations on possible first steps towards implementation of an APEC Food System:

- address the APEC Food System in the Individual and Collective Action Plans, in line with the Osaka Action Agenda;
- create an APEC export subsidy free zone for agri-food trade;
- establish science-based sanitary/phytosanitary standards to facilitate production and trade in agri-food products, particularly by developing economies;

- abolish, by the 2001 Leaders' Meeting, practices which limit food supplies to other members for political or economic reasons and eliminate taxes and quantitative restrictions on exports;
- recommend to the WTO in 1999/2000 the adoption of commitments to non-discriminatory access to food supplies as a binding rule;
- commit to progressively eliminating, ahead of the Bogor goals, unnecessary impediments to food trade;
- enhance the transition capabilities of developing economies through a food "technology culture", a food investment code, and a rural development strategy using the APEC-PECC "RISE" project as well as inputs from multilateral agencies;
- recognize the social, environmental and other non-food roles of agriculture.

### **E-commerce**

ABAC wrote to Ministers in June, outlining the cooperative efforts underway between regional business representatives on issues facing Government and the private sector in the area of e-commerce. We are committed to continuing to work with APEC through the E-Commerce Steering Group and with other regional and international organisations active in this area (e.g. PBEC, PECC and the OECD). ABAC supports work already underway in the Steering Group on developing a template to enable economies to undertake a self-assessment of their readiness to utilize e-commerce. We further recommend that:

- APEC continues to work in partnership with the private sector to develop principles governing the e-commerce debate (draft principles are included in ABAC's background papers) including discussion of the policy/legal/regulatory and self-regulatory environment needed to support e-commerce;
- APEC Leaders seek an agreement in the WTO not to impose any new customs duties on electronic transactions over the internet;
- APEC economies provide a description of how they use electronic means to communicate and carry out transactions with each other and with the private sector (e.g. customs clearances, government procurement, regulatory notifications) and how this could be extended, particularly in dealings with the public.

### **Air Services Liberalization**

A strong, open and competitive international air transport network supports economic development, offering particular benefits to developing economies. We understand that officials have developed eight options for more competitive air services which offer fair and equitable opportunities to all member economies. The challenge now for APEC economies is to take this work forward. We therefore recommend that Leaders:

- Implement the recommendations of the APEC Transportation Working Group, giving particular urgency to the high priority recommendations identified, namely: "doing business" issues; including multiple carriers in bilateral agreements; facilitating cooperative arrangements or code-sharing between airlines; and removing barriers to air freight services.
- Identify and implement further steps to be taken by APEC economies towards the removal of barriers to trade and investment in air services in line with the Bogor Goals.

### **Partnership for Equitable Growth (PEG)**

We reported to you last year on the Partnership for Equitable Growth (PEG), an independent organization intended to act as a catalyst for private sector involvement in APEC's ecotech program. PEG is now formally incorporated as a non-profit organization based in Kuala Lumpur and has begun work on several of its flagship projects.



## **Y2K**

At their May meeting in Langkawi, Malaysia, APEC Finance Ministers agreed that efforts towards preparing for Y2K-related contingencies should be stepped up. ABAC wrote to Ministers in June noting that there is presently no common framework within APEC for regional cooperation on Y2K issues and recommending urgent dissemination of best practice measures to assist with:

- Inter-organizational and international testing of systems;
- Development of business contingency plans;
- Central banks' plans for payments system stability; and
- Dispute resolution through special legislative arrangements.

ABAC notes that existing proposals do not appear to include international preparedness for serious potential disruptions in member economies after entering the year 2000 and therefore suggests examination of international plans for short-term liquidity support and emergency aid programs, including provision of experts to repair systems.

In conclusion, may we reiterate our commitment to representing the views of the private sector in APEC. ABAC is currently working on its own internal procedures and structure to improve the relevance and quality of its advice to Leaders. We look forward to a substantive and frank discussion with you and your colleagues on 12 September in Auckland.

Yours sincerely

**HON PHILIP BURDON**

ABAC Chair 1999

cc.: APEC Leaders  
APEC Trade Ministers  
ABAC Members

<p><b><u>ABAC Chair</u></b></p> <p><b>Hon. Philip Burdon</b> Chairman Asia 2000 Foundation <b>New Zealand</b></p>	<p><b><u>ABAC Co-Chairs</u></b></p> <p><b>Tan Sri Dato' Tajudin Ramli</b> Executive Chairman Malaysian Airline Systems <b>Malaysia</b></p>	<p><b>Mr. Timothy Ong Teck Mong, SMB</b> Deputy Chairman National Insurance Company Berhad <b>Brunei Darussalam</b> <i>Co-Chair, Financial Crisis Task Force</i></p>
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## Task Force and Committee Chairs and Co-Chairs

<p><b>Mr. J Gary Burkhead</b> Vice Chairman Fidelity Management Resources Corp. <b>USA</b> <i>Co-Chair, Financial Crisis Task Force</i></p>	<p><b>Mr. Aburizal Bakrie</b> Chairman Bakrie Group of Companies <b>Indonesia</b> <i>Co-Chair, Implementation Task Force</i></p>
<p><b>Dr. Jeffrey Len-Song Koo</b> Chairman and CEO Chinatrust Commercial Bank <b>Chinese Taipei</b> <i>Co-Chair, Financial Crisis Task Force</i></p>	<p><b>Mr. John F. Smith, Jr.</b> Chairman and CEO General Motors Corporation <b>USA</b> <i>Co-Chair, Implementation Task Force</i></p>
	<p><b>Ms. Fran Wilde</b> Chief Executive Officer New Zealand Trade Development Board <b>New Zealand</b> <i>Co-Chair, Implementation Task Force</i></p>
<p><b>Mr. Michael J. Crouch, AM</b> Chairman and Managing Director Zip Industries (Aust) Pty Ltd. <b>Australia</b> <i>Co-Chair, Capacity Building Task Force</i></p>	<p><b>Dr. Victor Fung Kwok-king</b> Chairman Hong Kong Trade Development Council <b>Hong Kong, China</b> <i>Co-Chair, Action Plan Monitoring Committee</i></p>
<p><b>Ing. Javier Prieto dela Fuente</b> Vice President, Trading CEMEX Group <b>Mexico</b> <i>Co-Chair, Capacity Building Task Force</i></p>	<p><b>Dr. John S. MacDonald</b> Chairman Institute for Pacific Ocean Science and Technology <b>Canada</b> <i>Co-Chair, Action Plan Monitoring Committee</i></p>
<p><b>Dr. Viphandh Roengpithya</b> President Zip Industries (Aust) Pty Ltd. <b>Australia</b> <i>Co-Chair, Capacity Building Task Force</i></p>	

## ABAC Members

<p><b>Mr. Malcolm Kinnaird, AO</b> Chairman Kinhill Pty. Ltd. <b>Australia</b></p>	<p><b>Ms. Wang Lili</b> Executive Assistant President Bank of China <b>People's Republic of China</b></p>
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<p><b>Mr. Nelson Chang</b>  President, Chia Hsin Cement  CEO, China Securities  <b>Chinese Taipei</b></p>	<p><b>Paul Y. Song</b>  Chief Executive and Chairman  ARIS Corporation  <b>USA</b></p>
<p><b>Mr. Henry C S Kao</b>  Vice Chairman  I-Mei Foods Co. Ltd. and Fumei Co. Ltd.  <b>Chinese Taipei</b></p>	<p><b>Mr. Lam Hoang Loc</b>  First Vice Chairman  Asia Commercial Bank  <b>Vietnam</b></p>
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## **FOUNDING AND STRUCTURE OF ABAC**

The APEC Business Advisory Council was established by the Economic Leaders in November 1995, in response to a recommendation from the Pacific Business Forum that a permanent private sector body be established to advise Leaders on issues of importance to business in the region. The Pacific Business Forum was an ad hoc group of business leaders from APEC member economies which met through 1994 and 1995.

ABAC is therefore a permanent body which provides an independent business perspective within the APEC process, on both progress by APEC on its trade and investment liberalization agenda, and on future work to improve the regional business environment.

Established during the APEC Economic Leaders Meeting in Osaka, ABAC's mandate is to:

- provide advice on the implementation of the [Osaka] Action Agenda and on other specific business sector priorities;
- respond when various APEC fora request information about business-related issues or the business perspective on specific areas of cooperation.

The leaders of each APEC economy appoint up to three members of ABAC. The members are to represent a range of business sectors, including small and medium enterprises, and are charged with encouraging the engagement of other regional business and private sector organizations in APEC's activities. Each economy makes its own administrative arrangements, supported by an international secretariat currently based in Manila, Philippines. Members and their staff meet three to four times a year, culminating in a face-to-face dialogue with Leaders during the annual APEC leaders meeting.

Funding is provided through a tiered level of annual dues paid for by the private sector membership of each member economy, based on a formula similar to the one used by APEC. An annual report is provided to the Economic Leaders, and regular reports are made to APEC Ministers and Senior Officials.

### **ABAC in 1999**

New Zealand assumed the Chair of ABAC parallel to the APEC Chair in 1999. Malaysia and Brunei Darussalam, the immediate past chair and the incoming chair, sit as Co-Chairs. In Kuala Lumpur in 1998, the incoming Chair outlined his objectives for the coming year: streamlining ABAC's structure; prioritizing recommendations in a limited number of areas; and following up with more detailed advice on previous recommendations. Four working groups were set up: the Action Plan Monitoring Committee; Financial Crisis Task Force; Capacity Building Task Force; and Implementation Task Force. The overall focus for 1999 was on the measures necessary to generate long term economic growth in the region.

The Action Plan Monitoring Committee built on its task of evaluating APEC's individual action plans by commissioning a study on impediments to trade, with an emphasis on non-tariff measures. This study was undertaken by the Pacific Economic Cooperation Council (PECC).

The Council welcomed the entry of three new members to APEC, namely, Peru, the Russian Federation and Vietnam, all of whom appointed the maximum three members.

ABAC held two Council meetings in 1999: Brunei Darussalam (February 5 to 7) and Tokyo, Japan (May 21 to 23). Letters were sent to APEC Leaders and Trade Ministers on a range of issues. ABAC members made presentations to the following Ministerial and Senior Officials' meetings: Finance Ministers Meeting (Langkawi, Malaysia); Finance Deputies Meeting (Washington D.C.); SME Ministerial (New Zealand); Trade Ministers Meeting (New Zealand).

## **Future Directions**

ABAC is committed to providing independent advice to APEC leaders as representatives of the business community, and to pushing forward the agenda for trade and investment liberalization. Two years on from the onset of the Asian economic crisis, the Council is shifting its focus from emergency response to work on the longer-term stability of financial systems and structural reform. This is reflected in the decision to dismantle the financial crisis task force at the end of 1999 and set up a new task force on financial architecture in the year 2000.

Small and medium enterprises are to be a key area of interest for the incoming APEC Chair, Brunei Darussalam. ABAC has been invited to play a major role in the APEC Ministerial conference on SMEs in Bandar Seri Begawan in mid-2000.