



Annexes





APEC Business Advisory Council



Annex A

12 May 2006

His Excellency

Mr. Tran Duc Luong

President of the Socialist Republic of Vietnam

Chair, Asia-Pacific Economic Cooperation

Hanoi, Vietnam

Your Excellency,

Following our meeting in Montreal, the members of ABAC wish to convey to APEC Leaders our utmost concern about the present state of negotiations in the Doha Development Agenda (DDA).

We believe that the lack of real progress since the WTO Ministerial Meeting last December and the present impasse in negotiations in Geneva may now be placing the future of the DDA in jeopardy. We are concerned that if a successful outcome is not achieved by the end of this year, the political willingness to conclude the DDA may be lost. We believe this holds grave risks for the economies of the APEC region and the entire globe.

As representatives of the business community, we have no doubt of the importance of an open, secure and forward-looking multilateral trading system to the economies of APEC and to those of its trading partners around the globe.

Our growth over many decades has been built upon the stability and openness achieved through past multilateral rounds of negotiations. The conclusion of the Uruguay Round enabled us to shape the APEC vision and has underpinned the tremendous achievements in liberalization and economic integration that have taken so far toward the Bogor Goals.

We strongly believe that we need a successful conclusion to the DDA as the foundation to take APEC the last mile to the Bogor Goals. We need this foundation to expand businesses and jobs in the region and to maintain the dynamism necessary for innovation so important for growth.

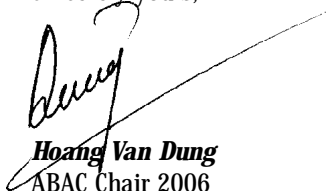
We understand that the present Round is complex and will mean sacrifice for some in all our economies. However, we believe the benefits are overwhelming. The alternative would induce the region and our international trading partners into uncharted territory and a matrix of bilateral and regional trade agreements with constraints and costs that businesses have fought hard to avoid. This would impact most heavily on smaller and developing countries.

At this critical juncture in the DDA negotiations, ABAC believes that the governments of the APEC region face a stark choice. It is a choice between uniting now in real support for the international trading system that has long been the underpinning for global peace or risking an uncertain path to the future.

We urge you and your governments to give the strongest political support to the DDA at this crucial time. United in this stand, we urge you to show international leadership in bringing renewed momentum to the DDA and the multilateral trading system.

Excellency, we respectfully ask that you share this letter with your APEC colleagues.

Sincerely yours,



Hoang Van Dung
ABAC Chair 2006



Annex B

12 May 2006

Hon. Truong Dinh Tuyen

Chair, Meeting of APEC Ministers Responsible for Trade
Minister of Trade
Socialist Republic of Vietnam

Dear Minister:

As you and your fellow APEC Ministers Responsible for Trade prepare to meet on 1-2 June in Ho Chi Minh City, ABAC is pleased to provide the business view on the major issues on your agenda for the meetings as contained in the ABAC 2006 Interim Report to APEC Leaders which reflects the state of play in our agenda.

First and foremost amongst those issues must be achieving meaningful progress toward a successful conclusion of the Doha Development Agenda talks. As outlined in our 11 May 2006 Statement on Doha, in ABAC's view and that of businesses throughout the APEC region, failure is not an option that can or should be contemplated. We encourage you in the strongest possible terms to seize the leadership among APEC trade ministers to move the global talks forward. These issues in the trade agenda are of paramount importance to the business community, and APEC is uniquely suited to provide leadership on the thorniest issues within the Doha discussions: agricultural trade, non-agricultural market access, services including liberalization of financial services, trade facilitation, and rules. Concerted APEC action in these areas would provide robust momentum for – and perhaps indeed could salvage – faltering global trade negotiations.

There are a number of other areas in which APEC Senior Officials and sub-fora under your direction are doing important work that is of critical interest to the business communities of APEC, including: promoting high quality RTAs/FTAs; implementing the Busan Business Agenda; improving the investment environment; IPR enforcement; energy security; fostering innovation; health-related issues; and measures to build capacity for small and medium enterprises in APEC economies. ABAC is undertaking a feasibility study of a Free Trade Area of the Asia-Pacific. ABAC has prepared specific recommendations in these and a range of other areas, and respectfully submit those for action by the appropriate APEC bodies.

ABAC members and representatives from our business communities look forward to discussing these issues with you and your colleagues during the upcoming Business Symposium in Ho Chi Minh City, 31 May to 1 June 2006.

Sincerely yours,



Hoang Van Dung
ABAC Chair 2006



APEC Business Advisory Council



Annex C

15 May 2006

H.E. Hoang Trung Hai
Chair, APEC Energy Ministers
Minister of Industry
Socialist Republic of Vietnam

Dear Minister:

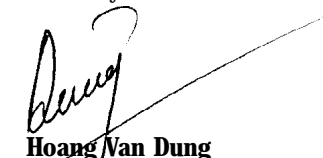
The APEC Business Advisory Council (ABAC) lauds APEC Energy Ministers for adopting and beginning to implement best practices on a vast array of energy issues at their Seventh meeting in Gyeongju, Korea in October 2005. Economic growth and financial prosperity are contingent upon access to reliable and sustainable sources of energy. The demand for energy in the region is steadily outpacing supply, which is often precarious and highly vulnerable to external shocks. The potential for supply shortfalls obliges Ministers to further implement ways of increasing supply of resources that have been identified by the ABAC and Energy Business Network.

In 2005, at the request of Energy Ministers, the Energy Working Group (EWG), in close conjunction with the private sector, developed initiatives to diversify sources of energy supply, and to improve the efficiency and security of resource transportation. The EWG also worked to identify benchmarks in assessing efficiency improvements, to increase cross-border energy trade, and encourage the adoption of technologies for new and renewable energy. These benchmarks are the only way to measure progress, and should be expanded to include more transparency in data, market-based pricing, increasing competition in the downstream markets, improving infrastructure and increasing supply.

ABAC recommends several crucial and integrated points to meet the challenge of reconciling existing supply with growing demand. First, Ministers should promote new areas for exploration and development, diversify sources to enhance energy supply, and promote the development of clean, alternative and sustainable energy sources. Secondly, Ministers should encourage increased investment in energy infrastructure, through wider and more thorough implementation of best practices, including those for facilitating the development of Liquefied Natural Gas (LNG) Trade in APEC. Furthermore it would be advantageous for Ministers to support a public-private demonstration project that embraces international energy efficiency standards for industrial and consumer products. It would also be valuable for the Ministers to draw attention to, and work to foster, the complementary relationships from which IOCs and NOCs can both benefit, perhaps through a workshop identifying potential areas of cooperation throughout the energy value chain. Finally, all APEC economies will benefit as Ministers continue to promote transparency, rule of law, and market-based pricing in the energy industry.

As business leaders in the APEC region, ABAC commends Energy Ministers for recognizing the implications to economic growth of increased energy demand in light of limited resources. We urge continued work in achieving a reasonable balance that will foster economic growth and prosperity.

Sincerely,



Hoang Van Dung
ABAC Chair 2006



Annex D

15 August 2006

His Excellency

Mr. Nguyen Minh Triet

President of the Socialist Republic of Vietnam

Chair, Asia-Pacific Economic Cooperation

Hanoi, Vietnam

Your Excellency:

The suspension of the Doha Development Agenda (DDA) negotiations is of deep concern to ABAC and to the business community of APEC. We urge APEC Leaders to take the lead in ensuring the resumption of negotiations to complete the Doha Round.

APEC economies make up almost half of world trade. Failure of the DDA will have dire consequences for the future of the multilateral trading system, which has provided the basis for building prosperity in the APEC region through liberalized trade and investment. More importantly, the DDA would provide the opportunity to secure the benefits of the Round for the most disadvantaged members of our societies.

A strong, concerted response by APEC member economies at this critical time will underscore APEC's credibility as an effective voice to secure growth and prosperity for the global community through global trade liberalization. We urge APEC Leaders to:

- 1) lead the way forward by enhancing their individual offers with an eye towards reaching common grounds on outstanding issues;
- 2) direct their negotiators to focus effort and resources on restarting the Round as soon as possible, instructing them to stay the course, lock in gains made on agriculture, services, industrial tariffs and facilitation, and develop fresh initiatives to revive negotiations.

These actions will send a strong signal of APEC's unfaltering commitment to the WTO at this critical time. For our part, ABAC will continue to lend our collective voice in articulating the benefits of free and open trade and the completion of the Doha Round, to our respective communities.

Excellency, we respectfully ask that you share this letter with your APEC colleagues.

Sincerely yours,



Hoang Van Dung
ABAC Chair 2006



15 August 2006

Hon. Vu Van Ninh

Chair, APEC Finance Ministers' Meeting
Minister of Finance
Socialist Republic of Vietnam

Dear Minister:

On behalf of ABAC, we are pleased to provide the attached report on business perspectives on financial sector reforms and related financial matters, key aspects of which we will present to Ministers at the 13th APEC Finance Ministers' Meeting in Hanoi, 7/8th September. We are honored to be invited to the formal session of your meeting and we deeply appreciate the opportunity you are providing to us to meet with you and your colleagues during the Ministerial retreat.

Of immediate and urgent concern is the prospect of the WTO Doha Round failing. ABAC will be providing advice to Leaders on actions they could take over the remainder of this year to find a workable agreement. However distant that may seem at this point, business feels deeply that every effort should be employed to reach an agreement before the US President's fast track authority expires in July 2007.

We, in the ABAC Finance Working Group, have revised the checklists we developed last year to support improved offers in the WTO Doha round negotiations on financial services, and to help in reducing or removing impediments to foreign investment in financial services. We have also proposed support for "plurilateral requests" in financial services to improve the prospect of progress in this area of WTO activity.


We urge Finance Ministers, as a matter of priority, to actively support your Ministerial colleagues in the WTO negotiations to reach agreement on the Round and to promote the checklists and plurilateral requests as a positive contribution to the negotiating process. We believe that every effort should be made to promote liberalization of trade and investment through the WTO Doha Round; success would deepen the prospects for growth and enduring prosperity through the region.

The revised checklist on impediments to investment has been broadened to apply to all service and other sectors. Arguably, this should become even more relevant to APEC if the Doha Round does end in failure. Whether or not that occurs, APEC should intensify its efforts to improve the investment environment within member economies. ABAC will work with the Investment Experts' Group on improving investment policy coherence in developing member economies, using the OECD's Policy Framework on Investment (PFI) as an investment benchmarking tool.

Our report incorporates ABAC's views and recommendations on a major theme on your agenda, and summarizes our work and recommendations on strengthening and deepening financial systems, along with related capacity building initiatives. We propose that our contribution to your theme "Financial Market Reform to Attract Capital Flows" be the dominant issue in our dialogue with Ministers at the Retreat.

Our key observations are that foreign direct investment can play a critical role in the restructuring of banking and other financial sectors, the value of open and liberal investment policies in increasing investment flows, the importance of deepening the region's capital markets, particularly bond markets, and the continuing need for capacity building to strengthen financial systems.

In the Jeju Declaration last year, Ministers requested a private sector input into the Expert Study on coping with the challenges of population ageing. There are many social and financial policy issues in this subject, not least of which is the role of private financial institutions in health and retirement security. These issues will require constant policy development in all APEC economies and ABAC offers its full support to Ministers in this work. In response to the request for an input to



the current study, ABAC commissioned a comprehensive analysis of developments in some member economies. Our major recommendations are based on that report. Economies should give priority to developing options to deal with increasing health expenditures as dependency ratios increase in the region. Options should include privately funded contributions to health care. Increasing levels of privately funded resources for health will call for efficient asset management and prudently managed investment arrangements. Properly supervised private sector participants should be encouraged to participate in developing this part of the capital market system. Core principles of the International Association of Insurance Supervisors (IAIS) should be the benchmark for financial supervision of private funds.

Similarly, in response to a request by your Ministry, ABAC has undertaken a study, in conjunction with the Vietnamese Chamber of Commerce and others, of SME access to formal finance facilities and measures to develop credit rating agencies in the region. There is a decline in the role of traditional fiscal incentives but where these remain in place, there is a need for good governance arrangements to avoid the misallocation of resources. Region-wide arrangements would help develop credit rating industries and promote initiatives between governments and the private sector aimed at encouraging support by financial institutions for SMEs.

ABAC strongly endorses APEC's integrated approach to structural reform. We note that measures to liberalize financial markets complement structural reform. The various measures we recommend in our report to support financial market opening and deepening support structural change in an economy. However, we are frankly disappointed that insufficient progress has been achieved by some economies in implementing earlier recommendations we have made to Ministers on the development of regional bond markets and on measures to ameliorate the impact of adverse volatile capital flows.

We propose that Ministers adopt the idea of a regional mechanism for the promotion of bond markets, in particular corporate bonds, and the adoption of general principles that would underpin markets, and the promotion of a regional framework for informal workouts of insolvency. We further propose that ABAC and APEC finance officials, working in cooperation with the Asian Development Bank (ADB), implement these measures.

We propose that Ministers endorse an initiative of the ADB in developing the concept of an Asian Automated Clearing House to facilitate payments transfers for individuals in making remittances and to make for more efficient business transactions.

ABAC remains concerned over the vulnerability of some economies to adverse movements in volatile capital flows. Because of those concerns, we commissioned a further report on measures to ameliorate the impact of adverse capital flows. Our major recommendations focus on the importance of high quality data to facilitate the smooth functioning of markets. This could involve better information disclosure by official statistical agencies and this promoted by a commitment by agencies to a uniform code of conduct concerning the reliability of and quality of data in information releases; economies might also consider establishing investor relations units similar to those in a private firm to explain to current and future investors in an economy, official policy and strategy and being open to queries and discussion. We would also encourage commitment to the data requirements of the IMF's General Dissemination System (GDDS) and the Special Data Dissemination Standards (SDDS).

Hedge funds and derivative markets are highly significant elements of the global financial system; they play crucial roles in providing market liquidity and in supporting restructuring. Nonetheless, there are concerns that these activities are largely outside supervisory arrangements. We encourage APEC financial system supervisors to monitor developments in these parts of the financial system.

ABAC continues its deep involvement in promoting and participating in capacity building initiatives to support the strengthening of the region's financial systems through the Advisory Group on APEC Financial System Capacity Building. ABAC continues to support measures to implement Basel 2 in the region's banking systems, the development of bond markets and ways to improve corporate governance in financial institutions in both the public and private sectors. We note

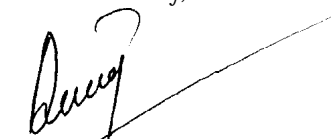
the establishment of the Melbourne APEC Finance Center to promote training and research in financial and regulatory matters for the region's economies, and propose that Ministers endorse this initiative.

We encourage Ministers to fund the participation of regional regulators and officials in various initiatives and we strongly recommend that those developing member economies which have not yet engaged in the IMF/World Bank Financial Sector Assessment Program do so as a matter of priority. We see a need for greater coordination between national regulators in the region to ensure the smooth implementation of regulatory approaches and to avoid regulatory overlap.


We would like to register with you and your Ministerial colleagues the value we place on the deepening relationship between ABAC and the Finance Ministers' processes; in ABAC's participation in the meetings of the Technical Working Group, the involvement of the Chair of that Group in ABAC meetings and in the meetings we have held with senior officials from finance and regulatory agencies during our meetings through the year in Singapore, Montreal and Cebu.

We respectfully request that, as Chair of the Finance Ministers' meeting, you transmit this letter and the attached report and recommendations to your APEC Ministerial colleagues in preparation for our dialogue in September. We look forward to discussing the major issue of Financial Market Reform to Attract Capital Flows in the dialogue and, of course, we stand ready to discuss other issues and recommendation contained in the attached report.

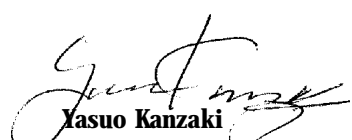
Yours sincerely,




Hoang Van Dung
ABAC Chair 2006 (Vietnam)



Mark Johnson
ABAC Finance Working Group Chair (Australia)



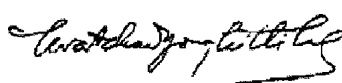
Yasuo Kanzaki
Finance Working Group Co-Chair (Japan)



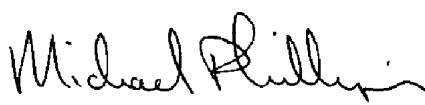
Azman Hashim
Finance Working Group Co-Chair (Malaysia)



Jeffrey Koo
Finance Working Group Co-Chair (Chinese Taipei)



Twatchai Yongkittikul
Finance Working Group Co-Chair (Thailand)



Michael Phillips
Finance Working Group Co-Chair (USA)



**APEC Business Advisory Council (ABAC)
Finance Working Group**

**Report to the 13th APEC Finance Ministers' Meeting
7-8 September 2006, Hanoi, Vietnam**

Introduction

Notwithstanding a period of unprecedented economic growth and a still favorable outlook in the period ahead for the global economy, risks to that outlook have intensified in recent months. Conflict in the Middle-East pose real threats to oil supply security and recent hostilities intensify concerns over oil security and oil prices. The inflation outlook is of increasing concern with the prospect of continuing upward movement in global interest rates and the consequential impact on less developed economies. Global imbalances remain as a potential threat to the global system. While careful management by economies and increased coordination of the policies of major economies could go some important way to ameliorating the risks to the global system, market adjustments in the period ahead could be more pronounced than we have seen over the recent period of high growth and relative stability.

The distinct prospect of the failure of the World Trade Organization (WTO) Doha Round is cause for profound concern in business, reflecting as it does the waning support for multilateralism and the possible abandonment of a movement which over the post war era has contributed so much to world growth and the rise in living standards across all continents.

Global economic integration which has followed as a consequence of earlier successes at multilateral trade liberalization, supports growth and development but, with the integration of financial markets, comes risks arising from the rapid transmission of financial shocks. While integration will allow markets to adjust more quickly, economies that are only partially integrated are more likely to be adversely affected by major destabilizing events. Against this background, ABAC considers it vital that APEC member economies take action to strengthen their macroeconomic and prudential frameworks so as to increase their capacity to withstand external shocks and to make economies more resilient to the vagaries of the global economic system.

Necessary measures include improving risk management and governance in the region's banking system and in other financial sectors, strengthening financial regulatory capacities and in promoting greater cooperation between national regulatory authorities and regional and international agencies aimed at limiting risk to the global financial system and the smooth implementation of supervisory arrangements as they apply to internationally active banks and other financial institutions.

ABAC is deeply concerned at the real prospect of the failure of the WTO Doha Round. Failure would be a major setback to growth and development. We will urge APEC Leaders to take steps to reinstitute negotiations and we will recommend ways Leaders might consider to bring about a successful conclusion. We strongly urge Finance Ministers to engage in and support the negotiating process. In the event that the current impasse continues beyond the expiry of the US President's fast track negotiating authority – which would stall the negotiations and perhaps signal the end of the WTO - ABAC will be recommending options that APEC economies could pursue to improve the prospects for continuing strong growth in the region's economies. The Busan Roadmap highlighted agreement to promote the removal of behind the border impediments to growth, including measures to promote investment flows.

ABAC has provided an input into one of the themes on your agenda, "Financial Market Reforms to Attract Capital Flows", and we have commissioned work on other topics and completed an extensive work program.

Our major recommendations for Ministers' consideration are:

- make every effort over the short period ahead to promote engagement in and a successful conclusion to the WTO Doha Round and promote the ABAC checklists and the template on "plurilateral requests" as a significant contribution to that effort;

- continuing work to strengthen and deepen the region's financial systems as a matter of priority, taking advantage of the present favorable growth environment but one in which risks are increasing; and
- focus on removing impediments to and improving investment flows, both domestic and external, to contribute to economic and financial system restructuring and to promote growth, income and employment.

Our review of key issues and specific recommendations are as follows:

1. Contribution to Policy Theme “Financial Market Reforms to Attract Capital Flows”

Market reforms to attract capital is a vitally important aspect of the agenda to promote sustainable economic growth in the region and to promote business and employment. Open and liberal investment policies have been demonstrably successful in increasing investment flows in the region; more work is needed to provide for the integration of economic activity in the region. Unilateral and collective action by members to promote investment liberalization is vital in attracting capital to the region. Policies to deepen capital markets, in particular corporate bond markets, would be a major step forward in those economies where markets are underdeveloped, in attracting long-term capital. Additionally, capital will be attracted to economies which are resilient to shocks because of solid economic and financial frameworks, including best practice prudential supervisory systems, and good data information and dissemination to inform policy makers of pending problems. Regional and international cooperation should be intensified if these outcomes are to be achieved. The emergence of flexible exchange rate systems and more open capital accounts will reduce the risks faced by foreign lenders and by domestic investors. These and related matters are discussed in our report which we provide as ABAC's contribution to this important theme.

Recommendations:

- take unilateral and collective action, utilizing APEC arrangements such as Individual Action Plans (IAPs) and Collective Action Plans (CAPs) to promote the removal of investment impediments and to improve investment flows and note that ABAC will cooperate with the Investment Experts' Group to develop a policy framework;
- agree to implement measures, recommended elsewhere in this report, to develop regional arrangements for bond markets, the adoption of general principles and a regional framework for informal workouts of insolvency; and
- implement measures recommended elsewhere in this report to strengthen the capacity of individual economies and the region to improve data collection and dissemination to better equip economies to withstand shocks arising from volatile short-term capital movements.

2. Measures to Promote Financial Services in the WTO Doha Round

ABAC is deeply concerned at the prospect of the WTO Doha Round failing. In the few remaining months ahead in which an agreement could be reached, we believe that Finance Ministers should lend their weight to the work of their Ministerial colleagues involved in the WTO negotiations to try to find ways to resolve the present impasse. ABAC has revised the checklist we presented to Ministers last year to support improved offers on financial services in the Round. The revised list (Attachment 1 of the ABAC Report to Leaders) sharpens the definition of some financial services. The list could serve as a useful tool to assess the quality of offers and to raise the quality of offers in the Doha Round. The list should also serve as a guide in other negotiations relating to services liberalization, including free trade agreements (FTAs) and regional trading arrangements (RTAs) and in work APEC is undertaking to develop model chapters to incorporate in future agreements and against which existing agreements may be assessed. ABAC sees value in the promotion of the use of collective or “plurilateral requests” as an efficient mechanism for progressing the WTO negotiations in financial and other services. A template outlining a request in financial services is shown as Attachment 2 of the ABAC Report to Leaders.

Recommendations:

- promote the checklist as a best practice guide for APEC negotiators involved in the WTO Doha negotiations on trade in services and to those involved in liberalizing financial services in new FTAs and RTAs and in assessing the quality of existing agreements which include financial services; and

- promote the use of “plurilateral offers” as an efficient mechanism for progressing negotiations in the WTO on financial and other services.

3. Measures to Promote Investment Liberalization

As noted in our contribution to the Policy Theme, ABAC believes that measures to remove impediments and to promote investment in the region (both domestic and cross-border) should be a major objective of APEC, and a priority for Finance Ministers. Maintaining global competitiveness is a major objective of regional economies. Foreign direct investment can support the achievement of this objective; it can provide new capital for restructuring, new technology, new products and improve the skills base in key sectors, in particular in finance sectors. These benefits were outlined in the report we presented to Ministers in 2004. Improving the environment for the promotion of investment can be achieved through positive action in the WTO Doha Round – by encouraging liberalization of investment in the physical presence of firms which is the objective of Mode 3 of the WTO GATS (General Agreement on Trade in Services).

In 2005, ABAC presented a checklist of major impediments to investment in financial services and policy guidance on the best ways to deal with those impediments. Our objective then was for the list to provide both guidance and to be a useful tool to WTO negotiators in promoting financial services liberalization in the WTO. This year, we have revised the ABAC list and it appears as Attachment 3 of the ABAC Report to Leaders. The revisions clarify certain definitions and broaden the list to apply to all services and to all non-service sectors. It is a comprehensive guide to improving the investment environment in all sectors in all economies.

Allied with this work, ABAC is working closely with the APEC Investment Experts’ Group. With that Group, we propose to promote the list and the Policy Framework for Investment (PFI), initiated recently by the Organization for Economic Cooperation and Development (OECD) Ministers. Around 60 countries were involved in preparing the PFI, including a number of non-OECD countries and 15 APEC economies, including Chile, China, Indonesia, Malaysia, Philippines, Russian Federation, Chinese Taipei and Vietnam. OECD APEC members involved were Australia, Canada, Japan, Korea, Mexico, New Zealand and the US. Seminars have already been conducted in Japan, China and one is planned for Vietnam in September to demonstrate how the PFI might assist developing economies create the environment

conducive to investment. APEC is proposing to conduct a symposium in 2007 in Australia in conjunction with the OECD and the business arm of OECD, the BIAC. ABAC proposes to associate strongly with that symposium and in on-going work to promote investment flows in the region.

Recommendations:

- actively promote the ABAC checklist on investment impediments and policy responses with your Ministerial colleagues responsible for the WTO Doha round negotiations on trade in services and request those Ministers to use the list as a guide for improving investment opportunities in financial and other sectors (services and non-services); and
- endorse the collaboration between officials, (the Investment Experts’ Group), ABAC and the OECD in bringing to the attention of developing member economies to the OECD Policy Framework for Investment in developing a coherent approach to investment policy to encourage both domestic and foreign investment, and the symposium proposed for Australia in early 2007 as a key initiative to promote this endeavor.

4. An Integrated Program of Structural Reform Issues

The Busan Roadmap endorsed by APEC Leaders last year calls for an integrated approach to structural reform in APEC economies. ABAC strongly endorses that concept as a constructive way of approaching reform, noting that measures to encourage financial market liberalization complement structural reform, as do other measures we propose elsewhere in this report. These include for example, measures to ameliorate the impact of adverse capital flows, policies relating to health costs and pensions in ageing societies, arrangements for the promotion of regional bond markets, and measures to liberalize investment. If implemented, these would contribute to reform objectives such as market openness and competition and to the capacity of economies to withstand financial shocks. However, we believe that greater commitment by economies is needed to implement reform. Frankly, we are disappointed that insufficient progress has been achieved by some economies in implementing earlier recommendations for the development of regional capital markets and in action by economies and relevant international and regional agencies to deal with the impact of adverse volatile capital flows.

Recommendation:

- endorse ABAC's involvement in promoting and supporting structural reform and implement measures to improve market openness, intensify action to deepen regional capital markets, and in particular corporate bond markets, and adopt measures to improve data collection and dissemination on capital flows, aimed at ameliorating the impact of adverse volatile capital flows – specific recommendations are shown below.

5. Supporting SMEs Access to Formal Finance

Small and medium enterprises (SMEs) are a critically important sector in all APEC economies in terms of employment, income, trade, global and regional production networks and in reducing poverty. Constraints on access to formal finance systems can be a major impediment to the growth of SMEs, particularly in some emerging economies. The under-development of credit rating agencies is also a barrier to SME growth. Work undertaken by ABAC this year highlights obstacles to SME access to finance. The survey points to a wane in the importance of traditional fiscal incentives to promote SMEs yet, where such incentives are in place, it points to the importance of appropriate governance arrangements to avoid resource misallocation. Region-wide efforts are needed to promote credit rating agencies and to encourage the development of business associations and network linkages between banks, SMEs and associations. Such measures would encourage information dissemination, and encourage banks and financial institutions to develop policies which reflect the importance of SMEs in their client base. Where guarantee schemes exist, policies which would encourage financial sector participation to support the commerciality of such schemes would be beneficial. The survey notes the importance of policies to encourage the development of credit evaluations capacities in financial institutions as they relate to SMEs. The promotion of credit rating firms within the region's economies would strengthen the region's financial capacities and promote the SME sector.

Recommendations:

- adopt a holistic approach to policy formulation for promoting access to financial systems, involving official agencies, public and private financial institutions and industry associations and involving regional groups, including where appropriate, international financial institutions (IFIs), with the following objectives:

- improving credit services and evaluation capacities in financial institutions and in SMEs and raising skills in these areas in both service providers and in SMEs;
- the promotion and dissemination of information on services that are available from financial service providers; and
- the development of region-wide initiatives to develop credit rating firms.

6. Strengthening and Deepening the Region's Financial Systems

(a) capacity building

The Asian financial crisis demonstrated the need for robust and resilient financial systems in dealing with financial shocks, and supporting economic growth and development. Increasing imbalances in the major economies point to the prospect of future shocks to the region. More efforts are needed in some economies to strengthen the regulatory and supervisory frameworks. The International Monetary Fund (IMF)/World Bank Financial Sector Assessment Programs can be extremely useful in assessing an economy's prudential strengths and weaknesses. Globalization of financial markets requires more intensive cooperation among the financial supervisory authorities both within and between jurisdictions. Capacity building helps institutions, in both the public and private sectors, in strengthening their managerial and technical capacities to effectively undertake critical finance functions, thereby buttressing economies against shocks. The Advisory Group on APEC Financial System Capacity Building, initiated by ABAC and the Pacific Economic Cooperation Council (PECC), is continuing its support for the implementation of Basel 2 in banking, in improving risk management and governance, and in the development of bond markets in the region, through public private partnerships with IFIs and regional agencies. There would be value in improved coordination in the work of the Advisory Group with APEC agencies responsible for implementing financial system reforms and for supervisory oversight.

Recommendations:

- continue to give priority to strengthening financial systems and those emerging economies which have not participated in an IMF/World Bank Financial Sector Assessment Program, should do so as a matter of priority;
- financial supervisory authorities in the region should cooperate in undertaking their financial supervisory functions – both in their own jurisdictions and within and beyond the region – to minimize overlap in functions and risks to financial sector institutions arising from discordant supervisory standards and practices; and
- take measures to provide for a more coordinated and targeted approach between APEC officials and the Advisory Group and IFIs in the development of capacity building initiatives to strengthen financial systems.

(b) promoting the region's bond markets

Over recent years ABAC and PECC have provided extensive advice to Ministers on ways to promote the development of bond markets in the region. The development of capital markets particularly long-term local-currency bond markets is crucial to promoting financial stability and economic growth, as we note elsewhere in this report. A number of initiatives have been launched to foster bond market development and in expressing support for them, the private sector has underscored the need for effective mechanisms to promote regulatory reform, the growth of the region's investor and issuer base, and region-wide convergence toward global capital market standards and practices. Such mechanisms involve cooperation between the public and private sectors – particularly given the importance of developing robust corporate bond markets. For further progress in these areas, measures are required that will effectively enable the private sector to expand commercial activity and to play a significant role in the development of financial markets. For this to occur, we propose initiating a mechanism through which the public and private sectors would work together to accelerate the development of corporate bond markets, in support of current domestic and regional efforts by economies in the region to develop market infrastructure and the demand and

supply for bonds in emerging local currency bond markets. The mechanism would be designed in such a way as to:

- (i) take the form of policy dialogues in individual developing member economies;
- (ii) involve both developed and developing economies to share insights and experiences and possible options to deal with challenges;
- (iii) utilize the Advisory Group (referred to under 5(a) above) to provide advice based on inputs from public and private institutions, including IFIs; and
- (iv) provide a report of each policy dialogue to share experience and information.

Recommendations:

- endorse the establishment of the mechanism to develop the functions outlined in (i) to (iv) above, with initial activities in 2007 being undertaken in collaboration between the official APEC Finance Ministers' processes and the Advisory Group and with the support of the ADB;
- adopt proposed general principles for bond market development cooperation and endorse proposals for a regional framework for informal workouts.

(c) measures to ameliorate the impact of adverse volatile capital flows

Last year, ABAC drew attention to its concerns about the decline in interest in international agencies in improving surveillance and monitoring on volatile capital flows. This year, we commissioned a report on the data requirements to support early warning systems in ameliorating the impact of adverse volatile capital flows. The report provides a detailed assessment of issues relating to official data on international capital flows and related economic statistics, the importance of the value of the IMF's General Data Dissemination System (GDDS) and the Special Data Dissemination Standard (SDDS), and of timely disclosure and the fact that notwithstanding improvements in official data, there are limitations on its usefulness – particularly as seen through the eyes of private sector financial market analysts. There are lags in data dissemination and the quality of data on some economies is in doubt, thereby limiting its value in throwing light on emerging trends on flows. The report points to the value of "balance

sheet” data as being of greater relevance than “flow” data, and provides a valuable insight into developments in hedge fund and derivative activities and the constraints on attempts by major capital market regulators to devise supervisory arrangements. Market participants would benefit, as would economies generally through better and smoother functioning markets, by better and more reliable and timely data.

Recommendations:

- commit to a uniform code of conduct which would seek to promote reliable data to ensure high quality, timely and impartial data reporting and dissemination, and form units similar in purpose to investor relations units in private firms to engage with current and future investors in an economy in explaining official policy and strategy;
- support efforts by the IMF by actively improving data disclosure, commit to the highest SDDS data quality standards and urge statistical agencies to work toward improved data disclosure under the SDDS and to further develop a balance sheet approach to data reporting; and
- publish on a timely basis the complete IMF surveillance reports and encourage officials to engage in discussions with market participants on their content.

(d) Asian Automated Clearing House

The Asian Development Bank (ADB) is promoting the concept of an Asian Automated Clearing House – a payments system which would expedite the inter-country movement of funds, in particular funds at the retail level and which, if implemented, would support the efficient transfer of individual remittances through the official financial system. It would also increase efficiencies in business transactions and would be a significant contribution to the region’s financial system architecture. Central banks that are involved in considering this with the ADB are enthusiastic.

Recommendation:

- endorse and support this ADB initiative

7. Contribution to Experts’ Study on Coping with the Challenges of Population Ageing: Private Sector Involvement in Health Security Pillars in APEC Economies

In response to Ministers’ request last year in the Jeju Declaration, for a private sector input to the Experts’ Study, ABAC commissioned a report from health finance experts. That report notes that the size of the health sector in APEC economies has generally continued to grow (total health expenditure as a percentage of GDP); in ten APEC economies, the share of public finance is declining; there is a perception that private financing will grow in importance. Within these broad trends, there is considerable diversity between APEC economies in both the size of the health sector and the financing mechanisms employed. Some common issues are likely to have implications for financial markets. Long-term health financing options need to be considered in view of the increasing old-age dependency ratio. This factor, combined with the relatively large share of public financing of health in many APEC economies, points to a potentially large impact on budgets. Developments in health care financing toward funded schemes (e.g. relying of medical savings accounts) will generate large accumulations of financial reserves and associated needs for funds management. The private sector, properly supervised, should be encouraged to play a major role in these developments. The International Association of Insurance Supervisors (IAIS) core principles for insurance supervision of private health funds provide a useful benchmark against which to assess regulatory arrangements.

Recommendations:

- review as a matter of priority, the growth in health budgets, particularly in emerging economies of APEC, and develop policy options which should include promoting privately funded health arrangements;
- encourage the participation of private sector funds managers in the development of the health funds markets under appropriate supervisory arrangements; and
- the IAIS core principles should be the basis of supervisory arrangements for health insurance companies.



Annex F

15 August 2006

Hon. Vo Hong Phuc

Chair, APEC SME Ministerial Meeting
Minister for Planning and Investment
Socialist Republic of Vietnam

Dear Minister:

The APEC Business Advisory Council (ABAC) is pleased to provide you with business perspectives on measures that APEC governments can take to support the growth and competitiveness of small- and medium-sized enterprises in the Asia Pacific region. These issues will be highlighted in ABAC's presentation at the APEC SME Ministerial Meeting to be held September 28-29 in Hanoi, Vietnam. They will also be included in the ABAC Report to APEC Economic Leaders to be delivered later this year.

ABAC's recommendations are aimed at opening markets, promoting ease of doing business, improving access to financing, addressing corruption, extending health pandemic preparedness, and revitalizing APEC's ECOTECH agenda for SMEs. They underscore the importance of trade liberalization, business facilitation and capacity building to enable SMEs to compete effectively in global markets.

Support for the Multilateral Trading System


ABAC is deeply disappointed at the suspension of the Doha Development Agenda (DDA) negotiations and what this will mean for small businesses in the APEC region. This Round, so critical to maintaining economic growth and promoting development for millions of individuals and small businesses, is now moribund with no clear prospects for resumption. Failure to conclude the Round means that governments have missed an historic opportunity to lower barriers to trade in agricultural products, improve non-agricultural market access and trade in services – all sectors of critical importance to SMEs. We urge APEC Ministers Responsible for SMEs to work individually and collectively within their governments to ensure that negotiations are restarted.

Promote High-Quality RTAs/FTAs

ABAC continues to have concerns that the spread of regional, sub-regional and bilateral trade agreements with little uniformity among them adds costs and complexity to doing business – especially for SMEs. We strongly support the development of model measures for common chapters as proposed in the 2005 Busan Roadmap. Furthermore, as a way of achieving the Bogor Goals and avoiding the complexities arising from 'spaghetti bowls', we urge APEC governments to examine ways of promoting convergence and consolidation among existing and prospective agreements.

Private Sector Development / Ease of Doing Business

ABAC continues to stress the importance of removing regulatory obstacles to SME growth in the APEC region. The Council was pleased to participate in an APEC Symposium on Private Sector Development held in Montreal, Canada in conjunction with ABAC's second meeting in May 2006. At this time, ABAC delivered the results of a regional survey of priorities for improving the business climate including: reducing regulatory burden, simplifying complex taxation regimes, improving access to finance and easing rigid labor laws. We encourage APEC Ministers Responsible for SMEs to examine these four priority areas in more detail in order to identify concrete measures to improve the business climate and facilitate SME growth and trade. As a contribution to lowering technical barriers to trade faced by SMEs, we also encourage the SME



Ministers to promote more dialogue between the standards-setting regulatory authorities in their economies on a sector-by-sector basis.

Improving SME Access to Financing

The quality of access to formal finance systems can be a major impediment to the growth of SMEs, particularly in some emerging economies. The under-development of credit rating agencies is also a barrier to SME growth. Work undertaken by ABAC this year highlights obstacles to SME access to finance, and identifies policy recommendations which, if implemented, would promote the development of SMEs and the growth of regional credit rating agencies. We call upon APEC governments to promote credit rating agencies and encourage the development of business associations and network linkages between banks, SMEs and associations in order to promote information dissemination. At the same time, we encourage banks and financial institutions to develop policies which reflect the importance of SMEs in their client base.

Corruption and SMEs


While SMEs face many of the same corruption issues that larger companies do, they are disproportionately affected by this problem because they do not have the time, knowledge of government systems, connections or other resources to respond to bribery or other forms of coercion by corrupt officials. APEC governments must improve access to information on their laws and policies related to such issues as business licensing and customs procedures. Priority areas for training include: awareness building for SMEs of their rights when confronted by corruption and alternative dispute resolution mechanisms that are more accessible to small businesses. Finally, we encourage APEC to review opportunities for strengthening the participation of SMEs in future anti-corruption work within APEC.

Avian Influenza / Health Pandemic Preparedness for SMEs

While large multilateral corporations may have continuity plans in place with regard to a health pandemic, many smaller companies are not as well prepared, viewing avian influenza as a threat that is ultimately a public health problem. ABAC believes that there is a critical need to assist SMEs in preparing continuity plans for the possibility of a future health pandemic. To help build awareness, ABAC has held two business conferences this year – in Singapore in January and Hong Kong in May – focused on avian influenza and the need for SME preparedness. We call upon APEC Ministers responsible for SMEs to review their initiatives related to assisting companies in developing their business continuity plans and providing information on the steps they can take to protect themselves.

APEC's ECOTECH Agenda and SMEs

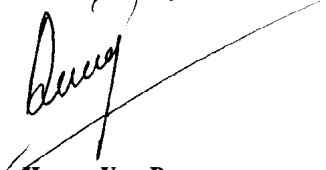
SMEs form the backbone of the economy in all APEC economies, providing employment and income to millions. Therefore, capacity building for SMEs must remain a priority if APEC is to effectively implement its TILF agenda, including such areas as measures to improve SME access to financing, technology, and managerial expertise; promote anti-corruption initiatives and expand health pandemic and emergency preparedness.



ABAC believes that ECOTECH - the capacity building agenda of APEC – needs to be given greater attention and resources if APEC is to achieve its Bogor Goals. We urge APEC to continue to review and revitalize its ECOTECH agenda, leveraging the organization's limited resources through enhanced cooperation with development banks, multilateral organizations, and bilateral aid programs. Wherever possible, we urge APEC to examine opportunities for public-private partnership in the delivery of capacity building programs for SMEs.

We respectfully ask you, as Chair of the SME Ministers meeting, to circulate this letter to your APEC Ministerial colleagues for their review and consideration in preparation for our meeting in September. ABAC values our well-established relationship with the APEC SME Ministerial and Working Group process and looks forward to discussing the advancement of these initiatives in Hanoi.

Yours sincerely,



Hoang Van Dung
ABAC Chair 2006



Andrina G. Lever
Chair, Capacity Building Working Group

The APEC Business Advisory Council

Founding and Structure

The APEC Business Advisory Council (ABAC) was created by the APEC Economic Leaders in November 1995 to provide advice on the implementation of the Osaka Action Agenda and on other specific business sector priorities, and to respond when the various APEC fora request information about business-related issues or to provide the business perspective on specific areas of cooperation. It is the sole non-governmental entity that has an official role in the APEC Economic Leaders' Meeting through a formal dialogue.

ABAC comprises up to three members of the private sector from each economy. ABAC members are appointed by their respective Leaders, and represent a range of business sectors, including small and medium enterprises. The economy determines the term of membership of each appointee as well as its own administrative arrangements and staff support.

The ABAC Secretariat based in Manila, the Philippines serves all members and all economies and maintains a website. Funding is provided through a system of annual dues, which are structured to reflect the size of each economy, following the APEC formula.

ABAC in 2006

In 2006, Vietnam took on the Chair of ABAC, with Korea and Australia as co-chairs, following the APEC order. Co-chairs represent immediate past and future chairs.

Recognizing the need to consolidate efforts in order to achieve the goal of one APEC community, ABAC adopted the theme "Driving Forward a Prosperous and Harmonized APEC Community" which addressed the following issues:

- *Advancing the Busan Roadmap* to achieve the Bogor Goals;
- *Building prosperity together* by strengthening economic, financial and technical cooperation for shared development;
- *Fostering a secure and favorable environment* for trade and investment;

- *Promoting APEC linkages*; and
- *Fostering closer APEC-ABAC relations*.

In line with the priorities of the ABAC Chair, ABAC established four working groups and a committee to carry forward its work during the year, namely:

- Capacity Building Working Group (CBWG);
- Finance Working Group (FWG);
- Trade and Investment Liberalization and Facilitation Working Group (TILFWG);
- Technology Working Group (TWG); and
- Action Plan Monitoring Committee (APMC).

ABAC also established an Advisory Group to oversee the conduct of the Feasibility Study on a Free Trade Area of the Asia-Pacific (FTAAP), which ABAC agreed to undertake in collaboration with the Pacific Economic Cooperation Council (PECC). In addition, it maintained the Communications Core Group (CCG) established in 2003 to pursue its communications outreach activities.

ABAC convened four meetings in 2006: Singapore (22-25 January); Montreal, Canada (9-12 May); Cebu, Philippines (11-15 August); and Hanoi, Vietnam (14-16 November). Two meetings of the Advisory Group on APEC Financial System Capacity Building were also held: Montreal, Canada (9 May); and Cebu, Philippines (14 August). ABAC organized the First Meeting of the APEC Business Schools Network Working Group in Cebu, Philippines on 15-16 August.

Recognizing the value of working closely with relevant APEC fora, ABAC actively participated in various APEC meetings and related events: SOM I and related meetings (Hanoi, Vietnam: 20 February - 2 March); SOM II and related meetings (Ho Chi Minh City, Vietnam: 22 May - 30 May); SOM III and related meetings (Da Nang and Hoi An, Vietnam: 4-17 September); Meeting of APEC Ministers Responsible for Trade (Ho Chi Minh City, Vietnam: 1-2 June); Finance Ministers' Technical Working Group Meeting (Khanh Hoa, Vietnam: 14-16 June); APEC Finance Ministers' Meeting (Hanoi, Vietnam: 7-8 September); APEC SME Ministerial Meeting (Hanoi, Vietnam: 25-29 September); Public-Private Dialogue on Trade Facilitation (13 May: Ho Chi Minh City,

Vietnam); SOM Policy Dialogue on RTAs/FTAs (28 May: Ho Chi Minh City, Vietnam); and Business Symposium on Trade and Investment (31 May – 1 June: Ho Chi Minh City, Vietnam). ABAC held an informal dialogue with Senior Officials at the margins of the Second ABAC Meeting held in Montreal, Canada in May.

Other events organized or participated in by ABAC included: Seminar on Business Contingency Planning and Disaster Preparedness for Avian Influenza (22 January: Singapore); Conference on Business Continuity Planning and Disaster Preparedness on Avian Influenza (Hong Kong, China: 3 May); Private Sector Development Symposium (9-10 May: Montreal, Canada); the ABAC 10th Anniversary Conference (Cebu, Philippines: 12-13 August); and WTO Public Forum (Geneva, Switzerland: 25-26 September).

In line with the precedent set during the past four years, ABAC developed and submitted an Interim Report to APEC Economic Leaders through the Meeting of APEC Ministers Responsible for Trade held in Ho Chi Minh City, Vietnam, in June. The Interim Report elaborated, and outlined recommendations, on trade and investment issues covered under the 2006 work program. In addition, ABAC submitted separate reports and recommendations to the APEC Finance and SME Ministers Meetings held in Hanoi, Vietnam.

Studies and Related Work

To support its work and deliberations, ABAC undertook a number of research studies and initiatives, to wit:

- Feasibility Study on a Free Trade Area of the Asia-Pacific (FTAAP);
- Catalog of RTAs/FTAs;
- Comparative Study of Work on Data Requirements to Support Early Warning Signals to Ameliorate the Impact of Adverse Volatile Capital Flows;
- Coping with the Challenges of Population Ageing: Policy Considerations for Private Sector Involvement in a Private Health Security Pillar in a Universal Health System in APEC Economies; and
- Survey on SME access to formal finance.

ABAC also continued to pursue an active communications outreach program aimed at increasing the level of awareness and appreciation of ABAC issues and activities within the business community in the region. It worked with UNICE, the European Roundtable and other business organizations to press for the successful conclusion of the WTO Doha Development Agenda negotiations.

Future Work

ABAC remains fully committed to providing advice to APEC Leaders on business sector priorities and in pushing forward the APEC agenda on trade and investment liberalization and facilitation. Future work will focus on capacity building, strengthening financial systems, trade facilitation, the monitoring of APEC commitments and the implementation of the Busan Roadmap to Bogor.