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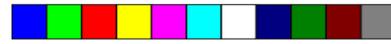
ABAC
APEC Business Advisory Council

Networking Asia-Pacific: A Pathway to Common Prosperity

Networking Asia-Pacific: A Pathway to Common Prosperity

Busan, Korea 2005





APEC Business Advisory Council



His Excellency

Mr. Roh Moo-hyun

President of the Republic of Korea
Chair, Asia-Pacific Economic Cooperation
Seoul, Korea

Your Excellency:

I have the honor to convey to you the 2005 'Report and Recommendations to Leaders', from the APEC Business Advisory Council (ABAC).

APEC has reached the midpoint of the deadline to the Bogor Goals and questions are being raised whether APEC can achieve these goals.

ABAC has put forward recommendations, based on the results of its own mid-term stocktake, in what it believes are areas of priority concern to the region.

Key messages from our report include:

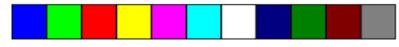
- **Nothing will do more to expand trade in the region than the successful completion of the Doha Development Agenda Negotiations.** This offers an opportunity for a major breakthrough in global trade liberalization and is the best opportunity available to APEC member economies, to significantly advance progress towards their achievement of the Bogor Goals. This opportunity must be taken.

The recent visit to Geneva, by a delegation of ABAC Members, leaves us concerned that negotiations may not be sufficiently advanced to ensure a successful outcome from the WTO Ministerial Conference in Hong Kong, China in December. We believe that the negotiations require an injection from political leaders, of commitment and determination to achieve a successful outcome. In this regard, we consider helpful, the recent Declaration by G8 Leaders, that free trade is the best way to assist the world's poorer nations.

We urge APEC Leaders to exert their collective will in ways that cannot be denied. APEC Leaders should consider adopting a concerted APEC position, and instruct their negotiators to speedily resolve outstanding issues to enable the delivery of full modalities by the WTO Ministerial Conference in Hong Kong and bring the Round to a successful conclusion next year. It is our strongly held belief that nothing is more important than this.

- **We believe that APEC should strive to be WTO plus.** The recent proliferation of bilateral and sub-regional trade agreements in the region, demonstrates a desire by APEC member economies for further trade and investment liberalization, which goes beyond what might reasonably be expected to be achieved at this time within the WTO. While we welcome the liberalization arising from these agreements, as we pointed out to Leaders in our 2004 report, a proliferation of them can have perverse effects of creating distortions and increasing the cost of doing business.





We see the need to broaden and deepen the liberalization resulting from bilateral and sub-regional agreements within the region, by rapidly consolidating it into APEC-wide liberalization. We suggest that a Free Trade Area of the Asia-Pacific may be a useful way of doing this and recommend that Leaders establish a high level task force to examine its feasibility.

Trade facilitation is of crucial importance to the development of trade within the region. Our recommendation to implement a Trans-Pacific Business Agenda, a comprehensive and structured trade facilitation initiative, should stimulate business activity, and assist APEC to achieve its trade facilitation goals.

ABAC believes that APEC must reform the way it operates. In our consideration of the Mid-Term Review, ABAC was not content to undertake a mere stocktake of progress. Our analysis went beyond that and identified a series of reforms which we believe will help invigorate APEC, its role within the region, and its relevance to business. Our specific recommendations are appended to our report.

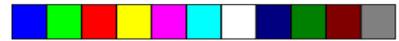
Investment continues to be central to growth. Continued liberalization of financial services markets and the strengthening of financial systems, require sound governance, improved transparency, and financial system capacity building, particularly in emerging economies.

Our report also contains:

- Recommendations to address the impact on business of the more stringent security environment now existing.
- A series of initiatives to strengthen regional emergency preparedness.

Finally, I return to the subject of most immediate concern to ABAC. After several years of work and negotiation, the world has reached the time for decision on the Doha Development Agenda. A substantial Doha Agreement will bring huge benefits to global prosperity and will significantly advance APEC economies toward the Bogor Goals of “Free and Open Trade and Investment in the Asia-Pacific by 2010/2020”.

At Blake Island in November 1993, a bold decision by APEC Leaders created APEC, based upon the principles of economic cooperation and trade liberalization. That bold leadership we believe, contributed to the Uruguay Round Agreement being concluded one month later.



A Time for bold leadership by APEC. The timing of the 2005 Leaders' Summit is again propitious. ABAC believes that a similarly bold display of leadership by APEC could again be the factor needed to break the impasse and persuade WTO Members to reach agreement. An agreement by APEC Economic Leaders to instruct their negotiators to work cohesively to reach agreement would be a powerful signal to WTO Members of APEC's commitment to free trade.

Finally, I acknowledge with appreciation, the high level of cooperation and communication ABAC has had with APEC Senior Officials. This has made a significant contribution to our deliberations.

ABAC trusts that our recommendations will be helpful to Leaders and will find a place in the conclusions which emerge from your 2005 Summit. We look forward to receiving your response to our recommendations. Leaders may be assured of our willingness to assist with their implementation.

Yours faithfully,

Mr. Jae-Hyun Hyun
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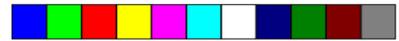
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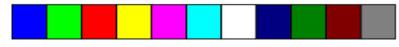
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Australia

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Co-Chair, Trade and Investment Liberalization
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Wendy Pye Group
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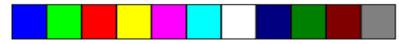
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Fluor Corporation
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Brunei Darussalam

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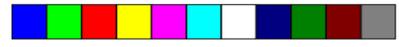
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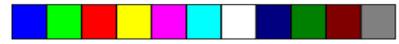
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Vietnam



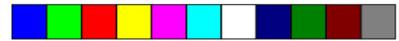




Executive Summary







Executive Summary

ABAC continues to believe in APEC as the regional institution that:

- can bring about the realization of the business vision of an Asia-Pacific community where goods, services, finance and people move freely;
- ensures that the prosperity resulting from this integration is enjoyed by all economies and societies within those economies; and,
- provides a sound framework for responding to regional crisis.

However, having reached the midpoint of the deadline to the Bogor Goals, questions are being raised whether APEC can achieve these goals. This comes at a time when the multilateral trading system is in danger of weakening and being supplanted by bilateral trading arrangements.

At the same time, while the world economy enjoyed one of its strongest years of growth last year and robust growth is expected to continue this year - albeit at a more moderate pace - there are risks to this outlook which include:

- the increasingly unbalanced nature of the expansion and rising imbalances between major economies;
- a tightening of financial market conditions which are leading to a rise in interest rates; and
- volatile and higher oil prices.

These risks and challenges notwithstanding, ABAC believes that the world economic conditions present APEC economies an opportunity to undertake reforms needed to bolster medium-term economic growth prospects. Against this backdrop, ABAC has put forward the following recommendations calling on APEC to:

- 1. Lead in the successful conclusion of the Doha Round.** ABAC strongly believes there is no issue more urgent or more deserving of greater attention in the APEC region and urge APEC Leaders to demonstrate leadership within the WTO negotiations, and redouble their efforts in the following areas:

- Agriculture – Major liberalization of trade in agricultural products including a major reduction in tariffs, a significant increase in minimum market access obligations and the elimination of export subsidies within five years.
 - NAMA – Elimination or substantial reduction of barriers for non-agricultural products.
 - Trade Facilitation – Enhance transparency, simplicity, standardization and expeditious movement of goods and WTO capacity building in this area.
 - Services – Improve the quality of services offers. (APEC negotiators should be encouraged to use the ABAC checklists as benchmarks for the removal of investment impediments and to assess and improve the quality of offers in financial sectors.)
- 2. Respond to the Santiago Initiative.** ABAC has responded to the invitation of APEC Leaders to provide its views on emerging trade facilitation issues as well as the benefits and challenges that arise for business from the increasing number of RTAs/FTAs in the region and ways that these can be addressed with the following recommendations:
 - Launch the Trans-Pacific Business Agenda as a more structured and concerted approach to trade and investment facilitation within APEC in priority areas such as customs processing, standards and conformance, professional qualifications, intellectual property and regulations;
 - Establish a high level task force to examine the feasibility of a Free Trade Area of the Asia-Pacific; and
 - Develop a more comprehensive work plan focusing on developing model measures to encourage free and open trade and convergence across the region in the design and content of regional and bilateral free trade agreements.





3. Keep APEC on Track to Achieve the Bogor Goals. ABAC regards the mid-term stocktake as a critical milestone to the Bogor Goals and have recommended that APEC take the following suite of bold actions if it is to achieve these goals:

- Reaffirm their commitment to the Bogor Goals;
- Strive to be WTO plus by going beyond WTO commitments or coverage particularly in trade and investment facilitation;
- Establish more effective mechanisms for planning and executing ECOTECH programs to support the TILF agenda with the participation of the business sector and international financial institutions;
- Take concerted steps to strengthen financial systems and develop robust capital markets which underpin economic growth; and
- Reform the way it operates:
 - It should review whether it would make more effective progress by moving towards more binding commitments including examining the feasibility of a "Free Trade Area of the Asia-Pacific".
 - The IAP Review process should be made more robust and should focus on what needs to be done by each economy to achieve the Bogor Goals.
 - Accord the APEC Secretariat the authority and commensurate resources to undertake policy review, advocacy, and research and analysis.

4. Adapt to the new security environment.

The lack of sufficient financial and technical resources to achieve higher levels of security in the trading system may render the region's entire supply chain vulnerable. It is for this reason that ABAC has undertaken an assessment of the impacts businesses face that are directly related to the new security environment so that appropriate responses may be developed. ABAC also urges the adoption of an APEC Framework for Security and Facilitation of Global Trade by member economies.

5. Create an Environment Conducive for Business. Promoting good business ethics and eliminating corruption in the region complement the number of initiatives taken towards improving the business environment.

To promote good business ethics, ABAC recommends that APEC:

- Continue regulatory reform and enhance the clarity of laws and regulations to remove fundamental sources of corruption;
- Enforce laws and regulations objectively and fairly when dealing with corporate disputes;
- Support measures which encourage businesses to voluntarily practice ethics in management; and
- Implement incentives to ensure compliance with laws, rules and regulations as they impact on business.

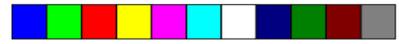
On corruption, ABAC urges Leaders to:

- Expedite implementation of their commitments to become signatories to the United Nations Convention Against Corruption;
- Deny safe haven to corrupt officials and individuals; and
- Develop innovative and effective training programs and technical assistance for those in the field.

ABAC hopes to work in partnership with governments to create and implement anti-corruption measures more widely in each of the APEC economies.

6. Strengthen Financial Systems.

Recognizing the need to address financial system weakness in vulnerable economies as well as region-wide concerns posed by corporate governance failures, ABAC continues to build on work developed in recent years to strengthen and deepen the region's financial systems and develop robust capital markets. ABAC recommends that APEC:



- Adopt measures to assist in making economies more resilient to the impact of volatile capital flows;
- Support joint public/private sector capacity building initiatives to strengthen and deepen financial systems and markets;
- Enable expanded private sector activity in the regional bond markets;
- Implement Basel 2;
- Adopt international accounting standards;
- Promote good corporate governance and business ethics;
- Strengthen security in financial systems and encourage remittance flows through formal financial sectors;
- Review policy frameworks relating to ageing and strengthen budgets going forward by promoting private pensions and savings and provide for generational equity in meeting obligations in public pensions; and
- Mobilize private funding to meet the growing infrastructure financing needs of the region.

7. Develop Emergency Preparedness. In recent years, the APEC region has experienced a number of man-made and natural crises and disasters including terrorist attacks, the SARS outbreak, and most recently, the Indian Ocean tsunami. ABAC calls upon APEC to create a Regional Disaster Response Network to coordinate

emergency preparedness efforts on a regional basis – building capacity to resist and respond to future crises.

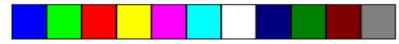
8. Cope with Volatile Energy Situation. Growing pressure on **Energy** sources and volatile prices highlights the need for APEC economies to give priority in long-term planning to ways of increasing energy supply, diversifying their sources, exploiting alternative and renewable options, and encouraging conservation and responsible energy use.

9. Encourage Innovation. To encourage innovation, ABAC recommends that in 2005 APEC Leaders launch an initiative on **patent cooperation and harmonization; technology choice; and concrete measures on intellectual property rights enforcement**, including endorsement of a set of model principles to control online piracy.

In 2005, ABAC will also initiate steps to identify the likely content and possible far-reaching implications for the region of a **2010 Information Society Strategic Vision** which is an important step to realize the potential benefits that more ubiquitous based computing concepts could provide to APEC economies.

10. Environmental and Life Sciences-related Technologies. ABAC has under consideration a range of **environmental and life sciences-related technologies** and initiatives. ABAC confirmed its endorsement of the APEC Life Sciences Innovation Strategic Plan and IT-based collaborative work underway in areas such as border control and biosecurity, environmental conservation and monitoring, food traceability and healthcare management.

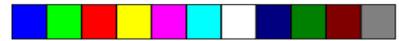




Main Report







Outline of Recommendations

I. Introduction

II. Ensuring Successful Conclusion of the WTO Doha Development Agenda Negotiations

- A. Agriculture
- B. Non-Agricultural Market Access
- C. Trade in Services
 - Financial Services
- D. Trade Facilitation
- E. Rules
- F. Other Issues

III. Keeping APEC on Track to Achieve the Bogor Goals

- A. Response to the Santiago Initiative
- B. Contributing to the Reform and Development of APEC
- C. Investment Liberalization and Facilitation
 - 1. Impediments to Foreign Direct Investment in the Financial Services Sector
 - 2. Improving the Broad Investment Environment
 - 3. Intellectual Property Rights
- D. Implementing the APEC Transparency Standards
- E. Implementing the APEC Privacy Framework
- F. APEC Food System

IV. Building a Harmonious Relationship Between the Private Sector and Government in the New International Security Environment

- A. The Impact of the New Security Environment on Trade Transaction Costs in the Region
- B. Adoption of an APEC Framework for Security and Facilitation of Global Trade

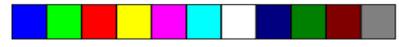
V. Creating an Environment Conducive for Business

- A. Promoting Good Business Ethics
- B. Eliminating Corruption in the APEC Region

VI. Achieving Asia-Pacific Community Through Cooperation and Capacity Building

- A. Strengthening Financial Systems
- B. Enhancing the Competitiveness of Services SMEs
 - Executive Volunteers for SME Capacity Building
- C. Promoting the Community Through Capacity Building
 - 1. Emergency Preparedness
 - 2. Logistics Infrastructure
- D. Securing APEC's Future in a Changing Energy Environment
- E. APEC 2005 Innovation Agenda: Patent Harmonization, Technology Choice and Enhanced IPR Enforcement
- F. Information Society Vision in 2010
- G. Implement the Life Sciences Innovation Strategic Plan
- H. Technology to Improve Health Care Delivery
- I. Technology to Address Environmental Concerns
 - 1. Environmental Monitoring and Food Traceability
 - 2. Border Control and Biosecurity

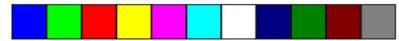




Annexes

- A Checklist on Financial Services Liberalization: Goals and Best Practices
- B ABAC Contribution to the Mid-Term Review of APEC's Progress Towards the Bogor Goals
- C Barriers and Impediments to Foreign Direct Investment (FDI): Checklist and Recommended Policy Response
- D Emergency Preparedness
- E The APEC Business Advisory Council





I. Introduction

The world economy enjoyed one of its strongest years of growth last year. This robust growth is expected to continue this year - albeit at a more moderate and sustainable pace - underpinned by accommodative macroeconomic policies, improving balance sheets, supportive financial market conditions and a gradual rise in employment. There are, however, risks to this outlook which include: (1) the increasingly unbalanced nature of the expansion; (2) a significant tightening of financial market conditions which are leading to a rise in interest rates; and (3) a further sharp increase in oil prices. Major imbalances are beginning to impact on market perceptions. Spreads on riskier lending are increasing. ABAC senses that an underlying cause is concern that a global cooperative approach to dealing with major imbalances is lacking. The international economic framework is under-performing.

These risks and challenges notwithstanding, ABAC believes that current world economic conditions present APEC economies with an opportunity to undertake reforms needed to bolster medium-term economic growth prospects. In particular, ABAC believes that the successful conclusion of the WTO Doha Development Agenda (DDA), including improved market access for developing economies, will be critical to global growth.

Against this background, ABAC adopted the theme "Networking Asia-Pacific: A Pathway to Common Prosperity" which addresses the following key issues:

- Ensuring successful conclusion of the WTO Doha Development Agenda negotiations
- Keeping APEC on track to achieve the Bogor Goals
- Building a harmonious relationship between the private sector and government in the new international security environment
- Creating an environment conducive for business
- Achieving an Asia-Pacific community through cooperation and capacity building

The ABAC Report to APEC Economic Leaders addresses each of these issues and puts forward recommendations in priority areas of concern.

II. Ensuring Successful Conclusion of the WTO Doha Development Agenda Negotiations

ABAC strongly supports rule-based multilateral trade liberalization under the auspices of the WTO. ABAC agrees with APEC Ministers Responsible for Trade that "an ambitious and balanced outcome of the DDA is of major importance for the achievement of the Bogor Goals and will serve as a powerful engine for economic growth and as a means to improve the welfare of millions of our citizens". The WTO Doha Development Agenda negotiations have remained at the forefront of ABAC's concerns for the past several years. Most recently, ABAC has submitted through the Meeting of APEC Ministers Responsible for Trade (MRT) in Jeju, Korea in June 2005, specific recommendations on DDA issues, including a checklist on financial services liberalization and on investment impediments that could be used as benchmarks or "best practice" standards to aim for in the WTO.

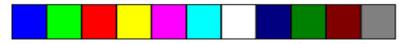
ABAC believes that the Sixth WTO Ministerial Conference to be held in Hong Kong, China in December 2005 is crucial to establishing a solid basis for the successful conclusion of the DDA negotiations in 2006 and in building confidence in the multilateral trading system. ABAC likewise believes that APEC economies have an opportunity in the lead up to the Hong Kong Ministerial to find ways to provide momentum for the core negotiating areas and that APEC Leaders must provide a final push to the negotiations prior to Hong Kong.

ABAC asks Leaders to instruct Ministers and officials to exercise flexibility and demonstrate the necessary political will to agree on all modalities by the Hong Kong Ministerial, taking into account the ABAC recommendations outlined below.

A. Agriculture

ABAC reaffirms its position that an ambitious outcome on agriculture must be a fundamental part of a successful Doha Round of negotiations. ABAC notes that since negotiations restarted in October 2004 following the "framework" accord reached in July last year, there has been much constructive dialogue and agreement on several key objectives such as:





- The total elimination of all forms of export subsidies by a credible end date;
- Economies having higher levels of domestic support will make greater reductions; and
- All economies other than the least developed will contribute to improved market access.

ABAC applauds the advances made in the past year, but is concerned that there remains a huge volume of technical work to be done in agriculture. Delay in moving forward on agricultural issues has serious potential to be a drag on progress on other DDA subjects; this would impact negatively on the outlook for the Sixth WTO Ministerial Conference.

Recommendations

ABAC notes that agreement on the methodology for converting non-ad valorem tariffs to ad valorem equivalents (AVEs) had already been reached. ABAC recommends to APEC Leaders that a heightened sense of urgency is given to substantially liberalizing trade in agricultural products and resolving outstanding differences in the three agricultural 'pillars' as follows:

Market Access

- A substantial reduction in all tariffs
- A maximum tariff cap of 50%
- Agreement on a harmonizing formula to achieve a tiered approach to tariff reductions
- The scope and treatment of 'sensitive' and 'special' products
- The formula for application of 'special and differential treatment' to developing economies, including the concepts of 'proportionality', 'special products' and 'special safeguards'
- A significant increase in minimum access obligations

Domestic Support

- Levels of reduction in all trade-distorting domestic support
- Coverage and levels of payment to apply to the 'blue' and 'amber' boxes
- The percentage level to apply to *de minimis* support

Export Competition

- Complete elimination of export subsidies within five years

- Treatment of other forms of export competition-export credits, food aid, State Trading Enterprises (STEs)

B. Non-Agricultural Market Access

ABAC commends the valuable contributions made by the APEC Ministers Responsible for Trade through their Statement on the Doha Development Agenda Negotiations in Jeju, Korea in early June, which has had a positive and immediate impact on the WTO negotiations, notably their endorsement of a Swiss formula for non-agricultural market access (NAMA) negotiations.

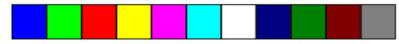
Recommendations

ABAC urges member economies to develop specific modalities for the negotiations concerning market access for non-agricultural products. ABAC also urges member economies to agree to the following as soon as possible:

- Apply an ambitious formula approach to eliminate or substantially reduce tariffs for all products with no *a priori* exclusions by specified dates;
- Utilize other supplemental approaches, including sectoral agreements in areas such as environmental products, information technology products, and chemicals, where they would contribute to further liberalization;
- Eliminate tariffs on information technology products and widen the coverage of the ITA;
- Substantially reduce tariff peaks, high tariffs, and tariff escalation;
- Eliminate or substantially reduce non-tariff barriers; and,
- Recognize special needs and interests of developing economies and apply the "less than full reciprocity" principle.

C. Trade in Services

ABAC is concerned over the slow progress of the services negotiations. A weak services sector hurts the competitiveness of other industries as a whole and the regional economy. Enhancing the competitiveness of service industries through progressive liberalization is a key element of development. Liberalization of key service



sectors, such as transportation, distribution, telecommunication, and computer services that supports manufacturing is indispensable for economic development. ABAC believes that significant progress is achievable in this important area of the negotiations. ABAC however notes that, while the number of WTO Members that have submitted initial and revised offers has increased, the quality of these offers generally remains very poor. ABAC urges all WTO Members to provide meaningful new liberalization in their services offers.

ABAC encourages member economies to give particular attention to the benefits from services negotiations for SMEs, which are actively involved in services trade. ABAC notes that advances in information and communications technology have enabled SMEs to play a more active role in services trade. ABAC requests member economies to take steps to enhance the environment for services SMEs through the GATS request-offer process.

Recommendations

ABAC urges APEC economies to commit to higher levels of liberalization on the broadest possible range of sectors and across all modes of services supply. In particular, it urges APEC to:

- Improve and expand “mode 1” commitments, and make permanent the current moratorium of not imposing customs duties on electronic transmissions;
- Improve and expand “mode 3” commitments by enhancing transparency and mitigating the risks involved in FDI in order to facilitate cross-border investment by SMEs;
- Improve and expand “mode 4” commitments concerning business visitors, contract service suppliers, and independent professionals;
- Promote regulatory transparency within economy schedules, by clearly making commitments that reflect the current regulatory situation, listing market access and national treatment restrictions where applicable, as a first step; and,
- Eliminate regulatory measures that unnecessarily constrain the access of service sector SMEs to international markets.

Financial Services

Much greater effort is needed to promote the comprehensive liberalization of financial services in the Round. Liberalization underpins and facilitates strong economic activity, investment and employment growth, creates greater choice for savers and investors and rewards entrepreneurship. APEC economies should make high quality offers in the WTO Doha Round that go beyond binding current practice to provide for meaningful new financial services liberalization to promote economic growth. Attached are checklists reflecting business aspirations and best practices which would help ensure effective and balanced financial services liberalization (Annex A). They are designed as a tool for economies to use in evaluating their own offers and those of others.

Where developing economies need to pursue step-by-step liberalization, transitional policies should include improving and strengthening institutional capacities in developing economies and market opening and liberalization in developed economies. Transitional policies should be transparent, publicly available, and an integral to the process.

Recommendations

- Agree to pursue robust financial services liberalization in the WTO Doha Round as a means of stimulating and sustaining economic growth and performance;
- Give priority to public/private sector capacity building initiatives aimed at strengthening institutional capacities in developing economies; and
- Adopt best practices in ABAC’s checklist for the WTO Doha negotiations and use the checklist as a central reference by APEC economies in assessing the quality of offers.

D. Trade Facilitation

ABAC is pleased that trade facilitation negotiations in the WTO have begun favorably and that APEC has paved the way for greater work on this issue within the WTO. ABAC also applauds the agreement by APEC Ministers Responsible for Trade to develop possible model measures on trade facilitation for Regional Trading Arrangements (RTAs) and Free Trade Agreements (FTAs) for endorsement by APEC Leaders in November.





While this progress is encouraging, more work is needed. The negotiation of trade facilitation disciplines in the Doha Development Agenda is crucial for businesses. APEC economies must ensure that negotiations on trade facilitation in the WTO Doha Round develop concrete rules to improve the efficiency of international commercial transactions. Comprehensive rules on trade facilitation will bring industry and business added certainty and transparency, and better information on import and export regulations, including customs procedures.

Despite the obvious benefits, prospects for achieving meaningful trade facilitation rules in the Doha Round are uncertain. Failure to agree on trade facilitation would be a setback for business, as the inefficiencies permitted by current rules would continue to hinder global trade.

Recommendations

- Advance trade facilitation in multilateral negotiations, in particular the Doha Round of WTO negotiations where the trade facilitation agenda has met resistance;
- Develop the substance of trade facilitation rules that would reduce impediments to cross-border transactions; and
- Create support for trade facilitation within a diverse range of economies through their private industries, build on the existing efforts of other organizations dedicated to trade facilitation, and coordinate with these organizations.

E. Rules

ABAC supports the Doha Declaration's negotiating mandate to clarify and improve disciplines under the WTO Agreements on Anti-dumping and Subsidies and Countervailing Measures, including fisheries, while preserving the basic concepts, principles and effectiveness of the agreements and their instruments and objectives.

Recommendations

ABAC urges APEC economies to push for progress in the negotiations on these areas. In particular, it urges APEC economies to support revisions to clarify and improve rules: (1) to prevent abusive and excessive use of anti-dumping and countervailing measures; (2) to avoid excessive

burdens on respondents; and (3) to enhance the transparency, the predictability, and fairness of the system in the WTO Doha Round.

F. Other Issues

ABAC believes that investment, competition and government procurement are inseparably linked to trade, and that rules in these areas are necessary for the WTO to keep pace with commercial realities. Clearly, the Doha Development Agenda remains a priority and, to the extent possible, ABAC will work towards a successful conclusion of those negotiations.

Recommendations

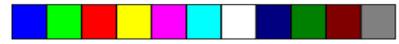
- Explore other ways to make progress in the so-called "Singapore Issues" in the WTO work program; and
- Review APEC's contribution to progress on these issues, which are critical to the region's business community.

III. Keeping APEC on Track to Achieve the Bogor Goals

A. Response to the Santiago Initiative

In their 2004 Santiago Initiative for Expanded Trade, APEC Leaders invited ABAC to provide its views on emerging trade facilitation issues as well as the benefits and challenges that arise for business from the increasing number of RTAs/FTAs in the region and ways that these can be addressed.

This year, ABAC provided APEC with its views on an ambitious trade facilitation agenda for the region, based on a set of specific commitments for customs administrations and trade officials. This agenda featured provisions related to transparency, release of goods, automation, risk management, confidentiality, express shipments, review and appeal, penalties and advance rulings. Based on this input, APEC Ministers Responsible for Trade agreed to develop possible model provisions on trade facilitation for RTAs and FTAs for endorsement by APEC Leaders this year. As a next step in the development of model provisions related to RTAs/FTAs, ABAC suggests that APEC seek to develop a common "best practice" approach to preferential rules of origin in their bilateral preferential trading arrangements (PTAs).



While welcoming the opening of markets resulting from RTAs/FTAs, ABAC is concerned that the proliferation of many separate agreements with different terms and rules could result in trade diversion and increased costs and complexity of doing business in the region. APEC member economies need to take early steps to consolidate the opening of markets arising from RTAs/FTAs – encouraging the formation of progressively larger preferential groupings – contributing to regional liberalization.

If the WTO fails to achieve a successful conclusion to the DDA next year, the focus of trade liberalization will turn in earnest to the negotiation of RTAs/FTAs. This underscores the need to ensure that these preferential agreements are WTO-consistent and have sufficient common elements to permit their possible future expansion and amalgamation. It also points to the necessity of APEC having a “Plan B” to ensure that trade and investment liberalization continues on an APEC-wide basis.

Last year, ABAC presented Leaders with two proposals related to reinvigorating APEC’s trade and investment liberalization and facilitation agenda. First, ABAC called for the launch of a Trans-Pacific Business Agenda which seeks to prioritize APEC’s efforts in the area of trade and investment facilitation through a more structured and concerted approach in these areas (see box

for further details). Second, ABAC called upon APEC Leaders to undertake a feasibility study on a Free Trade Area of the Asia-Pacific.

Recommendations

ABAC reiterates its recommendations to Leaders from last year:

- Launch the Trans-Pacific Business Agenda as a more structured and concerted approach to trade and investment facilitation within APEC;
- Establish a high level task force to examine the feasibility of a Free Trade Area of the Asia-Pacific; and
- Develop a more comprehensive work plan on bilateral and regional free trade agreements, focusing on developing model measures for a wide range of FTA chapters to encourage free and open trade and convergence across the region in the design and content of these agreements.

B. Contributing to the Reform and Development of APEC

As part of its contribution to the mid-term review of APEC’s progress towards the Bogor Goals, ABAC undertook an assessment of APEC’s



The Trans-Pacific Business Agenda (“TPBA”)

The TPBA is a proposed APEC umbrella program for accelerating trade and investment facilitation and “behind the border” reform in the region.

It would consist of an ambitious APEC **agenda** of high priority, trade and investment facilitation and “behind the border” initiatives, and a new APEC **process** for implementing them more quickly and with more certainty.

The **agenda of initiatives** would be chosen by APEC and updated from time to time. They would be priority initiatives in areas shaping the business operating environment, for example, customs processing, standards and conformance, IPR, recognition of professional qualifications, business mobility, investment, business regulation.

The new APEC **process** for achieving these goals would group diverse projects under a **high profile, single umbrella name**, to create *more momentum for reform*. It is a **more concerted action program**, with well-defined goals and timetables, stronger mechanisms to encourage economies to meet these requirements, adequate management resources and better funding.

The TPBA pursues ABAC’s vision of a business environment where goods, services, investments, business people and capital **move freely**, and firms **operate** anywhere in the region as if in their home economy.

It aims to meet business expectations for *faster reform*, through sharper prioritization and more concerted implementation. The TPBA would make aspirational goals in APEC more *achievable*, by pursuing them with greater clarity of purpose.





achievements in the areas of trade and investment liberalization and facilitation and economic and technical cooperation. The review took into account recent developments and challenges which, ABAC believes, have either drastically changed the environment in which business operates or threaten the stability of the region's economy and therefore call for a coordinated response. These include: rapid global economic integration; the dominant role of information technology; other emerging technologies; the increasing complexity of multilateral trade negotiations; the proliferation of bilateral free trade agreements; the rise in terrorism; and the challenges posed by the financial crisis, creeping protectionism, the sharp rises in oil prices, natural disasters, changing demographics, and new disease epidemics. Further progress toward liberalizing trade and investment regimes and knocking down barriers at the borders is increasingly shifting attention to behind the border measures including those to address regulatory obstacles, transparency and corruption concerns and market conditions.

Despite these challenges, ABAC believes that the Bogor Goals remain relevant and strongly recommends that Leaders reaffirm the Bogor Goals of 'free and open trade and investment by 2010 for developed economies, and 2020 for developing economies'. ABAC interprets this to mean 'free and open trade and investment among APEC economies'. However ABAC has already advised in its Report to Leaders in 2004, that it did not believe that developed economies would reach the target of 'free and open trade and investment by 2010', unless a number of initiatives are taken by APEC.

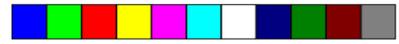
In presenting its contribution to the mid-term review of APEC's progress, ABAC focused on what APEC must do to deliver on its Vision of "Free and Open Trade in the Asia Pacific". A copy of the paper "ABAC Contribution to the Mid-Term Review of APEC's Progress Towards the Bogor Goals" is attached to this report (Annex B).

Recommendations

In order to achieve the Bogor Goals, ABAC recommends in its contribution to the Mid-Term Review that APEC economies:

- Re-affirm their commitment to the Bogor Goals by the target dates;

- Strive to be WTO plus by going beyond WTO commitments or coverage particularly trade and investment liberalization and facilitation;
- Establish mechanisms for planning and executing economic and technical cooperation programs with the participation of the business sector and international financial institutions. For small and medium enterprise development, these programs should focus on business skills, product development, and technology uptake for small and medium enterprises;
- Take concerted steps to strengthen financial systems and develop robust capital markets, notably bond markets to ensure financial stability and to broaden the sources of financing for infrastructure and corporate expansion that underpin sustained economic growth. In so doing, APEC should:
 - Establish mechanisms for developing and implementing financial sector capacity- building programs with the participation of the business sector and international financial institutions;
 - Support measures in regional and international forums to strengthen regulatory supervisory capacity; and
 - Implement an on-going review and upgrade of financial standards according to international best practices.
- Reform the way it operates:
 - It should review whether it would make more effective progress by moving towards more binding commitments;
 - Strengthen and improve individual actions by making IAPs more transparent and accessible to business and the Peer Review processes a more robust, forward looking and policy relevant interaction that includes a greater focus on what APEC economies are doing individually and collectively to implement specific APEC commitments and priorities and achieve the Bogor Goals; and



- Accord the APEC Secretariat the authority and commensurate resources with regard to policy review, advocacy, and research and analysis.

C. Investment Liberalization and Facilitation

1. Impediments to Foreign Direct Investment in the Financial Services Sector

There is now significant evidence provided by the World Bank and others, including an ABAC commissioned report from 2004, the Dietrich Report¹, that FDI in financial services sectors helps improve competitiveness of the host economy, has positive benefits for consumers and provides capital, technology, new product lines, managerial knowledge, enhanced skills and the restructuring of inefficient enterprises. A checklist compiled by ABAC is attached (Annex C). This identifies major impediments to FDI, which, if removed, would substantially benefit the host economy and corporate investors, and provides suggested policy responses that include significant institutional capacity building recommendations.

Recommendation

- Remove impediments to FDI in the financial services sectors and work with ABAC to build institutional capacities to make the investment environment more attractive to domestic and foreign participants.

2. Improving the Broad Investment Environment

ABAC is concerned that APEC activities concerning investment liberalization and facilitation are not as effective as those on trade liberalization and facilitation. Last year, ABAC requested that APEC amend or clarify the wordings of the APEC Non-Binding Investment Principles (NBIP) with a view to improving the environment for cross-border investment. ABAC also proposed measures to promote investment facilitation. ABAC will be working with the Investment Experts Group (IEG) to strengthen APEC's commitments in these areas.

Recommendations

In the meantime, ABAC urges APEC to:

- Reaffirm ABAC's recommendations of last year and to include them in the Investment Experts' Group's agenda;
- Outline the direction necessary for addressing investment liberalization in its roadmap to the Bogor Goals;
- Take the following steps to achieve the investment liberalization and facilitation goals of APEC:
 - Review the role of APEC in achieving investment liberalization and facilitation;
 - Review member economies' implementation of the APEC Non-Binding Investment Principles and Menu of Options for Investment Liberalization and Business Facilitation; and
 - Establish a mechanism by which member economies report implementation of investment transparency standards.

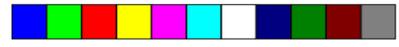
3. Intellectual Property Rights

Last year, ABAC recommended that APEC strengthen the enforcement of intellectual property rights (IPRs) and take steps to further promote cooperation among enforcement agencies in the region in order to facilitate investment.

ABAC welcomes the agreement of APEC Ministers in Santiago in November 2004 to reduce piracy, trade in counterfeit goods, and online piracy, and to increase cooperation and capacity building. In addition, ABAC applauds the APEC Ministers Responsible for Trade for their adoption of the APEC Anti-Counterfeit and Piracy Initiative in Jeju, Korea in June this year and for having started the development of guidelines for the Initiative as concrete deliverables. ABAC also notes that some economies have already established IPR Service Centers, which provide information for IPR holders so as to allow them to take effective legal action against the infringement of their rights. ABAC urges APEC to take significant additional

¹ Professor J. Kimball Dietrich: *Benefits of Financial Market Liberalization*





steps this year and in the coming years to strengthen the enforcement of IPRs.

Recommendations

ABAC recommends that APEC:

- Take the following actions by the Leaders' Meeting in Busan:
 - Develop effective guidelines to reduce trade in counterfeit and pirated goods and the sale of counterfeit goods over the internet. Senior officials are expected to continue taking leadership in the Initiative, and to encourage all member economies to properly implement the agreed guidelines;
 - Take steps to reduce on-line piracy and to promote cooperation among IPR enforcement agencies in the region; and
 - Consider follow-up measures, including the reporting by all member economies of their efforts in implementing the guidelines, strengthening cooperation and on capacity building.
- Demonstrate tangible results in terms of IPR-related efforts achieved each year at the Leaders' Meeting, starting from Busan; and
- Establish IPR Service Centers and develop a system to enhance interaction among the Centers.

D. Implementing the APEC Transparency Standards

Transparent governments are key to the business community, and 2005 is a seminal year for transparency in the Asia-Pacific region. APEC Leaders agreed to implement all of the APEC Transparency Standards into their domestic legal regimes by 2005. ABAC applauds the agreement APEC Ministers and Leaders reached in Santiago last year to reflect the Transparency Standards into the APEC Individual Action Plans so that economies can report beginning this year on how they have implemented the Transparency Standards.

Recommendations

ABAC urges all APEC economies to:

- Meet Leaders' deadline by incorporating and ensuring that the commitments outlined in

the Transparency Standards are clearly reflected in their laws and other legal instruments no later than this year; and

- Faithfully complete the report this year.

At the same time, ABAC will provide APEC with concrete examples of areas in which economies can improve the transparency of their governmental, legal, regulatory and administrative functions consistent with the APEC Transparency Standards.

E. Implementing the APEC Privacy Framework

The approval of the APEC Privacy Framework by APEC Leaders at the November 2004 Leaders Summit in Santiago is an important milestone in encouraging the development of appropriate protection for personal information in the APEC region. The privacy framework, consisting of nine privacy principles and a roadmap for domestic implementation, strikes the balance of protecting individual's privacy while fostering the responsible flow of global data that is so critical to modern, networked economies.

In order for the APEC region to realize the full benefits of the framework agreement, APEC needs to complete follow-on work this year. This includes focus mechanisms that will allow responsible transfers of information across the APEC region and with APEC partners around the globe, and address procedures to foster cross-border cooperation to respond to consumer complaints and to deal with privacy infringements.

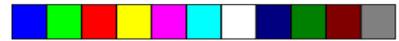
Recommendations

ABAC urges APEC economies to:

- Seize this unprecedented opportunity to work with the business community to develop a mechanism that will encourage and recognize organization's privacy codes or corporate global privacy rules; and
- Participate in continuing work on the implementation of the Privacy Framework.

F. APEC Food System

In the 1995 Leaders' Statement, food scarcity was mentioned as a possible future impediment to economic growth and promised APEC action. ABAC responded and proposed several explicit steps in its 1998 and 1999 reports designed to create an



APEC Food System that would keep food abundant and affordable. The Leaders adopted the ABAC proposal in 1999 and called again in their 2000 and 2001 Statements for vigorous implementation. However, there has been little accomplished on the APEC Food System despite the Leaders' directions and ABAC's appeal for specific actions to invigorate it.

There are three reasons ABAC again calls attention to the APEC Food System. First, visible action by APEC on the sensitive issue of food, and demonstrating that it can be approached cooperatively instead of contentiously, can very positively influence the WTO negotiations. Second, as concerns about possible tight energy supplies arise APEC should be reminded that, as the Leaders pointed out ten years ago, it needs to take early action to assure that it does not face food shortage pressures a few years hence. Growing populations with greater affluence will dramatically increase food demand; combined with environmental stresses and water shortages this could spell trouble, with an adverse reaction for every business in the region, unless addressed cooperatively. Third, as APEC takes stock of itself this year it needs to look at how it organizes to carry out assigned tasks.

Recommendation

- Make a serious study of what went wrong on the APEC Food System before the 2005 Busan meeting and decide what corrective action to take from the "lessons learned."

IV. Building a Harmonious Relationship Between the Private Sector and Government in the New International Security Environment

The new security environment has brought additional costs to businesses in the APEC region associated with the need to achieve higher levels of security in the trading system. At the same time, the adoption of new security-driven technologies and procedures may result in efficiency gains that will expedite cargo clearance at customs and contribute to the reduction of transaction costs.

A. The Impact of the New Security Environment on Trade Transactions Costs in the Region

This year, ABAC undertook a study to assess the impact of the new security environment

on trade transaction costs in the Asia-Pacific region. The study focused on three security-related initiatives, namely the Container Security Initiative (CSI) and Customs-Trade Partnership Against Terrorism (C-TPAT), both introduced by the US government, and the International Ship and Port Facility Security (ISPS) Code, implemented by the International Maritime Organization. The ABAC study undertook interviews with major ports, sea carriers and exporting manufacturers in the APEC region to determine estimates of costs – as well as perceived benefits – associated with these key initiatives in the new security environment.

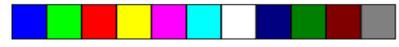
Based on the information collected from these players, it appears that the costs associated with the implementation of these three security initiatives have been modest, thus representing a "light footprint" on the global supply chain. Instead, the most significant cost factor identified by manufacturers was associated with the 24-Hour Advance Manifest rule, which has increased inventory lead-time costs and costs of demurrage due to longer storage time at ports.

While transaction costs associated with these initiatives were modest, so were the perceived benefits of these programs to business. Companies indicated that they had not achieved any efficiency gains attributable to their involvement in these security initiatives, such as reductions in border wait times, pilferage, insurance costs, and safety stock costs. It would appear that more needs to be done to translate the requirements of the new security environment into benefits on productivity and the bottom-line.

Recommendations

- APEC governments should examine ways in which they can more clearly demonstrate measurable benefits to secure traders (e.g. reduced inspections, reduced customs clearance time) and communicate these benefits to the business community.
- While ports and firms in developed economies are able to adapt more easily to the requirements of the new security environment, the implementation costs to firms in developing economies and to SMEs will be substantially greater. APEC should seek to identify specific capacity building programs, including training for customs





officials and port employees in implementing and maintaining new security systems.

- Noting the significant added inventory carrying costs associated with the 24-Hour Advance Manifest rule, ABAC encourages Customs Authorities in the United States and Canada to consider requiring this information 24 hours prior to the arrival of the vessel (or anytime while the voyage is in transit) rather than 24 hours prior to the loading of the container at the port of origin.

B. Adoption of an APEC Framework for Security and Facilitation of Global Trade

Securing global trade is vital to continued prosperity in the APEC region and the world. A severe disruption to the supply chain in one part of the world can negatively impact the entire global trading system in a far-reaching way. Consequently, APEC has remained committed to securing trade flows in a way that is complementary to APEC's core business of trade and investment liberalization and facilitation.

ABAC was pleased that the APEC Sub-Committee on Customs Procedures agreed in principle to implement an "APEC Framework based on the WCO Framework of Standards to Secure and Facilitate Global Trade" ("APEC Framework") as a new Collective Action Plan in the hope of contributing to an expedited facilitation of legitimate and low-risk cargo. ABAC notes that by implementing an APEC Framework, there are

opportunities for the private sector and governments to realize benefits and reduced costs in addition to the direct benefit of improved security. ABAC encourages all APEC economies to work closely with industry to further develop and implement the APEC Framework as proposed at SOM I in Seoul, Korea and looks forward to providing APEC customs officials with detailed input.

Recommendations

ABAC recommends the following to promote participation in the Framework:

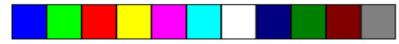
- APEC Customs administrations should expeditiously sign the WCO Letter of Intent, if they are WCO members, or the APEC Letter of Intent to declare their intention to begin the process of implementing the Framework as directed by APEC Ministers Responsible for Trade in their June statement.
- The creation of a work plan with ambitious timeframes for implementation of the APEC Framework. APEC economies not requiring capacity building assistance should take necessary steps to implement the Framework by June 2006, with the remainder of the APEC economies completing implementation by June 2007.
- Implementation of the APEC Framework should include development of:

APEC Customs Handbook

In cooperation with the customs agencies of each of the 21 APEC economies, ABAC is developing a customs and trade facilitation handbook which will provide a concise one-stop depository of customs- and trade facilitation-related information for all APEC economies. ABAC sees this as a tangible joint public-private sector project this year, serving as a useful tool for both businesses and government officials. Thus far, ABAC has received substantive feedback from roughly half of the 21 APEC economies and looks forward to receiving input from those economies that have yet to provide their inputs. The handbook will consist of:

- A compilation of contact information for the various APEC customs agencies;
- Contact information for requesting advance rulings on the applicable classification, duty rate or country of origin of good to be imported into a specific APEC economy;
- Contact and procedural information on administrative reviews of a customs agency's decision if an importer and exporter wishes to protest the decision or interpretation of a customs agency; and
- References to the relevant laws and regulations pertaining to advance rulings and administrative reviews.





- voluntary government-industry partnership programs to improve security and facilitate the movement of legitimate trade, including supply chain security best practices for Authorized Economic Operators (AEO);
- a mechanism for APEC economies and third parties to validate an AEO's adherence to security best practices and a means for mutual recognition of such assurances among economies and AEOs;
- standard requirements for providing information to customs authorities for use in targeting higher risk shipments; and
- a system to provide measurable benefits to secure traders (e.g., reduced inspections, reduced customs clearance time) and a system for reporting on these benefits to demonstrate the results after implementation of the APEC Framework related programs.

- Assistance for APEC economies in developing standards and requirements for inspection technologies and customs automation through capacity building.
- Hosting, by relevant APEC fora, of capacity building seminars and pilot projects supportive of implementing the elements of the APEC Framework.

V. Creating an Environment Conducive for Business

A. Promoting Good Business Ethics

The economic environment is changing and impacted by the removal of barriers against international competition and by various conventions related to improved business ethics. An important ingredient for long-term profitability is the voluntary acceptance by business of ethics management which ABAC intends to promote with stakeholders. APEC Leaders should support these objectives through public policy initiatives which address issues of transparency of government regulations and the enforcement procedure of laws.

Recommendations

ABAC recommends that APEC economies:

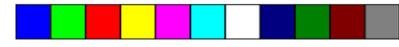
- Continue regulatory reform and enhance the clarity of laws and regulations to remove fundamental sources of corruption like discretion on the part of public officials;
- Enforce laws and regulations objectively and fairly when dealing with corporate disputes like labor-management disputes, customer-related disputes, and class action suits;
- Support measures which encourage businesses to voluntarily practice ethics in management; and
- Implement incentives to ensure compliance with laws, rules and regulations as they impact on business, including legal enforcement of contracts.

B. Eliminating Corruption in the APEC Region

Last November in Santiago, APEC Leaders took decisive action by adopting the "Santiago Commitment to Fight Corruption and Ensure Transparency" and the "APEC Course of Action on Fighting Corruption and Ensuring Transparency." Recognizing that a comprehensive approach is required, these bold initiatives apply to public and private sectors and to all manner of corrupt practices. In November 2004, ABAC also clearly demonstrated its commitment to fight corruption as every ABAC member signed the ABAC anti-corruption statement.

ABAC maintains its commitment to encourage business and governmental institutions to conduct their affairs with the highest level of integrity and ethics. Expanding on last year's initiative, this year ABAC will begin to solicit all major companies in the 21 APEC economies to sign the ABAC anti-corruption statement. ABAC notes that under the leadership of Korea, APEC will host an international symposium on anti-corruption in September in Gyeongju. ABAC will participate in this event as part of the joint effort to build public-private partnerships to combat corruption. ABAC also applauds the APEC Leaders' resolve to fight corruption at all levels.





Recommendations

ABAC urges Leaders to:

- Implement quickly their previous commitments to become signatories to the United Nations Convention Against Corruption;
- Deny safe haven to officials and private citizens engaging in corrupt practices; and
- Develop innovative and effective training programs and technical assistance for government, corporate and NGO personnel involved in combating corruption.

VI. Achieving Asia-Pacific Community through Cooperation and Capacity Building

A. Strengthening Financial Systems

APEC economies should continue to give priority to strengthening and deepening the region's financial systems and capital markets, in particular by promoting and implementing best supervisory standards and practices, by developing the region's bond markets and by comprehensively liberalizing investment in financial sectors.

ABAC is concerned that the monitoring of capital flows by multilateral institutions has waned in the wake of the recovery from the 1997 financial crisis, while some economies remain vulnerable to volatile capital movements. ABAC has commissioned a study on possible response mechanisms to ameliorate the impact of volatile capital flows and will report separately to Leaders on its recommendations.

Global convergence to an internationally agreed financial reporting standard is now occurring and this reflects the closer integration of financial services and of capital markets. APEC economies should move as a matter of priority to converge their standards to international standards if they are to benefit from capital market integration.

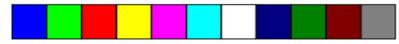
The Advisory Group established by ABAC and PECC promotes capacity building initiatives through public and private partnerships, to strengthen the institutional capacities of public and private financial agencies. ABAC requests Leaders' endorsement of its capacity building measures

to promote safer and more secure financial systems.

Many of the region's economies face budgetary and other challenges due to the demographics of ageing. Economies ought to give priority to this issue, both by developing private pension systems and health insurance and promoting sounder budgets. There is also a solid relationship between the accumulation of funds in pensions systems and the growing and massive infrastructure financing needs of the region. This relationship presents significant challenges, including importantly the development of private pensions which, under prudentially sound investment guidelines, could become a source of financing for infrastructure. Private sector financing in infrastructure must be reinvigorated, and bond markets developed to allow them to play a critical role in linking pension funds and investment in infrastructure financing.

Recommendations

- Deal with volatile capital flows and the activities of hedge funds
 - Strengthen domestic economic frameworks, require regional and international institutions to improve monitoring and surveillance and note that ABAC will provide views on mechanisms which economies might consider to ameliorate the impact of adverse flows.
- Strengthen and deepen the region's financial systems
 - Give priority to promoting and implementing international best standards and practices in financial sectors including, importantly, Basel 2 in banking, and converge to international accounting standards; and
 - Pursue measures to enable expanded domestic and cross-border private sector investment and issuance in the region's bond markets through an action plan process, and ensure consistency among all regional bond market initiatives.
- Promote capacity building initiatives to strengthen the region's financial systems and capital markets



- Endorse the role of the Advisory Group on APEC's financial sector capacity building and provide budget support for the involvement of the region's financial system regulators in capacity building initiatives; and
- Endorse proposals to broadly disseminate ways to promote good governance in public and private financial institutions, measures to encourage the flow of remittances through formal financial systems, and ABAC/APG initiatives to combat the movement of terrorist funds, money laundering and corruption.
- Pursue initiatives to promote developments in pension arrangements, including private pensions, in meeting the challenges of ageing populations
 - Promote privately funded pensions as an integral aspect of retirement and health policies under sound regulations, adopt OECD general principles for governance and supervision of pension arrangements, and measures to ensure equitable generational burden sharing of current and accruing pension obligations in public sector pensions; and
 - Endorse joint ABAC/APEC capacity building initiatives to strengthen supervisory arrangements for pension systems.
- Pursue initiatives to promote the mobilization of private savings to finance the region's infrastructure needs
 - Give priority to measures to reinvigorate private participation in infrastructure financing needs by promoting sound and equitable public/private partnerships which should encompass flexibility in responding to changing circumstances over the period of a long-term project and provide reasonable returns to private investors within a transparent and sound contractual environment, enforceable through a predictable and fair judicial system and with clear bankruptcy rules and procedures; and

- Join with ABAC in a capacity building initiative aimed at improving aspects of guidelines and modalities developed by UNCITRAL and other agencies to improve evaluation of risks in public private partnerships.

B. Enhancing the Competitiveness of Services SMEs

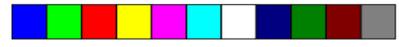
Services SMEs comprise over 90% of all companies in the APEC region. Yet despite the importance of these companies, many governments in the APEC region have overlooked their contribution – or have not adequately taken into account the needs of small services companies when developing their policies and programs. ABAC believes that there is a need for greater awareness in all APEC economies of the important role of SMEs in services trade – and greater capacity building efforts by governments and business associations alike to take steps to further enhance the competitiveness of services SMEs.

Last year, ABAC undertook a survey of all APEC economies to determine what governments and business associations in the region are currently doing to support SMEs in the services sector. Based on these findings, ABAC presented a number of key recommendations to APEC Ministers Responsible for SMEs. Although well received by the Ministers, APEC has not yet taken up ABAC's recommendations with regard to supporting services SMEs. Given the importance of this sector, ABAC wishes to reintroduce a number of its key recommendations from 2004, and looks forward to working closely with APEC SME officials in their implementation.

Recommendations

- Set targets for increasing services trade by SMEs, such as doubling the number of SME service exporters in each APEC economy by 2007;
- Provide technical assistance to APEC developing economies on services exporting, including analysis of services exporting capacity and identification of priority services for export promotion, training of SMEs in successful services exporting, training to business associations and trade promotion agencies on how to assist SME service exporters, regional networking of associations in support of SME service exporters, and training of government





services trade negotiators to link export capacity in negotiating strategies;

- Build regional best practice networks to support SME services trade by establishing a network of SME services exporting focal points/champions in each of the APEC economies, with the responsibility of reporting each year to the APEC SME Ministerial; and
- Give priority in both the WTO and APEC to addressing barriers to SME services exporting.

Executive Volunteers for SME Capacity Building

There are pools of experts in developed APEC economies that are available to provide professional, voluntary, short-term assistance and advice to enterprises, particularly to SMEs in developing economies. The challenge is to develop better linkages between executive volunteer organizations in developed economies and agencies coordinating business skills and training requirements in developing economies.

ABAC is currently seeking to identify and compile a list of executive volunteer service organizations throughout the region. It is hoped that this list will eventually form the basis of a regional network of organizations that can coordinate the supply and demand of executive volunteers in developing economies.

Recommendations

ABAC calls upon APEC Ministers Responsible for SMEs to:

- Survey and coordinate the skills required by their own small business communities with a view to establishing a register of SME skills development needs;
- Establish a network of organization within APEC that offer executive volunteer services in order to better coordinate private sector capacity building initiatives on a region-wide basis; and
- Look at options for funding this network – either through APEC or in partnership with international financial institutions – in order to defray travel costs for foreign experts.

C. Promoting the Community Through Capacity Building

1. Emergency Preparedness

In recent years, the APEC region has experienced a number of man-made and natural crises and disasters including terrorist attacks, the SARS outbreak, and most recently, the Indian Ocean tsunami of 26 December 2004, which resulted in enormous loss of life and economic damage. These events bring into sharp focus the need for robust early warning and response systems for future disasters of all kinds.

In responding to the tsunami disaster, ABAC has focused its attention on the challenge of effectively incorporating the region's business community in capacity building efforts for emergency preparedness. In its discussions, ABAC has considered each of the three phases associated with any natural or man-made disaster or situation, namely:

- **Resist phase** – measures aimed at defense and preparation for future event of scale;
- **Response phase** – relief efforts in the first hours and days of a crisis that can overwhelm traditional response mechanisms;
- **Recovery phase** – measures taken in the intermediate to longer term following an event of scale to rebuild including restoring "business as usual" as quickly as possible, restoring jobs and income to affected communities.

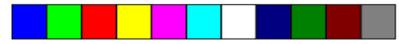
Recommendations

Based on its assessment of the current status of the regional business communities' involvement in Resist and Response phases, ABAC recommends that APEC create an '**All Hazards APEC Regional Response Network**'.

Such a network would seek to coordinate APEC's emergency preparedness efforts for future events of scale through a number of specific measures, including:

Resist Phase activities:

- Review of regional response capabilities
- Self assessments of individual economy capabilities
- Development of a mechanism to capture and disseminate 'lessons learned' (e.g. public education for emergency preparedness, early



- warning communication, etc.)
- Establishment of region-wide communication and notification protocols for events of scale, which would seek to include the private sector along with other relevant government, multilateral, and NGO actors

To capture this information, ABAC recommends that the APEC Task Force on Emergency Preparedness build upon the website framework that currently exists, in order to create a **website**.

Response Phase activities:

- Development of rapid response communications networks for use in natural disasters or in the event of a terrorist strike on national infrastructures that can be quickly deployed and made operational.
- Development of an **Airport Emergency Team** capability within the region. Such a Team would be prepared to take over ground operations at response airport locations during the critical first days of a disaster response, when relief operations cause a sudden surge in incoming cargo.

ABAC encourages APEC member economies to allocate sufficient financial resources to the establishment of the APEC Regional Response Network and the delivery of the initial projects outlined above. In the development of the All Hazards APEC Regional Response Network, ABAC would play a supporting role, working to mobilize the regional resources of the private sector.

The urgency of creating the 'All Hazards APEC Regional Response Network' is underscored by the potential of an outbreak of avian influenza. If human-to-human transmission of 'bird flu' takes place, this could easily result in a pandemic that will be the next "event of scale" in the APEC region. It is imperative that the Regional Response Network is in place to mobilize the resources of business in all phases of this possible health pandemic, from initial resist and response efforts to eventual regional recovery.

A copy of the full recommendations on emergency preparedness is attached as Annex D.

2. Logistics Infrastructure

The development of cross-border distributions systems between assembly plants and parts-producing factories is indispensable to "just-in-time" assembly systems. While the development of seaport cargo infrastructure continues to improve, bottlenecks related to land route cross-border distribution systems in many APEC regions is lagging behind. Difficulties include inconsistent customs procedures and application of tariffs at land route crossings, degradation of roads and trucks, congestion and natural hazards such as flooding.

Recommendation

ABAC encourages APEC to cooperate with the private sector in identifying capacity building priorities related to the improvement of cross-border land route logistics infrastructure in the APEC region, including upgrading of infrastructure,

Standards

Uniformity of standards regulations is fundamental to simplification of the conduct of business in the APEC region.

ABAC has undertaken a study aimed at identifying the institutional changes that must be made to remove the standards-related barriers that hinder business. The study includes gathering comparative data on approaches to standardization in the EU and APEC regions. It makes significant recommendations for future progress and regional collaboration in this area, including a range of capacity building proposals to strengthen infrastructure.

ABAC members are gathering feedback from their respective national standards bodies, and the final report will be provided to Leaders in the near future. The study and report will be an invaluable tool for policy makers and standards bodies throughout the region, and to advance the development of greater regional consistency and collaboration on standardization for the benefit of all economies.





Recycling Based Economies

Increased efforts are needed in 3R (Reduce, Reuse, Recycle) for sustainable development in the APEC region. In order to realize 3R goals, APEC economies need to move toward standardized regimes for recycling in the region to ensure that all goods produced in one economy can be used and recycled in any other economy.

Based on the ABAC recommendation in 2003, which have the objectives of:

- Identifying issues and challenges to implementing 3R in APEC member economies;
- Sharing best practices of 3R in selected industries;
- Designing, developing and conducting Capacity Building pilot projects;
- Disseminating the resulting best practices to all APEC economies; and
- Establishing an Experts Network to facilitate implementation of RBE in APEC.

The APEC HRD Capacity Building Network held seminars in Mexico, China and Thailand. This is a successful case of APEC and ABAC collaboration. A final report, including recommendations, will be issued in November 2005.

simplification and standardization of land route customs clearance procedures, and strengthening of freight terminal functions at land borders.

D. Securing APEC's Future in a Changing Energy Environment

The global energy equation has changed. Dwindling "easy" supply combined with rapidly growing demand in the APEC region and throughout the world has increased the costs of energy. Large inflows of capital are required to meet infrastructure and power generation needs of the next twenty years.

All of APEC's critical Bogor Goals require a safe, reliable, affordable, efficient and stable supply of energy. The new energy environment requires economies to consider a variety of ways to increase energy supply, diversify sources of supply, and encourage its responsible use. Adopting this three-pronged approach can help APEC create strategic policies to prepare for the future. The rise of oil prices in recent months underscores the need for action.

APEC economies need to increase energy supplies through creating forward movement on international investment disciplines in trade agreements, encouraging international funding of sustainable energy development, enhancing transparency of the business environment, and creating legal regimes where contract terms and enforcement mechanisms instill confidence in investors. ABAC applauds the adoption of Best Practices for Financing Energy Infrastructure Projects by the Energy Ministers at their June

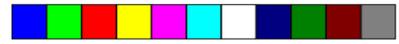
2004 meeting in Manila and the wide range of best practices identified in the APEC Energy Process over recent years. APEC's Energy Ministers and officials should focus on implementation of all these best practices in a timely and measurable manner.

Energy sources need to be conserved and diversified by capturing the potential of energy sources such as liquid natural gas, creating more regulatory certainty throughout the energy value chain, and leveling the playing field between national and foreign companies. Many APEC economies such as Japan and New Zealand are already leaders in the area of utilizing diverse and non-traditional energy sources. Further, **responsible use of energy requires** close management of commercial demand through conservation and improved efficiencies, reducing consumption with a variety of mechanisms, and sharing best practices, technologies and standards.

Recommendations

ABAC recommends that the following be considered for the APEC Energy Ministers meeting in October 2005:

- Policy and Regulatory Action focusing on conservation policy, preferential treatment of energy efficient products, support for research and development for alternative sources of energy;
- APEC Energy Planning on an APEC-wide basis and in the Individual Action Plans, including



investigation of new energy sources such as biomass and ocean energy, the application of ICT, and alternatives and transition strategies; and

- Ongoing APEC Energy Work Program, including regularization of the Energy Ministers' process, dissemination and information sharing of energy-saving technologies, and continued outreach activities on Best Practices.

E. APEC 2005 Innovation Agenda: Patent Harmonization, Technology Choice and Enhanced IPR Enforcement

In their 2004 Declaration, APEC Leaders recognized that improved protection and enforcement of intellectual property rights (IPR) promote investment, innovation and economic growth, and in their 2003 Declaration Leaders agreed to advance pathfinder initiatives including in relation to IPR and technology choice.

In 2005, under Korea's leadership, APEC can achieve significant breakthroughs by: (a) launching an APEC Initiative on Patent Cooperation and Harmonization; (b) developing technology choice principles that will maximize flexibility for end users to use technologies that best meet their needs; and (c) successfully implementing the anti-counterfeiting and piracy initiative endorsed by APEC Ministers Responsible for Trade at their June 2005 meeting in Jeju, Korea.

Recommendations

ABAC recommends the following:

Patent Cooperation and Harmonization

- Expand cooperative work among participating APEC member economy patent authorities to make efficient use of search and examination capacity; and
- Build common understanding on four prior art related issues – definition of "prior art," grace period, novelty and non-obviousness/inventive step.

Technology Choice

- Develop a set of technology choice principles to be incorporated into the APEC Pathfinder Digital Economy Statement, including the use of industry-led, voluntary,

consensus-based, international **standards** that respect IPR; merit and performance based **procurement** policies, and freedom of technology choice for **Services Providers** and consumers.

IPR enforcement

- Adoption of an APEC Member Economy Self Evaluation against APEC's Optical Disk Effective Practices;
- Expedient implementation of the anti-counterfeiting and piracy initiative endorsed by APEC Ministers Responsible for Trade at Jeju, including through:
 - The creation of an IPR Enforcement Task Force to help institutionalize and regularize cross-border enforcement cooperation, sharing of best practices, and opportunities for public-private partnership in training;
 - Endorsement of Model Principles to Control On-line Piracy (set forth below) in order to provide a blueprint as APEC economies update legislation to address IPR challenges of the digital age;
 - Establishment of regularly scheduled cybercrime and IP enforcement workshops;
 - Continued establishment of IPR Service Centers and systems to enhance interaction among new and established centers;
 - Annual reporting of concrete results of IPR related efforts achieved each year at the Leaders' Meeting, beginning in Busan; and
 - Prior to the Leaders' Meeting in Busan, develop a method for each economy to report on implementation of the guidelines developed for the APEC Anti-Counterfeiting and Piracy Initiative.

F. Information Society Vision in 2010

ABAC welcomes recognition by Telecommunications Ministers in the APEC TELMIN 6 Lima Declaration and Program of Action of important policy principles many of which have been highlighted by ABAC in previous reports





to Leaders, including the importance of the following toward fostering an inclusive APEC information economy:

- Free and open trade and competition;
- Technology neutrality;
- Innovation and intellectual property;
- Broadband development and accelerating Internet access for all;
- E-Government;
- Cybersecurity and the Convention on Cybercrime;
- Mutual Recognition Agreements and minimizing regulatory divergence;
- Efficient use of spectrum; and
- Technical cooperation and human capacity building.

ABAC welcomes and applauds the role of APEC in facilitating the sharing of best practices in each of these areas.

ABAC would like to highlight, nevertheless, the need for greater clarity in a number of areas. In particular, it urges APEC governments to recognize the importance of:

- Voluntary, open, non-discriminatory, industry-led, consensus-based technology standards that promote interoperability, respect intellectual property and that do not unnecessarily restrict trade;
- Establishing an APEC target date for deployment of broadband;
- Ensuring transparent, clear, industry-led processes in the development of NGN standards;
- Joining the Convention on Cybercrime and implementing consistent domestic legislation as soon as possible.

The “global information society”, sometimes called the “ubiquitous society”, is broadly defined as a society in which people are connected anytime, anywhere, and to anyone through a ubiquitous computing environment where every object is equipped with artificial intelligence.

APEC economies are at differing stages in moves to enable their people to participate in the global information environment, through ready access to modern communication services. Technological advance is rapid in fields such as a broadband and multi-platform access.

Complementing that technical progress among APEC economies is research on ways to enable communication service users to more easily identify their particular needs and control their communications. The need for reliable personal identification is driving work to allow access to a range of different services behind a single identifier. The internet based “ENUM” service is under trial in Australia, China, Japan, Korea, New Zealand, Singapore and USA. New Zealand is trailing a match between ENUM and the concept of a universal communications identifier (UCI) system. Personal user protection is paramount.

Inevitably there are many views on specifics on definitions, requirements, norms and standards which should underpin the global information society. There are serious issues raised by existing and expected technologies and their interface, and potential impact on commerce, personal privacy, legal frameworks and a host of other issues that are not yet defined.

Capacity building is the core activity to reduce the digital divide and establish an advanced information society expanding to the ubiquitous society in the future.

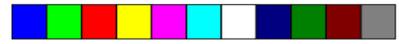
ABAC is considering a study of the challenges APEC economies face in creating an environment where a ubiquitous society can flourish, including access to broadband convergence networks, legal, regulatory and self-regulatory frameworks to address privacy concerns, intellectual property protections and on-line piracy prevention.

With the benefit of the study, ABAC will be able to develop a list of topics for consideration at a possible symposium to further explore views on this technology, its integration into society, definitions, legal frameworks and other related issues.

Recommendations

Based on the outcomes of the study, ABAC recommends that APEC economies establish a 2010 information society strategic vision. This is one of the important steps to realize the potential benefits that more ubiquitous based computing concepts could provide to APEC economies. To be most useful and to maximize the potential benefits inherent in these strategic plans, APEC economies should ensure that:





Model Principles to Control Online Piracy

- Ratify and fully implement both WIPO Internet Treaties (WCT and WPPT).
- Ensure adequate and effective prohibitions on the circumvention of technological protection measures that protect copyright through copy and access controls, including trafficking in circumvention tools.
- Ensure that widespread, willful unauthorized distribution of copyrighted material is a criminal offence even if not undertaken for profit.
- With regard to material residing or stored on an ISP's network or system, adopt a formalized notice and takedown system, imposing the following obligations on ISPs as a condition for protection from monetary liability:
 - Require ISPs to remove or take down infringing material expeditiously upon receiving notification from rights holders.
 - Require ISPs to take action against known or obvious infringers even when no notification has been received from a copyright holder (except that an ISP should not be required to monitor its service or affirmatively seek out infringing activity).
 - Require ISPs to notify alleged infringers of notification received from rights holders.
- Establish meaningful and effective administrative or judicial procedures enabling rights holders to obtain from a service provider information in its possession identifying the alleged infringer.
- Support consumer education campaigns to promote understanding of and respect for copyright and discourage infringing behavior.



- The 2010 information society vision is geared to attaining reachable targets based on the current status of infrastructure deployment, existing technical and human capacity and resources available to each of the economies.
- Information exchange related to such plans as well as the sharing sectoral or topical expertise through the implementation of capacity building efforts take advantage of existing human resources and infrastructure.
- Economies' strategic plans address the need for a facilitating, predictable and transparent regulatory framework coupled with open and accessible markets.

G. Implement the Life Sciences Innovation Strategic Plan

ABAC welcomes the endorsement of the APEC Strategic Plan for Life Sciences Innovation as an

important tool to assist economies in developing an environment that attracts investment and supports innovation in life sciences. Investment in the life sciences industry by APEC Member economies will contribute to the longevity, wellness, and economic potential of the region and help to address critical areas of concern, including early detection, prevention, and treatment of disease.

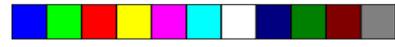
Intellectual property protection is critical to the development of an innovative life sciences sector. In this context, ABAC welcomes the Strategic Plan's approach to IPR protection and supports its treatment of IPR as an area of priority focus for the region.

Recommendations

ABAC supports:

- **A robust implementation model** that identifies one or two outcomes in each of





the four critical areas in the life sciences value chain: research, development, manufacturing and marketing, and health services; and

- Efforts to **develop a medical biotech venture capital fund** on a regional or sub-regional basis in order to provide critical financing for innovation.

LSIF implementation is also important in the context of reaching the Bogor Goals of liberalized trade and investment in the APEC region. Different policy and regulatory environments are a hindrance to trade and investment in the life sciences sector - the Strategic Plan seeks to counter these problems by providing best practices for harmonizing regulatory standards. Additionally, the clear link between health and economic development makes improved access to innovating medicines and medical treatments critically important, as healthy people make healthy economies.

H. Technology to Improve Health Care Delivery

Technological advances are being brought to bear to improve health and health care delivery in the region. The development of information/communications technology (ICT) - supported electronic patient health systems improves the accuracy and delivery of health information, and helps safeguard the privacy and security of patient information. The ultimate aim is an Electronic Health Record (EHR) which contains GP, Specialist, Local Health Authority and Prescription records.

Trials of various IT technologies for hospitals are proving potential improvements in efficiencies and the safety of hospital patients. For instance, wireless Bed Management systems are a novel application for improving the critical task of hospital bed management.

ABAC also welcomes the launch of the Pacific Health Summit, a multi-year project that began in June 2005 in Seattle with a first-of-its-kind gathering of scientists, policy makers, health care providers and industry. The annual Pacific Health Summit will continue to bring together the most current scientific information and technology for decision-makers' discussions.

The Summit marked the launch of a major APEC-wide biomarker research project that will provide data critical to the early detection and prevention of diseases. Additionally, the Summit established a Health Information Technology Policy Group that will focus specifically on IT-related issues in health care. ABAC will engage with this group through information sharing and other cooperative efforts to develop relevant recommendations to APEC Leaders on this issue.

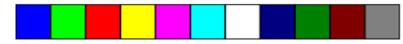
I. Technology to Address Environmental Concerns

ABAC has considered a number of environmental-related technologies and initiatives including a proposal to adopt recycling-based economies, environmental monitoring, border control and biosecurity, and food traceability with greater application of Information and Communication Technologies.

1. Environmental Monitoring and Food Traceability

Research underway in several APEC economies has shown that applying Information and Communication Technologies (ICT) to environmental monitoring improves agricultural and horticultural productivity and management, animal health and food traceability. Integrating on-farm information systems with remote databases allows users, including regulatory authorities, to better monitor production and animal compliance activities. Advances of this type can lower the likely economic impact of anticipated environmental and traceability compliance regulations, which for APEC food-exporting economies could amount to technical barriers to trade.

The use of remote monitoring devices for continuous surveillance of the rural environment (fertilizer, soil, water conditions) helps to ensure environmentally sustainable practices - reducing pollutants and improving yield. Monitoring weather contributes to agricultural efficiency and security. Food traceability is becoming mandatory for compliance purposes, and will be an important element in facilitating agricultural trade and thus economic development in the APEC region as information technology becomes less expensive, more functional and energy efficient.



Recommendations

ABAC recommends that APEC Leaders consider carefully the relevance and potential benefits to their own economies of the emerging technologies outlined above, and explore the scope for capacity building measures in partnership with economies in a position to assist.

2. Border Control and Biosecurity

The risk of incursions of animal, avian and human disease, unwanted substances and contaminants is a common concern to APEC economies. Significant trans-border issues need to be addressed. Work is proceeding with ICT-supported diagnostics using image recognition technology, to provide APEC agriculture and customs authorities with a rapid method of sampling and detection. The ability to quickly upload digital pictures of organisms and match DNA samples to remotely stored databases of invasive species, will significantly improve image recognition and has potential to greatly improve biosecurity and border protection.

Recommendation

ABAC believes that the research activity described above has broad-based potential for APEC economies, and that APEC Leaders should ensure their relevant authorities are conversant with that work.

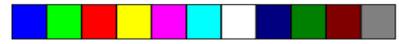




Annexes







Annex A

CHECKLIST

FINANCIAL SERVICES LIBERALIZATION: GOALS AND BEST PRACTICES

For use by economies in assessing and evaluating the quality of financial services offers in the Doha negotiations.

BANKING

GOALS

The offer should create new market-opening and investment opportunities. To what degree does it satisfy the following goals?

- 1) Improves upon 1997 commitments (where applicable)
- 2) Creates new business opportunities through the lifting of restrictions
- 3) Creates conditions that will attract new capital
- 4) Addresses market access, national treatment and transparency of domestic regulation measures in a comprehensive manner (as elaborated in the best practices which follow).

BEST PRACTICES

A high-quality offer in the banking sector should contain the elements enumerated below.

ESTABLISHMENT

- 1) Permits investor to choose the form of establishment – whether as a branch, joint venture or wholly-owned subsidiary – that makes the most business sense.
- 2) Contains no “economic needs tests” or other geographic or product-specific restrictions.
- 3) Grandfathers existing investments in operations and activities.

TEMPORARY ENTRY OF NATURAL PERSONS

Facilitates the temporary entry of key financial services personnel required for managerial, technological, system or risk management purposes (add other categories as may be required by applicable investments).

NATIONAL TREATMENT

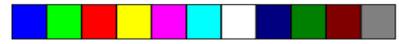
- 1) Provides assured national treatment for asset management activities provided by financial services firms.
- 2) Avoids discriminatory international markets as domestic companies.
- 3) Should treat locally established affiliates of foreign banks on the same basis as domestic companies for regulatory and other purposes. Where differences in such treatment exist, they should not create conditions of competition more favorable to domestic service or service suppliers than for like service or service suppliers of other WTO Members.





Annex A

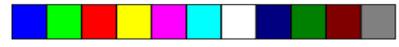
| ADDITIONAL COMMITMENTS | |
|--|--|
| TRANSPARENCY | EXAMPLES |
| <ol style="list-style-type: none"> 1) Commits to improved transparency overall. 2) Spells out procedures for providing interested parties with notice of proposed rulemaking and opportunities for comment on proposed new rules. 3) Gives interested parties a reasonable amount of time to comment on, understand and take steps to comply before new or revised regulations take effect. 4) Commits to current and proposed regulations being easily accessible in writing and on the Internet. 5) Commits to a clear and accessible licensing process, including creation of a system for answering inquiries about regulatory requirements, interpretation, exceptions that are easily accessible and responsive to the public. 6) Commits to providing justifications for denials of licenses or applications based strictly on factors explicitly identified in the pertinent regulations. 7) Commits to the making of prompt licensing decisions and provides a timely, nondiscriminatory appeals process available for applicants whose applications are denied. 8) Commits to provide clear and reliable information about an economy's financial services laws and practices. | <ol style="list-style-type: none"> a) Publication in national gazette. b) Standard procedures for submitting public comments. <p>Clearly defines a standard "reasonable amount of time".</p> <p>E-government procedures.</p> <ol style="list-style-type: none"> a) Creates an enquiry point for licensing and application matters. b) E-government procedures. c) Employees are evaluated on accountability to the public. <p>Justifications are provided in writing and within a fixed timeframe, known to all.</p> <ol style="list-style-type: none"> a) Spells out appeals process, sequence and timeframes. b) E-government procedures. <ol style="list-style-type: none"> a) E-government procedures. b) Regular interchanges between regulatory and supervisory bodies and private sector through public forums or other mechanism. |



Annex A

| INSURANCE |
|--|
| GOALS |
| <i>The offer should create new market-opening and investment opportunities. To what degree does it satisfy the following goals?</i> |
| <ol style="list-style-type: none"> 1) Improves upon 1997 commitments (where applicable) 2) Creates new business opportunities through the lifting of restrictions 3) Creates conditions that will attract new capital 4) Addresses market access, national treatment and transparency of domestic regulation measures in a comprehensive manner (as elaborated in the best practices which follow). |
| BEST PRACTICES |
| <i>A high-quality offer in the insurance sector should contain the elements enumerated below.</i> |
| MARKET ACCESS <ol style="list-style-type: none"> 1) Contains no “economic needs tests” or other geographic or product-specific restrictions. 2) Grandfathers existing investments in operations and activities. |
| Reinsurance: marine and transportation insurance allowed cross border (Mode 1). Reinsurance: Access to marine and transportation insurance and intermediation on cross border basis (Mode 1 for each). Life and non-life reinsurance: <ol style="list-style-type: none"> a) Elimination of mandatory cessions b) Elimination of restrictions for cessions to foreign reinsurance companies c) Elimination of right-of-first refusal privileges d) Elimination of discriminatory collateralization and localization of assets e) Abolition of reinsurance monopolies f) Guarantee of freedom of form for reinsurance contracts |
| ESTABLISHMENT <ol style="list-style-type: none"> 1) Permits investor to choose the form of establishment – whether as a branch, joint venture or wholly-owned subsidiary – that makes the most business sense. 2) Provides full regard for relationship between parent and subsidiary. 3) Allows use of home company name in host economy. 4) Does not permit denial of form of establishment on the basis of the legal entity in the home market. 5) Permits freedom to determine percentage of foreign equity shares in joint ventures. 6) Provides for staged elimination of foreign equity limitations (if any) with minimum 51% ownership during staging period. |
| Compulsory lines: Fully bound by national treatment and market access, as defined by GATS Monopolies: Best endeavors to eliminate insurance monopolies and exclusive services providers |





Annex A

TEMPORARY ENTRY OF NATURAL PERSONS

- 1) Avoids nationality / residence requirements irrespective of nationality
- 2) Provides freedom to foreign insurance company to select its own representatives in host economy
- 3) Provides for temporary visa or work permits for short periods of stay

NATIONAL TREATMENT

- 1) Provides the ability to compete for insurance coverage otherwise provided by state-owned or state affiliated enterprises.
- 2) Provides full national treatment with respect to capital, solvency, subject to prudential carve out (must explain reasons for less favorable treatment under prudential carve out)
- 3) Insurance mediation: monetary transfer obligations limited to what is necessary to assume legal responsibilities in host economies.

TRANSPARENCY

- 1) Regulations to be made publicly available
- 2) Prior comment on new and revised regulations
- 3) Reasonable time interval prior to new regulations entering into force
- 4) Written explanations provided for rejected or accepting proposals
- 5) Written statement to insurance applicant outlining necessary documentation
- 6) Ability to provide information to the public on creditworthiness of a company
- 7) No restrictions on availability of financial services information to insurance suppliers
- 8) Availability of rules and procedures with respect to identification of financially troubled institutions
- 9) New tax measures affecting insurance enter into force only after their notification to the WTO on a semi-annual basis

SOLVENCY AND PRUDENTIAL FOCUS

- 1) New products, rates and services for other than personal or compulsory lines not subject to file and approval requirements
- 2) Regulations aimed at allowing the market to determine which products and rates are to be applied
- 3) Written explanation required of products that require file and approval procedures
- 4) "Deemer" method for use in file and approval procedures
- 5) No limits on the number or frequency of new products by an insurance supplier
- 6) No restriction on dividend payments, provided that solvency provisions are met
- 7) Encouragement of use of international "best practices" standards in accounting and auditing activities

INSURANCE MONOPOLIES

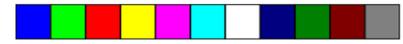
- 1) Monopolies generally prohibited from offering products outside monopoly designations, with provision that they not abuse monopoly position where authorized
- 2) Insurance suppliers with monopoly rights will keep separate accounts regarding monopoly and non-monopoly activities

INSURANCE REGULATOR

Must be an independent government entity.

PENSIONS

- 1) When private pensions are allowed, provide immediate obligations for full market access/national treatment to those providing private pensions in the market
- 2) Private pension fund managers designated to manage public or private pensions in host economy
- 3) Freedom to select form of commercial presence
- 4) Ability to offer range of product / investment options.



Annex A

ASSET MANAGEMENT

GOALS

The offer should create new market-opening and investment opportunities. To what degree does it satisfy the following goals?

- 1) Improves upon 1997 commitments (where applicable)
- 2) Creates new business opportunities through the lifting of restrictions
- 3) Creates conditions that will attract new capital
- 4) Addresses market access, national treatment and transparency of domestic regulation measures in a comprehensive manner (as elaborated in the best practices which follow).

BEST PRACTICES

A high-quality offer in the banking sector should contain the elements enumerated below.

ESTABLISHMENT

- 1) Removes barriers to establishment by foreign investors in the financial sector and allows wholly-owned subsidiaries.
- 2) Allows establishment in the form of branches or other forms of presence.
- 3) Commits to permitting locally established affiliates of foreign asset management firms to use the services of affiliates outside the host economy to provide asset management services to domestic clients in the host economy.
- 4) Commits to removing prohibitions on foreign firms from managing pension assets, including public assets, on the same basis as domestic firms.
- 5) Contains no "economic needs tests" or other geographic or product-specific restrictions.
- 6) Commits to grandfather existing investments in operations and activities.
- 7) Ensures market access for the full range of asset management services
- 8) Permits the dissemination and processing of financial information necessary to provide clients with necessary services.
- 9) Commits to support the provision and transfer of financial information, financial data processing, and the provision of advisory and software related services.

CROSS BORDER

- 1) Permits foreign asset management firms to provide services on a cross border (Mode 1) basis
- 2) Commits to support financial services provided cross border without requirement of local establishment (Mode 3) and also permits by consumption abroad (Mode 2)

TEMPORARY ENTRY OF NATURAL PERSONS

- 1) Facilitates the temporary entry of key financial services personnel required for managerial, technological, system or risk management purposes (add other categories as may be required by applicable investments).
- 2) Removes requirements for a minimum number of senior or key personnel to be resident or located in the economy.





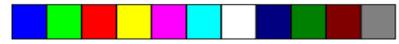
Annex A

NATIONAL TREATMENT

- 1) Provides assured national treatment for the full range of asset management activities provided by financial services firms.
- 2) Locally established affiliates of foreign asset management firms should have the same access to domestic and international markets as domestic companies.
- 3) Locally established affiliates of foreign asset management firms should be treated for regulatory and other purposes on the same basis as domestic companies. Where differences in such treatment exist, they should not create conditions of competition more favorable to domestic service or service suppliers than for like service or service suppliers of other WTO Members.

ADDITIONAL COMMITMENTS

| TRANSPARENCY | EXAMPLES |
|--|--|
| <ol style="list-style-type: none"> 1) Commits to improved transparency overall. 2) Spells out procedures for providing interested parties with notice of proposed rulemaking and opportunities for comment on proposed new rules. 3) Gives interested parties a reasonable amount of time to comment on, understand and take steps to comply before new or revised regulations take effect. 4) Commits to current and proposed regulations being easily accessible in writing and on the Internet. 5) Commits to a clear and accessible licensing process, including creation of a system for answering inquiries about regulatory requirements, interpretation, exceptions that are easily accessible and responsive to the public. 6) Commits to providing justifications for denials of licenses or applications based strictly on factors explicitly identified in the pertinent regulations. 7) Commits to the making of prompt licensing decisions and provides a timely, nondiscriminatory appeals process available for applicants whose applications are denied. 8) Commits to provide clear and reliable information about an economy's financial services laws and practices. | <ol style="list-style-type: none"> a) Publication in national gazette. b) Standard procedures for submitting public comments. <p>Clearly defines a standard "reasonable amount of time".</p> <p>E-government procedures.</p> <ol style="list-style-type: none"> a) Creates an enquiry point for licensing and application matters. b) E-government procedures. c) Employees are evaluated on accountability to the public. <p>Justifications are provided in writing and within a fixed timeframe, known to all.</p> <ol style="list-style-type: none"> a) Spells out appeals process, sequence and timeframes. b) E-government procedures. <ol style="list-style-type: none"> a) E-government procedures. b) Regular interchanges between regulatory and supervisory bodies and private sector through public forums or other mechanism. |



Annex B

ABAC Contribution to the Mid-Term Review of APEC's Progress Towards the Bogor Goals

I. Introduction

In 2001, APEC Leaders called for a mid-term stocktake of APEC's overall progress towards the Bogor Goals of free and open trade and investment by 2010 for developed economies and 2020 for developing economies. SOM was tasked with coordinating the stocktake exercise and to submit a report for the consideration of Leaders. As one of the APEC stakeholders, ABAC was asked to contribute to the task.

This report represents ABAC's contribution to the mid-term stocktake. It follows a previous evaluation by ABAC in 2003 in the report "The First Decade Since Bogor: A Business Assessment of APEC's Progress".

Like that report, this assessment is undertaken from the perspective of the business sector. It is based on the premise that APEC can provide the framework to deliver the vision regional business has of an Asia-Pacific Community of open economies.

The report begins with a description of the business vision. It then examines changes in the economic environment since the Bogor Goals were set. In ABAC's view, those changes require fundamental adjustments in the strategies and modalities for achieving the vision. Finally and most importantly, the report offers recommendations to keep APEC on target towards the Bogor Goals including ways to strengthen the APEC process.

II. Business Vision of an APEC Community

ABAC members are agreed that their vision of an Asia-Pacific community where intra-regional business can flourish has the following features:

- o absence of tariff and non-tariff barriers
- o transparent and predictable operating environment
- o an efficient customs system
- o adoption of international standards
- o ease of business mobility

- o reduction of barriers and impediments to foreign direct investment
- o liberalization of services trade
- o mutual recognition of professional accreditation
- o robust and effective intellectual property regimes
- o a secure environment for trade and financial flows
- o prudent, sound financial systems, and robust capital markets, including efficient local and regional bond markets
- o safe, reliable, affordable, efficient and stable supply of energy
- o effective legal and regulatory systems
- o enforceable contracts and property rights
- o good governance and transparency in public and business affairs
- o administrative requirements that are not overly-burdensome
- o a well-trained work force
- o fair and transparent competition policies
- o effectively enforced anti-corruption measures
- o exchange rate stability

Despite its shortcomings, ABAC continues to believe in APEC as the regional institution that can bring about the realization of the business vision of an Asia-Pacific community where goods, services, finance and business people move freely. ABAC also believes in the continuing relevance of the Bogor Goals to the business community as a level of ambition that should guide APEC members' economic policies.

The business community is strongly committed to the Bogor Goals of "free and open trade and investment in the Asia-Pacific by 2010 for developed economies and 2020 for developing economies". However, 2010 is fast approaching and based on present evidence business does not believe that the Bogor Goals of free and open trade and investment will be met.

- It is critical that APEC member economies reaffirm their collective and individual commitment to achieving those Goals.





Annex B

- Profound changes in the global economic environment since the founding of APEC require that changes be made to the measures and modalities for achieving the Bogor vision.
- APEC must alter the way it conducts its business. The status quo is not good enough.

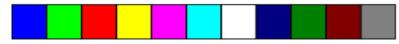
III. Changes in the World Economic Environment since Bogor

Changes in the global economic environment pose new and significant challenges to regional economic cooperation not foreseen 15 years ago. The days are well past when APEC members were in a position to “champion” the APEC architecture of “concerted unilateral liberalization” and “open regionalism”.

Key features of the new environment are:

- Rapid global economic integration which challenges APEC economies to strengthen the capacity of their existing mechanisms and institutions to cope.
- The pervasiveness of information technology in all aspects of human activity has enhanced efficiency and created new jobs but also presents formidable challenges in terms of resource requirements and absorption capacity.
- The increased workload of the WTO brought about by the growth in the number and diversity of members and the complexity of issues that touch on domestic policy-making has made decision-making more difficult and slowed progress in improving the multilateral trading system.
- The proliferation of preferential trade agreements among APEC members has distracted members from putting more effort into making the APEC approach to regional cooperation more effective; has raised genuine concerns about the discriminatory impact of such agreements; and increased the costs of trade through multiple rules of origin requirements.

- The emergence of China as an economic powerhouse has presented APEC economies with new challenges and opportunities.
- The experience with the Asian financial crisis has highlighted weaknesses in the financial systems in a number of APEC economies which, compounded by serious malfeasance, failures in corporate governance and sharp fluctuations in capital flows, have resulted in a loss of business confidence.
- The rise in terrorism worldwide has drastically changed the environment in which business operates, affecting the movement of goods, people and finance and creating new challenges that affect the bottom-line.
- The threats of regional crises, be they from epidemics like SARS and bird flu or more recently from natural disasters like the earthquakes and tsunami that hit a number of economies in the Asian region, have highlighted the need for economies to develop regional responses to such crises and to ensure that these challenges do not become obstacles and/or impediments to the achievement of the Bogor Goals.
- The emergence of creeping protectionism in the form of non-tariff measures which are increasing in sophistication and in their application as the level of tariff barriers declines.
- The changing demographics in certain APEC economies, which now require more extensive infrastructure and funding for ageing populations, on top of ongoing demands for public investments for industrial development and trade in goods.
- The increase in the importance of trade in services and intellectual property issues as economies mature which have raised policy issues, such as online piracy, that also apply to new ways of doing business fostered by the growth of the Internet.
- The growing importance of environmental concerns, which has highlighted the need to ensure sustainable development in the region.



Annex B

- The increased volatility of energy prices and supply, which has had a disruptive effect in APEC economies as a whole.

These factors have not led to major reversals in reform and openness. But the pace at which some economies have been able to continue with domestic reforms has been constrained. Developing effective responses to these developments will shape APEC's agenda over the short - and medium-term.

ABAC believes that the APEC's three-pillared approach of trade and investment liberalization, trade and investment facilitation (TILF), and economic and technical cooperation (ECOTECH) - (capacity building) - still provides the most effective response to these challenges. However, the critical need for strengthening economic and financial structures should be recognized. APEC should affirm that trade liberalization, facilitation and economic/financial strengthening are at the heart of APEC, and that the third critical pillar, capacity building, is vital to achieving these goals. Among other actions, this involves training of customs officers, regulators across all sectors, small business counsellors and judges. It includes the adoption of new technology to facilitate paperless trading, e-commerce, and expedited customs clearance as well as updating of legislation to create clear and enforceable rules and to meet the challenges of the digital age. Capacity building also requires massive investment in the trade infrastructure, including urban and transport services and the HR framework.

APEC has increasingly developed a role in the response to issues of region-wide concern – terrorism, disease, financial crisis and natural disasters. This role underscores the importance of keeping alive the concept of a “community” among economies, notwithstanding their differing political systems and level of economic development.

IV. What and How Can APEC Deliver?

APEC has achieved progress in moving towards the Bogor Goals but much still needs to be done. Perceptions of APEC's ability to deliver on the Bogor promise will determine its credibility in the short-term.

APEC's value proposition to business is that it strives to go beyond members' commitments in the WTO. This 'WTO plus' character of APEC must be enhanced if it is to attract stronger support from the business constituency.

A. Trade and Investment Liberalization

(1) Trade in Goods

APEC economies have made significant progress in lowering tariffs. But tariffs on agricultural products remain unacceptably high, in some cases exceeding 100%. Tariff peaks and tariff escalation exist in a number of sectors of great interest to developing members, including textiles and processed agricultural products. As tariffs have fallen, the use of non-tariff measures such as anti-dumping actions have increased.

Meaningful agricultural liberalization is of vital importance to APEC economies, particularly developing economies. Yet agriculture has traditionally been the hardest field to negotiate.

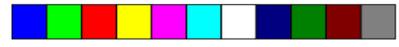
APEC economies need to see:

- (a) Elimination of all forms of agricultural export subsidies within five years of the Doha Development Agenda (DDA) implementation;
- (b) Major and significant improvements across the board on market access;
- (c) Tariff peaks reduced to a maximum level no higher than 50 per cent;
- (d) Much tighter discipline on all forms of trade distorting domestic support; and
- (e) Elimination of non-tariff measures.

(2) Trade in Services

APEC has implemented initiatives to advance liberalization of trade in services since the implementation of the 1995 GATS Agreement. But restrictions remain relatively high in financial services and there is an imbalance in the degree of liberalization within financial services sectors. Substantial reforms have been made in the telecommunications sector; however, reforms have not been formally committed to in the WTO and they could be reversed. The GATS process needs more determined leadership from APEC economies in improving the quality of offers.





Annex B

(3) Investment Liberalization

A number of economies have liberalized their investment policies, particularly during the period 1996-2000. Yet impediments to foreign direct investments remain. They exist in the form of performance requirements, limitations on market access, lack of transparency of foreign direct investment (FDI) regimes, and restrictions on the level of equity participation, work permit and taxation.

There is increasing global competition for FDI. A conducive investment climate requires that the overall policy framework and the regulatory framework (including in actual implementation) of entry and establishing operations in an economy, be based at a minimum on the APEC Non-Binding Investment Principles.

B. Trade and Investment Facilitation

ABAC is a member of the Geneva-based Trade Facilitation Alliance, a business sector alliance supporting the WTO negotiations on Trade Facilitation. This reflects the central role which ABAC sees for facilitation in its own work, and within APEC.

A mid-term review of APEC's progress on the implementation of the APEC Trade Facilitation Action Plan suggests that APEC may be within reach of the 5% target reduction in transaction costs by 2006. Accurate measurement is difficult. More work is needed on methodologies to measure progress on trade facilitation and capacity building required to ensure achievement of the target.

There has been little success in achieving conformity to international standards and benchmarks in trade, notwithstanding the useful progress in a number of economies towards implementing global standards in financial sectors. Coverage of products aligned with international standards is modest. Mutual Recognition Arrangements (MRAs) are also of limited value because implementation has not been complete. Moreover, the market size of products covered is smaller than expected. Significant capacity building and collaboration between jurisdictions is required to improve standards and conformance across the region.

More work is needed to improve the protection of intellectual property rights through sustained and effective enforcement and strengthening of legal frameworks.

APEC should also promote and expand the use of and address operational and logistical problems relating to the APEC Business Travel Card. A true regional business visa should be developed with a high level of embedded security protocols.

APEC introduced the Pathfinder Initiative as an implementation mechanism. Existing Pathfinder Initiatives contribute to trade facilitation, but have yet to deliver a serious impact in terms of achieving the Bogor Goals.

The mandate for Trade and Investment Facilitation is strengthened with the "Santiago Initiative for Expanded Trade in APEC". APEC should work on this issue and come up with constructive suggestions and concrete measures in 2005.

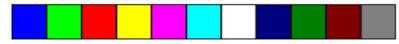
C. Mitigating Negative Effects of RTAs/FTAs

A large number of bilateral preferential trading arrangements (PTAs) have either been completed, are under negotiation or being considered within the region. This is clear evidence of a strong desire by APEC member economies for more progress in opening markets than is being delivered multilaterally or regionally.

While welcoming the opening of markets resulting from these PTAs, ABAC is concerned that the proliferation of many separate trade agreements with different terms and rules could result in trade diversion and increase the cost and complexity of doing business. APEC needs to take early steps to consolidate the opening of markets arising from PTAs, into liberalization APEC-wide.

ABAC has strongly advocated to APEC that it play a role in mitigating the potential negative effects of these agreements. This is a high priority issue for APEC and one where it can play a very useful role. Leaders asked for ABAC input on this issue at their Santiago meeting.

ABAC supports the initiative for the development of "best practice" guidelines for regional trading



Annex B

arrangements (RTAs)/free trade agreements (FTAs). Other possible approaches to this task should be considered as well. The issue will continue to be studied by ABAC.

D. Capacity Building

Capacity building is the other side of the coin to trade and investment liberalization, trade facilitation and the strengthening of financial systems. All serve to build the region's economy and contribute to a prosperous Asia-Pacific community. Support for the TILF agenda provides the focus for APEC's ECOTECH or capacity building activities.

Overall, little progress has been made in the ECOTECH area. Funding is one problem and lack of coordination is another. APEC's delivery of ECOTECH has been largely ineffective – too diffuse, mainly information sharing seminars for officials, with very little evaluation and follow-up. There has been focus on best practices but not enough emphasis on true capacity building. Part of the challenge is that ECOTECH is not a 'one size fits all'; it needs to be adapted to the particular circumstances in individual APEC economies.

To meet the capacity building challenges facing the region, APEC needs to leverage its limited resources with more cooperation with development banks (IFIs), multilateral organizations, bilateral aid programs – and the private sector. The focus of this initiative include setting priorities, project planning and financing, and the delivery of training and infrastructure to support business capacity building, especially those of the SMEs, in the developing economies. One project would be the setting up of a mechanism to provide professionals to businesses in the developing economies. This requires the establishment of a register of retired experts from the developed economies, a register of needs by the developing economies and a fund to partially finance the cost of the experts on assignment in the developing economies. The fund can be supported by some APEC economies and businesses and IFIs such as the World Bank and the Asian Development Bank (ADB).

APEC's contribution to supporting the growth and development of small and medium

enterprises (SMEs) and micro-enterprises (MEs) has been uneven. Information sharing initiatives have been undertaken – including several SME websites – but with little sense of who actually uses these sites and information has not been kept current. There is no commitment to maintain websites and no marketing of them to the end user. Knowledge that these websites even exist is sparse.

Attempts at delivery of SME training have struggled and been uneven. ABAC believes that APEC's primary support for SMEs should be in the transfer of knowledge and policy coordination between governments, aimed at providing a conducive environment for SMEs to grow and develop. More capacity building should be undertaken with officials to better understand the environment that is required for SMEs to thrive and the means to create that environment.

The APEC Integrated Plan for Action for the Development of SMEs (SPAN) provides a useful strategic policy framework for APEC governments to review and implement SME policies and programs in the area of HRD, financing, technology, access to markets and access to information.

APEC economies need to do more on micro enterprise development, including better understanding of the 'grey market', how to grow micro enterprises, how to integrate into the overall economy and the extension of micro financing projects.

Finally, APEC should consider favorably the recommendation of the 2003 study "The First Decade Since Bogor" for the formation of a new APEC Ministerial Committee on Regional and Technical Cooperation, with the capacity building objectives set out in the report.

E. Strengthening Financial Systems

The next decade and a half will see significant developments in financial sector convergence, its supporting information and communications technology, improved financial engineering capacities, increased competition and financial system liberalization. These developments have the potential to provide immense gains for APEC economies including enhanced stability, improved financial services, and an expanding





Annex B

range of financial products available to APEC's businesses and individual savers and investors.

Finance industry structures and regulatory arrangements will need to keep pace with such changes, to promote the smooth and efficient functioning of markets and the consequent economic growth and employment opportunities. This will require increased collaboration, regionally and globally, to ensure best standards and practices in regulatory arrangements. ABAC proposes that the following key matters be addressed in order for the region to fully realize the benefits that lie ahead:

- Give priority to developing and negotiating comprehensive financial services commitments in the WTO Doha Round and beyond. There must be an on-going commitment to liberalizing market access and investment by all economies. As a continuing requirement, all APEC economies must review and upgrade financial standards and practices to minimize the risk of major financial instability and increase the pace of economic integration. APEC economies need to become fully engaged in the development and implementation of world's best financial and regulatory standards and practices to promote financial system stability and economic growth and opportunity.
- Increase vigilance, and deepen regional cooperation and coordination among APEC economies to secure stable financial systems. There is a need to develop comprehensive capacity building initiatives in partnership with the private sector to address security threats.
- Capital markets are moving to greater integration as evidenced by the rising level of flow of FDI and portfolio investment. To harness the benefits from financial integration and reduce risks, APEC economies will need to mobilize local and overseas capital, promote sound regulatory frameworks; and develop efficient bond markets to link long-term savings and infrastructure financing needs. This can be achieved through:

- The development of robust long-term capital markets;
- Providing high quality public and private bond issues to meet the needs of pensioners/retirees in properly regulated savings products and markets;
- Risk assessed bond issuance practices with reliable credit rating assessments, market risk pricing and agreed mechanisms to implement work-outs in case of default; and
- Sound public-private partnerships for the development of reliable infrastructure financing vehicles.

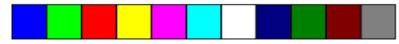
There are no clear-cut universal solutions to wholly ameliorate the risks arising from forces impacting on financial structures over the next decade. These forces will include: increasing capital market integration, fluctuations in cross-border capital flows, large external imbalances, energy price volatility and vulnerabilities arising from major currency realignments. ABAC strongly encourages APEC economies to:

- Reduce risk by continuing to build sound macroeconomic frameworks and improved stability and flexibility in financial systems;
- Implement reforms which would reduce or eliminate the causes of key structural imbalances – particularly in major economies;
- Support measures in regional and international forums aimed at improving and implementing regulatory standards and best practices in financial sectors and strengthened supervision and monitoring to ameliorate adverse impacts arising from volatile cross-border capital flows and hedge fund activities; and
- Deepen domestic capital markets and promote regional bond markets.

F. Coping with Emerging Challenges

APEC economies should take steps to prepare for emerging challenges arising from information technology innovation, environment, recycling, and energy supply and usage. Within each APEC economy, business should work with public and





Annex B

private research bodies, government agencies and universities to identify new innovation opportunities and applications that provide the “platform technologies” for development. This could involve the use of advanced information technology in areas as diverse as border control, biosecurity, disaster recovery, environmental and health service monitoring, and food traceability.

ABAC has stressed the importance of a region-wide compatible recycling system. This would allow goods produced in one APEC economy to be used and recycled in another within the region. An appropriate regional mechanism would enable goods and materials for recycling and remanufacturing and their international flow to contribute to effective utilization of resources and to environmental conservation.

Achievement of the Bogor Goals depends on access to adequate, safe, reliable, affordable and stable energy supplies. Large inflows of capital are required to meet infrastructure and power generation needs of the next few decades. This new environment requires a strategic approach. APEC economies need to consider a variety of ways to increase energy supply, diversify sources of energy, and encourage responsible use.

V. Toward a Stronger and More Effective APEC Process

There is general agreement within ABAC that APEC consensus in certain areas have matured to the point where members willing to take on these obligations could formally commit to implement them within an agreed timetable. The time has come to consider the merits of APEC decisions moving from full and non-binding consensus towards flexible consensus and strengthened “concerted action.” A more formal and binding process for achieving the Bogor Goals should be considered.

A. Moving to Enhanced “Concerted Action” on Facilitation

To consolidate its accomplishments to date and to establish a more concerted reform process beyond the core issue of trade liberalization, ABAC recommends that:

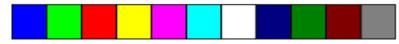
- APEC move to make some of its key aspirational goals more achievable (on a plurilateral basis) to pursue the vision set out in Section II above in a determined way;
- These efforts be undertaken under a single program umbrella which encompasses, in a comprehensive way, APEC’s business facilitation agenda, and provides greater clarity of purpose, momentum and structure, along the lines of the “Trans-Pacific Business Agenda” (TPBA) proposal;
- Set more tangible and ambitious goals for agreed high priority areas of reform; and
- Establish time bound agreements for implementation of reforms by participating economies.

The proposal has its origin in the Pathfinder Initiative introduced in Shanghai in 2001 as an implementation mechanism for APEC decisions. The TPBA builds on this concept by moving forward towards more definite commitments beginning in those areas where consensus has matured enough to get majority agreement. Such commitments might be drawn from any of the four areas that mirror the so-called “Singapore issues”: APEC Non-Binding Investment Principles, APEC Principles to Enhance Competition and Regulatory Reform, Non-Binding Principles on Government Procurement, and the APEC Trade Facilitation Action Plan.

In addition, there are several commitments under the Collective Action Plan relating to MRAs of standards, customs procedures and business travel that could be moved to this stage. By giving them brand identity, TPBA would distinguish these APEC products from the diverse range of other activities going on in various APEC fora and become more easily understood by regional business. Setting clear priorities will be essential to attract the resources needed to create the human and institutional capacity to implement important APEC initiatives.

TPBA would provide the umbrella for consolidating facilitation commitments into a single high profile package of “concerted actions”. Incorporating such agreed actions in the Doha Round could validate them as bound commitments.





Annex B

B. Going Further to Binding Commitments

APEC's founding principles – non-binding and voluntary, no negotiation or enforcement ability, and no policy development process – remain in force today. Questions have been raised whether these founding principles require change, in order to increase momentum in APEC for region-wide trade and investment liberalization and to allow the formation of new structures.

ABAC is currently assessing whether APEC economies would judge the very significant effort involved in modifying the founding principles to be justified by the benefits attributed to a binding agreement (that would be superior to existing and anticipated bilateral FTAs), when multilateral reforms through the WTO Doha Round are being negotiated. Any evolution towards APEC structures that require binding commitments will have to confront this fundamental issue. There is as well the attendant prospect of creating multiple levels of commitments and processes. In this regard, ABAC has commissioned and received a report from PECC on "Bold Reforms to Reinvigorate the APEC Liberalization and Facilitation Agenda".

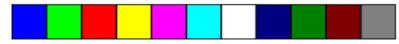
In the Santiago Declaration, Leaders sought "recommendations on how to further liberalize trade and investment in the region". ABAC suggests that a Free Trade Area of Asia-Pacific should be examined. To that end, ABAC reiterates its 2004 recommendation that APEC Leaders establish a high-level task force to examine the feasibility of an FTAAP. The aim would be to assess whether an FTAAP could offer a viable framework for more effectively liberalizing trade and investment within the region.

The proposal for a "Free Trade Area of Asia-Pacific" envisages that APEC economies could reach formal agreements at the plurilateral level. By bringing together the many bilateral and sub-regional free trade arrangements, an FTAAP could be an alternative trade strategy for member economies. As envisioned, an FTAAP could rebuild the momentum in APEC for trade and investment liberalization while consolidating existing PTAs and providing a benchmark for future PTAs.

C. Strengthening APEC's Institutional Capability

Consideration should be given to restructuring APEC institutions to improve their effectiveness in implementing APEC's agenda.

- The IAP review process needs to be more robust and forward looking and the IAPs more transparent, accessible and specific. They should be capable of being used for business planning purposes and relevant to individual economies reform programs.
- A businesslike approach ought to be applied to the review process; rather than a self congratulatory presentation reviewing what individual economies have achieved, a 'negative list' approach could be taken, i.e., what economies have **yet to do** in order to reach the Bogor Goals. The review should then focus on what is intended to rectify the situation. This would be less resource intensive, be more business friendly, and most importantly would focus attention and scrutiny on what still needs to be done.
- A mechanism must be set up for identifying specific capacity building needs, developing tailor-made capacity programs taking into account the situation of each economy, assessing outcomes of the programs with the cooperation of the private sector, and fine-tuning programs to respond to changing needs. Mechanisms to ensure successful public-private partnerships particularly in capacity building should be established.
- The APEC Secretariat should be provided with the authority and resources to undertake policy studies from an objective, region wide perspective. PECC's proposal for the Secretariat to be transformed into an OECD-type secretariat should be given serious consideration.
- Communication between ABAC and APEC fora to encourage private sector input should be enhanced, including through the establishment of a formal feedback



Annex B

mechanism on ABAC recommendations and through cross-participation in the meetings of both fora. For its part, the private sector can initiate actions, which contribute to the Bogor Goals, such as ABAC's undertaking for a code on transparency and anti-corruption.

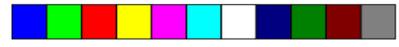
- Coherence in APEC positions in multilateral fora – particularly the WTO - is necessary to strengthen its ability to influence progress and directions in these fora. The strengthening of the APEC Geneva Caucus is a step in the right direction. However, there is scope to further increase the level of APEC coordination in WTO activities, in the key areas of agricultural subsidies and barriers, market access for goods and services liberalization. ABAC intends to participate actively in these activities to add its regional business voice to the WTO proceedings.

D. Reform of APEC and Relationship with ABAC

Strengthened coordination between ABAC and APEC is fundamental to the reform of APEC as an institution capable of delivering the promise of free and open trade and investment. ABAC values the annual Dialogue with APEC Leaders. It welcomes the opportunity to interact regularly with Ministers and officials so that they accurately grasp the needs and aspirations of the business community.

ABAC's own outreach activity has increased, in part through capacity-building efforts in areas such as trade and security, strengthened financial systems, small enterprise development, and digital technology. To reinforce ABAC's presence in each economy, ABAC is considering an "ABAC Mission Statement" that would prescribe its role. It intends to maintain close cooperation with the business community of each economy to be truly representative of their views, and to consult with government officials to ensure understanding of their respective viewpoints. The three ABAC members from each economy should represent a cross-section of their business community.





Annex C

Barriers and Impediments to Foreign Direct Investment (FDI): Checklist and Recommended Policy Response

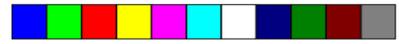
The World Bank and others, including private sector groups, have provided advice on the optimal investment environment. The following guiding principles seem to be used by many multinational corporations to evaluate direct investment opportunities. These are divided into two main groups: (1) The basic requirements, meaning those that a potential investor will want to see met before going any further; and (2) Specific requirements, those that inhibit the willingness of an investor to seriously consider an investment or inhibit the ability of the investor to operate efficiently and effectively in a market. The over-arching message is that governments must take steps towards greater financial sector openness in conjunction with broader structural reform policies in order for both entities, the investor and the host economy, to fully realize the benefits of FDI.

1. Basic Requirements

- **Stable and sensible economic policies** . Business needs confidence that the host economy will be managed in a competent and predictable way and that the rules of the game will not change mid-way through.
- **Low political risk** . Capital tends to flow toward environments with low political risk. An investor's ability to rely upon the integrity of the host government, and its ability to maintain local law and order, are both essential to any long-term investment.
- **A well educated labor force and availability of necessary inputs to an operation, including access to technology** . While the investor brings capital, often new technologies and management to the table, the quality of the local work force and the availability of in-country materials are also important for success. As financial services become increasingly IT-enabled, access to communications infrastructure and the Internet become critical.
- **The size, value and potential for growth of the host economy's domestic market** , especially the purchasing power of its consumers. Companies will not invest in areas where there is little potential to make

a profit. Note: some markets are small but attractive because they are high value.

- **Reliable infrastructure**. The ability to complete transactions, get products and services to market, resolve disputes, and enter into contracts depends upon the presence of reliable telecommunications services, transportation services, power generation, office support services, a competent financial system, legal and judicial services, and other basics. Investments cannot yield reliable returns without them.
 - **A stable currency, especially protection from currency devaluation or manipulation** . Investments are often made in a foreign currency, usually dollars or yen, but the local products are sold in the local currency. While businesses recognize they need to adopt good mechanisms and management regimes to hedge against currency fluctuations, businesses are wary of economies with a history of currency devaluations and artificial currency manipulations. For example, they will be unwilling to make an investment in dollars if they suspect that local assets (valued in the local currency) will be devalued, and they will lose part (or possibly all) of the original dollar-based investment.
 - **Stable and well-functioning market system**. Private property and the freedom to make contracts are essential components as are financial disclosures based on sensible accounting practices. Investors and creditors are rewarded for their good decisions and not shielded by government from the consequences of bad decisions.
 - **Ongoing program of regulatory reform and efficiency**. Increased regulatory uniformity among economies should lower regulatory costs for market participants and the governments.
- #### 2. Specific Requirements
- **Market access and non-discrimination** . Investors will gauge the degree to which foreign governments will interfere with the



Annex C

company's ability to enter the market and compete fairly with domestic or other foreign providers. In some cases joint ventures are a condition of market entry. These can increase the risk to the investor if the regulatory framework is not transparent, is discriminatory and the local partner is not well established. The freer the market, the more attractive it becomes as an investment opportunity.

- **Sensible capital requirements and the ability to manage assets** . Investors will look favorably on economies that adhere to international best practices for paid up capital and capital reserve requirements, and where foreign and local investors are treated in the same way. They also look favorably on markets where they have the ability to manage assets on a global basis (for example, in the ability to invest funds where the return is likely to be greatest, rather than being forced to invest all funds domestically).
- **Policies that encourage the development of strong and stable capital markets** . Investors need to be able to borrow and invest locally as they wish with competitive sources of capital.
- **Provision for the remittance of dividends, interest, and royalties** . Investors are reluctant to place significant investments in economies that do not allow the repatriation of profits.
- **Property rights and the protection against the unfair seizure of or nationalization of assets**. Investors will not put their resources into economies that confiscate them. The importance of government protection of property and asset rights cannot be overstated. Property, includes real assets as well as intangible assets like patents and copyrights.
- **A good corporate governance ethic, supported by the host economy** to ensure that the owners of a company and all its stakeholders get their fair share.
- **Potential for the provision of services beyond the geographic area of establishment**. A business will not necessarily locate in a particular economy or geographic region of a particular economy solely to operate there. Companies value the ability to source from an operating unit in one market to serve nearby external markets, or geographic regions in an economy.
- **A transparent and open legal and regulatory regime and good regulatory supervision**. Companies seek markets with fair and consistently enforced business laws, sensible and well-designed regulatory regimes, which do not impose undue burdens and impede the ability of the company to grow and create more opportunities. At the same time, they want to be sure that their investment is subject to sensible and predictable regulatory supervision consistent with international best practices.
- **Favorable taxation and tax incentives** . While tax incentives geared to attract initial investments are important, governments have to think long-term. The final investment decision is usually based on how an economy's taxation will affect the normal operating environment.
- **Temporary entry of natural persons** . Companies want to have the ability to move in professionals from other areas or regions on a temporary basis as needed.





Annex C

Checklist of Barriers and Impediments to FDI in the Financial Services Sector and Recommended Policy Response

| Barrier/Impediment | Issues/Concerns | Recommended Policy Response |
|--|--|--|
| <p>Restrictive conditions of market entry and operation :</p> <ul style="list-style-type: none"> - inhibits the willingness or ability of investors to bring in full range of capital, skills and technology and the efficiencies of management and new product lines - increases risk to potential investor - benefits of new capital, skills, technology and products only available to a portion of the market where establishment or trade is restricted to certain geographic regions - SMEs in restricted regions unable to profit from competitive benefit of new services - Incentive reduced for host government to upgrade prudential standards to internationally accepted requirements (foreign investors generally subject to high standards of prudential supervision in their home economy) | <ul style="list-style-type: none"> - foreign equity caps - joint venture requirements including ownership and control issues - limits on range of products - limits on ability to operate in an integrated national market - onerous capital requirements | <ul style="list-style-type: none"> - phase out foreign equity caps - phase out joint venture requirements as condition of market access - remove limits on range of products offered (subject to appropriate supervisory mechanisms) - permit comprehensive market access in all regions of an economy - permit foreign majority ownership - establish a strong regulatory system (thereby making establishment and operating restrictions unnecessary) <p><i>Strengthen Local Industry</i></p> <ul style="list-style-type: none"> - support and encourage capacity building in regulatory supervision - encourage local providers to participate in Basel 2 capacity building workshops (capital adequacy, risk assessment and management, operational risk and financial disclosure); and other financial sector capacity building programs such as those promoted by the IAIS, World Bank, ADB, IMF, PECC and APEC. |

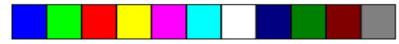
Annex C

| Barrier/Impediment | Issues/Concerns | Recommended Policy Response |
|---|--|--|
| <p>Lack of National Treatment and MFN</p> <ul style="list-style-type: none"> - reduces competitiveness and discourages growth and efficiency of local providers - local providers less resilient to shocks - increase risk by over-reliance on a few foreign service providers | <ul style="list-style-type: none"> - discrimination between local and foreign providers, including differing capital requirements - differential requirements on 3rd country providers - discriminatory tax | <ul style="list-style-type: none"> - equal treatment for foreign and local providers - improve operational risk through capacity building (e.g. Basel 2) - remove discrimination between foreign service providers in terms of market access and operations |
| <p>Restrictions on Asset Management</p> <ul style="list-style-type: none"> - inability to get best return on investment - increases risk - inability to match liabilities with assets | <ul style="list-style-type: none"> - restrictions on financial service providers; banks, insurers, asset managers - restrictions on assets for investment - restrictions on personnel | <ul style="list-style-type: none"> - allow cross border investment - allow fund management from overseas - provide for commercial presence of overseas service suppliers |
| <p>Lack of transparency, predictability and openness in legal and regulatory regimes</p> <ul style="list-style-type: none"> - increases risk to investor and consumer - encourages discriminatory business practices - increases risk of corruption - promotes market inefficiencies | <ul style="list-style-type: none"> - procedures for right of redress and/or appeal - license application and award procedures - inconsistent and discriminatory treatment of business entities | <ul style="list-style-type: none"> - clear, published processes for legal and regulatory decisions and right of appeal - clear published process for regulatory policy formulation and stakeholder consultation |
| <p>Weak regulatory and legal infrastructure</p> <ul style="list-style-type: none"> - inhibits smooth functioning of the market - encourages monopolistic and cartel practices - inhibits ability to enter into contracts - increases risk and costs to investor and host economy | <ul style="list-style-type: none"> - poor prudential supervision - enforcement of binding contracts - lack of expertise - inadequate solvency and creditor rights - weak property protection rights and enforcement | <ul style="list-style-type: none"> - capacity building in internationally recognized best practices for financial sector regulation - strengthened economic and legal infrastructure, including bankruptcy laws and regulations |



Annex C

| Barrier/Impediment | Issues/Concerns | Recommended Policy Response |
|---|---|---|
| Capital controls <ul style="list-style-type: none"> - potential to increase cost of capital to investor and consumer - inhibits ability of investor to source and place capital appropriately and efficiently - difficulty in hedging risk - inhibits willingness of investor to participate in the market - future exchange rate vulnerabilities without clear exit strategy | <ul style="list-style-type: none"> - repatriation of profits, dividends, remittances - inability to source capital and place investments on a global basis | <ul style="list-style-type: none"> - phase out capital controls - strengthen capital markets infrastructure - regulatory reform - phase in flexible exchange rate arrangements |
| Weak governance <ul style="list-style-type: none"> - increases threat of corruption - reduces market efficiency - promotes monopolistic practices - threat of market failures | <ul style="list-style-type: none"> - corruption - lack of accountability - unpredictable market situation - lack of competition | <ul style="list-style-type: none"> - strong corporate and public sector governance ethics - capacity building measures to promote understanding and awareness of good governance - competition policy and laws |
| Poor property rights protection <ul style="list-style-type: none"> - inhibits ability of investor to offer innovative product lines - inhibits willingness to fully participate in the markets | <ul style="list-style-type: none"> - asset seizure, including nationalization - patent, copy right and trademark protection | <ul style="list-style-type: none"> - adequate laws and rights of redress - eliminate ability to nationalize assets - enforcement of property laws |
| Restrictions on the Movement of Natural Persons <ul style="list-style-type: none"> - reduced ability to share expertise, technology and skills - increases operational inefficiencies - inhibits ability to offer and service innovative product lines on time | <ul style="list-style-type: none"> - delays in processing temporary visa applications - limited adjudication ability - lack of clear criteria and procedures | <ul style="list-style-type: none"> - facilitate business travel and intra-company transfers - expedite visa processing for professionals |



Annex D

Emergency Preparedness

In recent years, the APEC region has experienced a number of man-made and natural crises and disasters including terrorist attacks, the SARS outbreak, and most recently, the Indian Ocean tsunami of 26 December 2004, which resulted in enormous loss of life and economic damage. These events bring into sharp focus the need for robust early warning and response systems for future disasters of all kinds.

In responding to the tsunami disaster, ABAC has focused its attention on the challenge of effectively incorporating the region's business community in capacity building efforts for emergency preparedness. In its discussions, ABAC has considered each of the three phases associated with any natural or man-made disaster or situation, namely:

- **Resist phase** – measures aimed at defense and preparation for future event of scale;
- **Response phase** – relief efforts in the first hours and days of a crisis that can overwhelm traditional response mechanisms;
- **Recovery phase** – measures taken in the intermediate to longer-term following an event of scale to rebuild.

Recommendations

Based on its assessment of the current status of the regional business communities' involvement in Resist and Response phases, ABAC recommends that APEC create an **'All Hazards APEC Regional Response Network'**.

Such a network would seek to coordinate APEC's emergency preparedness efforts for future events of scale through a number of specific measures, including:

Resist Phase activities:

- Review of regional response capabilities
- Self assessments of individual economy capabilities
- A mechanism to capture and disseminate 'lessons learned' (e.g. public education for emergency preparedness, early warning communication, etc.)

- Establishment of region-wide communication and notification protocols for events of scale, which would seek to include the private sector along with other relevant government, multilateral, and NGO actors

To capture this information, ABAC recommends that the APEC Task Force on Emergency Preparedness build upon the website framework that currently exists, in order to create a **website** with the following six major sections:

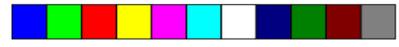
- Disaster response organizations in each economy, including links to their websites;
- Preparedness tools currently available from each economy (e.g. checklists, manuals, etc.);
- Response phase organizations (government, NGOs and private sector), including website links;
- Checklists for immediate Response phase needs;
- Lessons learned from previous events of scale; and
- Pages for specific events of scale containing up to date information, critical needs list and current status.

Many of the resources for such a website may already exist and require only coordination and supplementation to achieve the desired outcome.

Response Phase activities:

- Recent tragic experience has raised regional interest in the development of rapid response communications networks for use in natural disasters or in the event of a terrorist strike on national infrastructures. A number of APEC economies have trials in hand of potentially significant enhancements of current disaster recovery technologies. These include pre-packaged network infrastructure and remote access grid nodes that can be quickly deployed and made operational.
- As a first step in developing a regional response mechanism in the case of future





Annex D

natural disasters, ABAC recommends that APEC members work toward the development of an **Airport Emergency Team** capability within the region. Such a Team would be prepared to take over ground operations at response airport locations during the critical first days of a disaster response, when relief operations cause a sudden surge in incoming cargo.

Structure of the APEC Regional Response Network:

- ABAC would propose that the reactivated APEC Task Force on Emergency Preparedness coordinate the Resist phase initiatives outlined above and be prepared to provide day-to-day direction during a Response phase.
- An Executive Committee, made up of officials, private sector representatives and NGOs would provide oversight and guidance to the APEC Regional Response Network.

ABAC encourages APEC member economies to allocate sufficient financial resources to the establishment of the APEC Regional Response Network and the delivery of the initial projects outlined above.

In the development of the All Hazards APEC Regional Response Network, ABAC would play a supporting role, working to mobilize the regional resources of the private sector.

Recovery (reconstruction, rehabilitation)

Although focused on more intermediate and longer-term goals, the objective of the Recovery phase of any event of scale should be to restore “business as usual” as quickly as possible, restoring jobs and income to affected communities. The business community has an even larger part to play in this phase.

a. Financing Reconstruction

The region’s business communities play a critical role in reconstruction efforts following any natural disaster or other event of scale. APEC economies should seek to expedite this

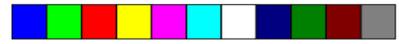
process by ensuring that the awarding of reconstruction contracts through international financial institutions and bilateral government programs is done quickly, efficiently and in a transparent manner.

The region’s financial services companies need to work closely with their governments in financing reconstruction following events of scale. Insurance providers should seek to settle claims quickly and develop new insurance products to offer protection against certain events of scale in more dangerous areas. The region’s banks, in partnership with their governments, play a critical role in providing financial resources for reconstruction and business rehabilitation in the aftermath of a catastrophe.

To facilitate the awarding of public sector contracts associated with disaster reconstruction, the use of web-based e-sourcing platforms can make a critical contribution to improving the efficiency of sourcing and procurement processes, as well as promoting greater transparency and accountability. Such online platforms can also assist in making these public tenders available to SMEs, either individually or as part of consortia. One example is the ABECHA sourcing and procurement hub (www.abecha.com), supported by the Singapore Business Federation, which has offered its services free of charge to assist with tsunami reconstruction efforts.

Recommendations

- As part of the work of the APEC Task Force on Emergency Preparedness, APEC member economies should undertake a review of best practices in providing public-private partnership financing for reconstruction.
- ABAC encourages APEC economies to review their procedures for the awarding of reconstruction contracts through IFIs and bilateral government programs and to develop protocols for fast-tracking the awarding of reconstruction contracts.



Annex D

- ABAC calls upon APEC economies to undertake a review of insurance availability for business assets against certain risks and take steps to liberalize their financial services industries, where necessary, to ensure that business and homeowners have access to the widest possible range of insurance options to protect their assets.

b. Support for MSMEs

Micro-, small- and medium-enterprises (MSMEs) form the backbone of the economy in all APEC economies, providing employment and income to millions. The sooner that livelihoods are restored and businesses are up and running again following a disaster, the better for the villages, towns and cities in which they operate.

With regard to financial support for rehabilitation, microcredit lending has already been used in certain APEC economies hard hit by natural disasters. ABAC has in the past highlighted the need to strengthen the capacity of micro-finance institutions (MFIs), including upgrading the quality of management, improving accounting and administration and facilitating links with public institutions providing aid funding.

In addition to financial support, MSMEs may also need access to retraining programs where a disaster has devastated their particular industries, whether temporarily or permanently. Working in partnership with government programs, small business advisors can deliver educational and training solutions to local entrepreneurs to promote the successful development of new micro-enterprises in the wake natural or man-made disasters.

Recommendations

- ABAC encourages APEC Finance officials to undertake a review of financing

options that can be made available to MSMEs in case of events of scale, including microcredit lending, loan guarantees, leasing arrangements, venture capital funds and other innovative lending and equity financing mechanisms.

- Similarly, ABAC calls upon the APEC SME officials to undertake a review of the resources available in each APEC economy for MSME retraining and how these can be mobilized in the aftermath of an event of scale. ABAC encourages APEC SME officials to share best practices and 'lessons learned' in the delivery of SME retraining programs.

c. Restoring Confidence

Following any disaster – whether natural or man-made – a critical factor in full economic recovery is the challenge of restoring confidence in the affected region in the eyes of the outside world. Providing positive and accurate information on recovery efforts is critical to rebuilding investor and business confidence in an affected region. Restoring the confidence of consumers is also important, particularly at it relates to tourism. Here, the region's marketing and communications industries can assist in targeted information and promotional campaigns, aimed at rebuilding confidence and overcoming misperceptions of potential tourists to the region.

Recommendation

ABAC encourages APEC Ministers to instruct their relevant promotion agencies (i.e. tourism, investment, trade) to review their emergency preparedness planning to ensure that they have the necessary resources in place to mount a campaign aimed at restoring confidence following an event of scale, working in close partnership with the private sector.





Annex E

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 of 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 2005

In 2005, Korea assumed the chairmanship of the Council, with Chile and Vietnam serving as co-chairs, following the APEC order. Co-chairs represent immediate past and future chairs.

ABAC adopted the theme "Networking Asia-Pacific: A Pathway to Common Prosperity" which addressed the following issues:

- Ensuring the successful conclusion of the WTO Doha Development Agenda (DDA) negotiations
- Keeping APEC on track to achieve the Bogor Goals
- Building a harmonious relationship between the private sector and government in the new international security environment

- Creating an environment conducive for business
- Achieving an Asia-Pacific community through cooperation and capacity building

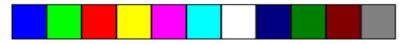
Consistent with the priorities of the ABAC Chair, ABAC established four working groups and a committee to carry forward its work during the year, namely:

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

ABAC also established a Task Force on the Mid-Term Review (TFMTR) to assist the Council in developing its contributions to the mid-term stocktake of APEC's progress towards the Bogor Goals undertaken by APEC. In addition, it maintained the Communications Core Group (CCG) established in 2003 to pursue its communications outreach activities.

ABAC convened four meetings in 2005: Mexico City, Mexico (21-24 February); Beijing, China (10-13 May); Kuala Lumpur, Malaysia (31 July-3 August); and Busan, Korea (14-16 November). Two meetings of the Advisory Group on APEC Financial System Capacity Building were also held: Beijing, China (10 May); and Kuala Lumpur, Malaysia (3 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 (Seoul, Korea: 22 February - 4 March); SOM II and related meetings (Jeju, Korea: 21 May - 31 May); SOM III and related meetings (Gyeongju, Korea: 5-14 September); Meeting of APEC Ministers Responsible for Trade (Jeju, Korea: 2-3 June); APEC Finance Ministers' Meeting (Jeju, Korea: 8-9 September); APEC SME Ministerial Meeting (Daegu, Korea: 1-2 September); APEC Task Force on Emergency Preparedness (Bali, Indonesia: 2-3



Annex E

May); The Second APEC Policy Dialogue: The Role of the Private Sector in Shifting from Informal to Formal Remittance Systems (Bangkok, Thailand: 26-27 May); Symposium on the Mid-term Stocktake of the Bogor Goals (Jeju, Korea: 27 May); APEC Technical Working Group Meeting (Gwangju, Korea: 16-18 June); the International Symposium on the Preparation for APEC Vietnam 2006 (Hanoi, Vietnam: 21-22 July); and APEC Symposium on Anti-Corruption and Transparency (Seoul, Korea: 1-2 September). ABAC also took part in the IAP peer reviews of Brunei Darussalam, Indonesia, Malaysia, Papua New Guinea, Philippines, Russian Federation and Vietnam held at the margins of SOM I. ABAC sent a high-level delegation to Geneva on 13-14 June to press for the successful conclusion of the WTO DDA negotiations.

Other events organized or participated in by ABAC included: Business Session on "The ABAC Experience for the Mexican CEO" (Mexico City, Mexico: 22 February); PECC Seminar on the Future of Pacific Cooperation (Jakarta, Indonesia: 8 April); ABAC Forum on Chinese Companies Going Global in the Background of APEC Regional Economic Cooperation (Beijing, China: 11 May); Developing Bond Markets in APEC: Toward Greater Public-Private Sector Regional Partnership (Tokyo, Japan: 21-22 June); Public-Private Sector Dialogue for the Asia-Pacific Region on "Cross-Border Implementation of Basel II and Emerging Regulatory Banking Supervisory Issues" (Kuala Lumpur, Malaysia: 4 August); PECC's 16th General Meeting (Seoul, Korea: 5-7 September); and Symposium on Corporate Governance and Transparency in Financial Institutions (Melbourne, Australia: 17-19 October).

In line with the precedent set during the past three years, ABAC developed and submitted an Interim Report to APEC Economic Leaders through the Meeting of APEC Ministers Responsible for Trade held in Jeju, Korea in June. The Interim Report elaborated on, and outlined recommendations on, trade and investment

issues covered under the 2005 work program. In addition, ABAC submitted separate reports and recommendations to the APEC Finance and SME Ministerial Meetings held in Jeju and Daegu, Korea, respectively, in September. It submitted its contribution to APEC's Mid-Term Stocktake of the Bogor Goals setting forth recommendations on how to keep APEC on track to achieve such goals.

Studies and Related Work

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

- Feasibility Study on Bold Reforms to Reinvigorate the APEC Trade Liberalization and Facilitation Agenda
- Measuring the Impact of the New Security Environment on Trade Transaction Costs
- APEC Customs Handbook
- ABAC Standards Research Project
- Study on volatile capital flows and trigger mechanisms

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.

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 roadmap towards the Bogor Goals.

