

## **ABAC 2010 Report to APEC Economic Leaders**

### **Introduction**

World growth is projected at about 4.5 percent in 2010, higher than initially expected. Nevertheless, significant risks and challenges remain. Downside risks have risen sharply amid renewed financial turbulence, notably in Europe.

Against this background, ABAC focused its 2010 agenda on promoting and sustaining economic recovery and restoring economic growth in the region. Under the theme “Working Towards Sustainable Growth for All”, ABAC put priority to developing recommendations that contribute to: strengthening economic structures for balanced growth; advancing regional economic integration; and enhancing economic growth in harmony with the environment. ABAC believes that accelerating the progress of APEC’s free and open trade and investment agenda is critically important in achieving renewed growth in the region. It urges APEC economies to adopt the recommendations outlined below to address the current challenges.

### **A. Re-committing to the achievement of the Bogor Goals and developing a new vision**

Over the past year, ABAC has undertaken its own assessment of the achievement of the Bogor Goals from the business perspective. This review concluded that the Bogor Goals have delivered positive outcomes for APEC businesses by making it easier to do business within the region. Many member economies have become considerably more open since 1994. Industrialized economies have made significant steps towards becoming freer and more open, a trend apparent among developing economies as well.

However, with the global economy having evolved considerably since the inception of the Bogor Goals, there is more to be done to achieve the goal of free and open trade and investment for all economies in the APEC region. Delivering stronger business growth requires a renewed focus on removing barriers to deeper integration and the nature of modern Asia-Pacific supply chains and value chains need to be taken into account.

One of the challenges of reviewing the Bogor Goals was the lack of definition, at the outset, about how success was to be measured. The formulation of some specific regional integration metrics for the period up to 2020 is essential for benchmarking APEC’s performance and creating accountability from Leaders.

### ***Recommendations***

- Re-commit to the Bogor Goals of achieving free and open trade within the APEC region by 2020.
- Instruct the APEC Secretariat to devise and publish annually a set of regional integration metrics to monitor each economy’s progress toward greater economic integration. ABAC

recommends the creation of a one-page “Regional Integration Dashboard” for each economy showing the level and change in various indicators of integration, including, but not limited to, the flows of goods, services, investment, technology and people across the region.

- Agree that any new vision for economic integration should seek to liberalize flows of goods, services, investment, technology and talent across the region, and have a strong emphasis on balanced and inclusive growth and sustainable development.
- Agree that as any new vision for APEC is developed, the business community should be closely engaged so that policy makers draw on business leaders’ expertise in identifying practical initiatives and proposing workable solutions. To that end, ABAC recommends that the links between SOM and ABAC processes be better defined and integrated.

## **B. Making further progress towards achieving FTAAP**

The lack of progress in the World Trade Organization’s Doha Development Agenda (DDA) provides APEC with a unique opportunity this year to advance a more ambitious agenda for regional economic integration. The Free Trade Area of the Asia-Pacific (FTAAP) is an aspirational but achievable vehicle for delivering free and open trade and investment within the Asia-Pacific region. The recent analytical study completed for APEC senior officials showed that comprehensive tariff elimination combined with trade facilitation and services liberalization could result in a 2.9% increase in the region’s GDP and gains to welfare of US\$527 billion. These are potentially significant gains that cannot be neglected.

ABAC therefore urges Leaders to make decisions at their Yokohama meeting on the possible pathways for achieving FTAAP so that work to develop these pathways can proceed in line with APEC basic principles and ultimate goal for economic integration. This will ensure all-inclusive participation by APEC economies so that business can play an active role in helping define the forward agenda. Among the possible pathways towards FTAAP are the following initiatives: Trans Pacific Partnership (TPP), ASEAN +1, ASEAN +3, and the Comprehensive Economic Partnership in East Asia (CEPEA).

ABAC sees FTAAP ultimately as being more than just a traditional free trade agreement. It should encompass the widest possible definition of economic integration in the region. FTAAP should aim to expand market access by eliminating where possible existing barriers to trade and putting in place rules of origin which enable businesses to cumulate the benefits of existing trade agreements in the region. Beyond this, FTAAP should also address market integration issues including facilitating investment and services as well as the movement of goods, promoting regulatory reform and cooperation between member economies, harmonizing standards and eliminating other non-tariff barriers and matching talent needs in the region.

### ***Recommendations***

- Make decisions in Yokohama for the possible pathways to FTAAP.
- Instruct Ministers and senior officials to provide greater detail on the preferred modalities and processes towards FTAAP to enable active involvement by the business community.
- Continue to develop existing regional trade initiatives such as TPP, ASEAN+1, ASEAN+3 and CEPEA.

- Invite Leaders of economies engaged in evolving regional arrangements to direct their officials to share knowledge and substance about their respective negotiations in a timely and transparent fashion, while respecting the negotiating sensitivity of some issues.

### **C. Identifying new business requirements**

Over the past year ABAC has developed further ideas on new business requirements that could be included in future FTAs. As these and other arrangements evolve, they should draw on previously developed APEC model FTA chapters covering rules of origin, services and investment as well as other new business requirements to guide their progress. Such requirements include the following:

#### **1. Regulatory Principles**

ABAC has identified a set of principles that could be applied to regulatory chapters of future “21st century” trade agreements. Such principles would provide a set of criteria against which the “quality” of future agreements could be defined. This would be particularly useful when economies have differing ideas of the factors that provide for “high quality” in regard to specific outcomes. The proposed principles are non-discrimination, comprehensiveness, transparency, accountability and “least efficiency distorting”. These principles reflect real business needs and can be applied to a range of regulatory issues including non-tariff barriers in the areas of standards and conformance. Instead of seeking the harmonization of laws and regulations, the use of principles would permit differing approaches to laws and regulations as long as such differences, through mechanisms such as mutual recognition, led to the same or similar regulatory outcomes. This approach would also be permissive of exceptions as long as they were transparent and in place for sound public policy reasons.

#### **2. Digital Economy**

The ‘digital economy’ is playing an expanding role in international trade. With the convergence of computing and communications in the product space, and information technology solutions increasingly delivered via networks as a service, coverage of digital economy issues in future FTAs could ensure access to advanced information and communications technologies, services, software and electronic commerce, just as the Information Technology Agreement facilitated access to computer hardware over a decade ago. Such agreements could also expand the availability of a range of ICT-enabled products and services to foster additional productivity enhancements, enable ‘green’ business models and create a more modern services infrastructure.

The APEC Digital Prosperity Checklist is a useful tool for guiding policy makers in the development of agreements on Digital Economy. Though its elements are not binding, key policy issues featured in the Checklist, such as security, privacy, intellectual property system, electronic payment, FDI promotion, skills and capacity development, mutual recognition, and creating the most advanced infrastructure (hardware and software) should be addressed in new agreements.

Innovative technology and applications such as cloud computing, smart grid, intelligent transportation systems are driving new business models. But the existing classification and structure of trade negotiations have not kept pace with the rapid development of the business environment. A 21st century trade agreement on digital economy should seek to create new frameworks to address the changes in business and society in a manner which

complements existing frameworks such as the WTO and addresses the issues set out in the recommendations below.

### 3. Services

ABAC supports further liberalization of services trade and endorses continuing work by CTI with a view to the following elements:

- (a) increasing awareness of the nature of cross-border services and relevant policy issues;
- (b) developing a framework of services principles to facilitate expansion of cross-border services trade; and
- (c) developing a Services Action Plan to boost services trade and facilitate the development of an open and efficient services market in the APEC region.

ABAC believes the ultimate objective of this work should be the liberalization of services trade across the region and the abolition of all barriers to trade in services except in a strictly limited number of agreed areas.

### ***Recommendations***

- Include in future agreements provisions related to regulatory principles, regulatory coherence, the digital economy, and services as follows:
  - Regulatory Principles and Coherence
    - Adopt in relation to regulatory chapters the following set of guiding principles: non-discrimination, comprehensiveness, transparency, accountability and “least efficiency distorting”.
    - Develop options for promoting enhanced regulatory coherence by promoting dialogue and cooperation between regulatory agencies.
  - Digital Economy
    - Reaffirm compliance with the Information Technology Agreement (ITA) and eliminate any remaining customs duties on all ICT products, components and equipment. All new ICT items should also be subject to zero duties without prejudice to their customs tariff classification or how they are used (e.g., consumer electronics, automotive, telecommunications, gaming, process control or any other ICT-enabled application).
    - Affirm that computer and related services commitments ensure coverage for all information technology services, even as these services evolve with changes in technology.
    - Include a permanent prohibition on the application of customs duties to e-commerce. Parties would agree to non-discriminatory treatment of digital products.
    - Establish principles and procedures for transparency, cooperation on and participation in the development of standards, technical regulations and conformity assessment affecting ICT.

- Eliminate non-tariff barriers for ICT products.
- Provide strong protection of intellectual property rights in a manner which facilitates and encourages innovation in the digital economy.
- Services
  - Agree to liberalize services trade across the region by eliminating all barriers to trade in services except in a strictly limited number of agreed areas.

#### **D. Resisting protectionism**

Protectionism has not gone away. ABAC's ongoing monitoring of the incidence of protectionism over the past year has identified several examples of APEC members, including major developed economies, taking actions which, while WTO compliant, have the effect of impacting negatively on trade and investment. While some APEC members have not resorted to such measures and have in fact liberalized trade and investment, others have continued to impose trade restrictive measures. Such measures notified to ABAC include raising tariffs, imposing regulations discriminating against imports and exports, providing government aid, and offering export subsidies. Furthermore, some of the trade restrictive measures implemented at the height of the financial crisis have still not been withdrawn. Global protectionism can only be resisted if APEC economies 'walk the talk' on standstill and obey the spirit as well as the letter of their G20 and APEC commitments.

#### ***Recommendations***

- Re-affirm and extend APEC's commitment to open markets and to an effective standstill on all new trade restrictive measures, whether WTO compatible or not.
- Withdraw trade restrictive measures that have already been introduced.
- Continue to monitor protectionism and its impact on business.

#### **E. Concluding the Doha Development Agenda**

ABAC is deeply disappointed that the global community has failed to find the necessary political will to complete the World Trade Organization's Doha Development Agenda in 2010. We strongly support an ambitious outcome and conclusion of the Doha Round in the near term. APEC economies have a role to play in showing flexibility in the negotiation and engaging with non-APEC economies, building on progress already made, to complete the round and ensure the WTO remains relevant to business. In the meantime, pressure from business is growing for APEC to move faster on trade liberalization outside the DDA framework.

#### ***Recommendation***

- Take all practical steps to ensure Doha is completed in 2011.

## **F. Facilitating investment flows**

ABAC believes that APEC economies must step up efforts to make investing in the region easier, cheaper and faster to ensure the sustainability and breadth of the current economic recovery. In addition to a focused program on investment *facilitation*, APEC must also maintain an active program to promote the *liberalization* of investment. Further, progress towards APEC's stated objectives needs to be measured to ensure that APEC's efforts will improve the ability of the private sector to conduct business across the region.

ABAC supports the adoption and implementation of the proposed Roadmap for Investment in a manner that achieves results and recognizes the realities of doing business. Since the establishment of APEC, the manner in which companies organize and work across borders has evolved immensely. In light of this, APEC should review and update if necessary the best practices and principles that were agreed to in the past to ensure their relevance to the current nature of commerce. ABAC has conducted a review of the APEC Non-Binding Investment Principles, which were established more than 15 years ago, and recommends that Leaders adopt its proposed improvements shown in Attachment ?? of this report.

### ***Recommendations***

- Establish a consultative mechanism within APEC for government and private sector representatives to discuss ways in which the investment environment can be improved. Economies should also consider an APEC mechanism for consultation on proposed regulations so that the implications of new measures can be considered before they are put into effect.
- Based on ABAC's input, review and as necessary update the 1994 Non-Binding Investment Principles to ensure they continue to promote both foreign and domestic investment in the face of the changes in the way business is conducted in the region.
- Further liberalize investment in services to promote the ability of companies to establish comprehensive supply chains from material procurement to after sales service.
- Enhance capacity building and peer-review programs to support the implementation of APEC principles and best practices.

## **G. Facilitating the flow of goods and services**

APEC economies can enhance the competitiveness of business in the region by making it easier, cheaper and faster to conduct trade in goods and services across borders. Studies by the World Bank and other organizations have identified trade facilitation as an area where coordinated action by APEC economies has the potential to bear significant and tangible benefits to businesses of all sizes across the region in the form of reduced costs and expanded trade. Areas of focus for APEC should include customs procedures, such as those identified in the ABAC Customs Work Plan, as well as standards harmonization and conformity assessment.

Further, ABAC welcomes ongoing efforts to simplify, harmonize and increase the transparency of regulations and processes related to the flow of goods and services across borders through the Single Window, Trade Facilitation Action Plan (TFAP) II and Supply Chain Connectivity Framework initiatives. However, economies need to undertake further and more far-reaching

efforts in order for the private sector to benefit fully from the results of APEC's trade facilitation initiatives.

In assessing progress under TFAP II and the Investment Facilitation Action Plan (IFAP), ABAC urges APEC to consider improving on existing measurements and indices such as the World Bank Ease of Doing Business Index, World Economic Forum Competitiveness Index, Heritage Foundation Index of Economic Freedom and others as a reference to assess progress in facilitation and competitiveness issues.

The existing reports allow the fora to identify areas of priority and cooperation, since assessments such as the Doing Business have found many successful experiences in different APEC economies. Sharing these experiences in order to identify best practices will contribute to the facilitation of business operations across the region.

### ***Recommendations***

- Reinvigorate the Single Window Initiative to ensure that economies that have not fully implemented single window systems make progress toward that end and place a priority on interoperability between systems to enhance the sharing of documents such as certificates of origin.
- Advance implementation of the Supply Chain Connectivity Framework in a manner that incorporates ABAC's input from 2010 and focuses on areas that provide the most benefit to businesses.
- Continue to implement TFAP II and conduct an assessment of progress toward the stated goal of reducing transaction costs by 5% to ensure that efforts are resulting in tangible benefits for businesses.
- Utilize and improve on existing measurements and indices such as the World Bank Ease of Doing Business Index, World Economic Forum Competitiveness Index, Heritage Foundation Index of Economic Freedom and others to assess progress under TFAP II and IFAP.

### **H. Accelerating SMME capacity building efforts**

ABAC fully supports the APEC Leaders' call to advance APEC economic growth in a sustainable, balanced, inclusive, sustainable, innovative and secure manner to accelerate economic recovery. This new paradigm must be focused on how it will support small, medium and micro-enterprise (SMME) growth in the Asia-Pacific region.

ABAC encourages targeted policies in the areas of productivity, innovation, financial inclusion and export fostering. SMME education is another capacity building activity as raising awareness on tools and resources such as ICT, skills development programs and new business models, can help SMMEs grow.

Outreach programs to capture, disseminate and foster micro-enterprise activities would secure inclusiveness and broaden the base for economic contributions.

### 1. Fostering SMME development

In recognition of the economic contribution by SMMEs, there is a pressing need to create a conducive environment to strengthen their role in APEC economies in delivering balanced, inclusive, sustainable, innovative and secure growth. Many SMME productive activities cannot access formal financing and thus a revision of the financial structure is required to help provide SMMEs with micro-financing. Specific recommendations to expand SMME access to finance and promote financial inclusion are outlined in Section W below.

### 2. Facilitating greater ICT utilization by regional SMMEs

A study on access to and availability of ICTs across the APEC economies has been conducted to establish benchmarks for current ICT use and adoption by SMMEs and develop potential best practices and related policies to support further use of ICTs by SMMEs. Based on the results of the study, the ability of SMMEs to increase productivity, innovate and reach new markets through basic ICT tools, are limited by insufficient skills within SMMEs to utilize broadband, high subscription prices and a lack of awareness of the benefits of broadband. Efforts to encourage greater ICT utilization by SMMEs should include measures to lower prices, specifically increasing competition in the telecommunications market and providing incentives to support SMMEs' utilization of broadband services and ICT related education ABAC believes that reliable and affordable access to broadband services is a prerequisite to greater productivity, innovation and more sophisticated e-commerce applications.

#### ***Recommendations***

- Identify enablers or barriers to ICT utilization by SMMEs to help facilitating greater use of ICT in the APEC economies.
- Reduce broadband costs and increase its supply to SMME end users, whether it be by increased competition or the provision of incentives with a particular focus on underserved areas.
- Develop policies to promote awareness on the benefits of ICT utilization for SMMEs.

### 3. Establishing SMME policies observatory

ABAC is pursuing the adoption of reliable indicators to observe and monitor the performance of SMME-related policies in the Asia-Pacific region. These indicators, both quantitative and qualitative, will provide a solid base in identifying patterns, areas of opportunity and challenges of each economy. It will be a permanent and shared observatory of economies and the impact of their policies towards SMMEs growth and development.

#### ***Recommendation***

- Use the indicators established by ABAC as a reliable tool in reviewing and enhancing policies to support the growth and development of SMMEs.



#### 4. Advancing innovative growth

Innovative growth (IG) is one of the five pillars of the APEC Growth Strategy aimed at helping economies accelerate growth, create jobs and improve income distribution. ABAC has undertaken a study examining the present state of IG and has suggested capacity building programs and policies to advance IG and support businesses and SMMEs in the APEC region.

##### ***Recommendations***

- Expand various programs that combine ICT with other fields for post-secondary students, internally educated professionals and current ICT workers.
- Inculcate training for ICT applications into the lifelong learning system.
- Establish an Institute of Excellence in collaboration with companies and some of the best universities/institutions in the world.
- Expand ICT infrastructure investment from hardware to software in order to boost ICT-enabled services, including the possibility of introducing a certification system.
- Provide an institutional mechanism and framework for shared training facilities and infrastructure at minimal cost.
- Promote standard integration, encourage cross-licensing of technology between the public and private sectors and among firms, and partially allow open innovation to reduce the fixed cost for developing application services.
- Encourage venture capitalists to vertically integrate important functions together such as market viability research and technology evaluation in order to provide more complete services for start-up companies.
- Encourage cooperation between international developers to provide multi-option ready-to-move-in industrial parks or living campuses so as to test emerging applications.
- Equip and establish SMMEs with relevant information through “market knowledge centers” which may include consultancy, organizing of overseas business missions and provision of integrated market research data.

#### 5. Developing common principles for ethical business practices for SMEs

One major barrier to trade, in particular for SMEs, is the lack of consistent, predictable, and transparent legal and regulatory frameworks in the area of business practices such as meal and entertainment policies, gift-giving, donations, research grants, consulting arrangements, and others. In 2007, ABAC helped to develop the APEC Code of Conduct for Business. ABAC welcomes efforts underway to build on this code by developing ethical business practice principles targeted at the unique needs of different sectors, beginning on a pilot basis with the medical device industry given the predominance of SMEs and its high level of interactions with healthcare professionals.

### ***Recommendation***

- Support efforts to develop common principles for ethical business practices for SMEs across a range of sectors beginning with the medical device sector in 2011.

### **I. Ensuring food security**

ABAC is pleased that APEC is addressing the important issue of food security. It welcomes the holding of the first ever Ministerial Meeting on Food Security in Niigata, Japan in October this year as a means to deliver action on food security.

In November last year, ABAC published the document ‘Strategic Framework for Food Security in APEC’ which explores key issues affecting food security. The study presented several recommendations which ABAC believes APEC economies should implement.

### ***Recommendations***

- Undertake a food system approach. Leaders should recommit unequivocally to the regional APEC Food System approach rather than addressing issues in a piecemeal manner. This includes ending distorting measures such as import restrictions and subsidies.
- Establish a coordinating mechanism. There needs to be an ongoing, high-level mechanism to ensure the policy coherence and continuity, as well as the technical cooperation, necessary to successfully address the many issues that will combine to create regional food security. This mechanism, reflecting the Leaders’ 2009 Declaration that food security is a “major priority for APEC”, must formally include the private and research sectors if it is to have the dynamism and access to current information to be able to address the many complex issues that affect food security. It must also have sufficient authority to provide priorities for APEC and to coordinate the various APEC fora working on food and food security-related issues.
- End export restrictions. Leaders should commit to formally ending all export embargoes, quantitative restrictions and export taxes for all food products traded between APEC member economies. Simply put, trade cannot reliably enhance domestic production, or allow for efficient specialization, if supply is not completely reliable.
- Advance the Doha Round agricultural negotiations through the APEC Caucus. The pursuit of regional food security through a food system approach in APEC could be instrumental in making progress in the Doha Round.

### **J. Addressing energy security**

ABAC strongly recommends continued engagement between governments and the private sector, including energy producers, transporters, financiers, and consumers as well as relevant NGOs. These provide essential perspective on the real impact of proposed policy and regulatory measures on actual markets, consumption patterns, and productivity.

### ***Recommendations***

- Focus in the near term on improving energy efficiency and conservation. The business sector can play an important role in its own use of buildings as well as home appliances and IT products. For industries, it is important to prioritize development of standard metrics to

assess efficiency, preferably by industrial sector, to assist in measuring progress and quantify results. ABAC encourages APEC to commit to establishing APEC-wide common terminology, standards and best practices for measuring efficiency.

- Work to secure wider use of low-carbon fossil fuels, including promoting the use of natural gas and development of gas transport infrastructure. ABAC also recommends APEC study the possibility of establishing an APEC or Asian futures market in gas.
- Consider nuclear energy and study its feasibility in individual APEC economies as a low emissions source of power generation.
- Continue focus on renewable energy and a prudent approach to the development and management of renewable energy sources, including research and development and the sharing of best practices. Renewable energy sources should be included in energy portfolios and included in an optimal way.
- Eliminate distortions and promote efficiencies in energy markets. Recognizing that in a group as diverse as APEC complete harmonization of standards is very difficult, ABAC feels that in the near term a focus on transparency and information sharing in this area may be a practical goal.
- Expand emphasis on developing ‘clean’ energy and promote innovation in energy and related technologies as a core pillar of a complete APEC energy security approach, with due consideration for energy security concerns from the demand side. Such development must involve close cooperation with government through public-private partnerships (PPPs) and a regulatory framework that encourages private sector investment.
- Develop and implement APEC regional energy security strategies in the context of the overall global energy security situation. APEC fora should coordinate closely with energy-related international organizations to ensure synchronicity of effort.

## **K. Addressing skilled personnel shortages**

Early this year, the University of Southern California, Marshall School of Business presented the findings of its ABAC-commissioned report on labor mobility to business leaders and policy makers in key APEC labor receiving and sending economies. The study showed that international labor mobility continues to be a significant concern for business leaders and policy makers as each economy copes with shortages in key business activities. It was recognized that access to workers is directly correlated to business competitiveness and economic growth. To ensure that lack of skilled personnel does not become an impediment to sustained economic growth, economies need to develop and maintain policies and programs to manage their talent needs. APEC should take actions including capacity building and sharing of best practices to ensure each economy is able to promote inclusive growth through implementation of effective people management systems.

### ***Recommendations***

- Undertake the following steps:
  - Skills mapping and data – a facility for economy-wide skills mapping must be undertaken

- Internal training – programs targeted to training and retraining of domestic human resources must be provided
- Outsourcing – means to assess where shortages can be addressed through delivery of services from remote locations must be provided
- Importation of talent – policies that enable industries to address shortages that require physical presence of talent must be put in place.

## **L. Ensuring trade security**

ABAC welcomes the establishment of APEC's Authorized Economic Operator (AEO) Working Group and their decision to commence a study on an APEC-wide AEO program. ABAC urges this group to develop a concrete program which focuses on mutual recognition and puts emphasis on tangible benefits for AEO-certified companies. Further consideration is also necessary to eliminate redundancy between the AEO program and other trade security programs.

### ***Recommendations***

- Introduce a tiered approach on the AEO status and benefits, such as allowing real “green lane” treatment for AEOs meeting the highest security requirements and grant basic benefits for AEOs meeting minimum security requirements.
- Identify the specific benefits for the AEO-certified entities. Benefits for various kinds of logistical service providers such as warehouses, customs brokers, freight forwarders and carriers, etc., in addition to those for exporters and importers should be identified.
- Promote sharing of data on AEOs between customs authorities and waive pre-departure/pre-arrival data filing requirements such as the so-called “24-hour rule” and “10+2 rule” under the scheme of mutual recognition.
- Study the possibility of giving special favorable consideration to an economic operator which implements internal security management equivalent to a certified AEO in an economy which has not established an AEO program.
- Develop an AEO status which recognizes not only the head office but also its subsidiaries deployed in the APEC region as an AEO unit.

## **M. Harmonizing transportation safety regulations**

Industries engaged in international trade are concerned about moves some economies have taken towards the unilateral adoption of transportation safety regulations. Such moves include introducing overly burdensome safety standards on air transportation of lithium batteries and imposing stricter regulations on transportation of freight container by trucks. Given the global nature of modern supply chains, unilateral transportation regulations have the potential to disrupt business operations. Separately, in many cases, safety can be improved by enforcing existing regulations, instead of introducing stricter regulations.

### ***Recommendations***

- Harmonize transportation regulations on an international basis to achieve both safety and facilitation of trade by minimizing the introduction of unilateral regulations.
- Ensure that standards in each economy are in line with those set by relevant international organizations. For instance, when transporting lithium batteries by air, the standards should be set by international organizations, such as the International Civil Aviation Organization (ICAO).
- Encourage the introduction of an appropriate international framework to establish globally harmonized regulations for areas where international standards do not exist, such as regulations to avoid overturning accidents of international freight containers during road transit.
- Promote capacity building activities to ensure transportation safety by encouraging compliance with the current regulations among relevant supply chain operators, as an alternative to imposing stricter regulations.

### **N. Promoting safety in the logistics supply chain**

Several APEC Transport Ministers and business representatives at a meeting in Melbourne in February this year supported an initiative that addresses heavy truck safety. Attention is on more effective regulatory arrangements to utilize emerging safety and environmental technologies for heavy vehicles to tackle matters such as driver training, fatigue, road deaths and congestion. All are steps seen to assist in meeting the increasing freight challenge to allow for the smooth and safe flow of goods and services in the region.

### ***Recommendations***

- Support further work to be undertaken by ABAC on the development and application of a heavy vehicle safety guide as a means to identify areas for action as well as provide tools for decision makers and practitioners to improve their awareness of means to strengthen safety measures.
- Work with ABAC on a pilot project on developing case studies and local experience on road safety measures.

### **O. Enhancing competition policy**

ABAC believes that cross-border trade and investment can gain momentum through further development of transparent and consistent environments which ensure procedural fairness in mergers and other competition policy-related cases. This applies to economies with mature competition policy regimes as well as those in the nascent stages of development. In February of 2010, ABAC and private sector representatives participated in a dialogue with APEC Competition Policy and Law Group members in Hiroshima. The requirements from business on the need for more transparency and consistency of competition policy laws and regulations implementation by relevant authorities were conveyed directly.

### ***Recommendations***

- Hold a second public-private sector dialogue to examine the best practices of procedural fairness both in mergers and other cases with the objective of establishing common principles for procedural fairness in APEC economies reflecting consensus of all APEC competition authorities. In particular, the different stages of development among APEC economies must be fully taken into account.

### **P. Improving business mobility**

The APEC Business Travel Card (ABTC) has improved the mobility of business people in the APEC region, and is an example of an APEC initiative that provides direct and tangible benefits to business. While ABAC welcomes the ongoing efforts of the APEC Business Mobility Group (BMG) to improve the operation of the ABTC scheme, more needs to be done especially in the area of shortening the application processing period. ABAC recommends APEC continue to enhance the operation of the ABTC scheme by extending additional benefits to cardholders such as expanding the area of usage to non-APEC economies.

### ***Recommendations***

- Continue to improve the operation of the ABTC by shortening the processing time for pre-clearance, simplifying the renewal process, improving online service, ensuring recognition of ABTC at the borders, and providing clearly marked priority ABTC lanes.
- Study the possibility of extending additional benefits for ABTC holders, such as expanding the area of usage of ABTC beyond APEC economies, especially to include the EU.
- Provide sufficient capacity building for immigration officials so as to avoid confusion at the borders.
- Consider expanding eligibility in the ABTC scheme to include highly skilled workers, such as engineers, architects, and academic researchers.
- Urge ABTC transitional economies to accelerate efforts towards full membership status, including the issuance of cards.

### **Q. Strengthening intellectual property rights cooperation**

ABAC continues to highlight the important role that the effective protection of intellectual property rights plays in promoting regional economic integration, globalization of supply chains and the development of innovative domestic IP-based industries. It also attaches importance to the necessity of maintaining a proper balance between protection of intellectual property rights of holders and the rights of the general public. Patents are an important tool for protecting intellectual property rights and promoting innovative growth. Demand management is a particular problem; explosive growth in global investment in research and development has contributed to surge in global patent applications (including patents filed in multiple economies) as well as a backlog of 3.5 million unprocessed patent applications. This strain on individual patent offices necessitates further cooperation among patent offices in the APEC region.

Border enforcement is also a very important issue given the organized manner in which counterfeit and pirated goods are produced and distributed. Enhanced information sharing among customs authorities, IP offices as well as the private sector will improve border enforcement of intellectual property. In this respect, ABAC looks forward to closer engagement and cooperation with APEC Intellectual Property Rights Experts' Group to address a range of issues relevant to public and private sector stakeholders.

### ***Recommendations:***

- Enhance and broaden patent acquisition cooperation efforts between patent offices in the Asia-Pacific to address the increase in patent applications.
- Consider eliminating unnecessary duplication of work among patent offices, enhance patent examination efficiency and quality, and guarantee the stability of patent right.
- Improve the functioning of the PCT to promote efficient work-sharing among different offices in the region.
- Work towards enhanced information sharing among customs agencies as well as the private sector. APEC should also look towards the development of a framework for coordinated engagement against piracy and counterfeiting.

## **R. Increasing transparency and fighting corruption**

APEC Leaders have recognized the central importance of increasing transparency and fighting corruption, both as vital goals in their own right and as essential contributors to sustainable development, economic growth and good governance within the Asia-Pacific region. Further, they have endorsed a number of robust deliverables to address corruption and increase transparency, including the 2004 *APEC Transparency Standards*, *Santiago Commitment to Fight Corruption and Ensure Transparency* and *APEC Course of Action on Fighting Corruption and Ensuring Transparency*.

Despite the clear support for increasing transparency and fighting corruption, evidence is scant regarding the extent of APEC action on these commitments. Public reporting would provide the best means for APEC Leaders to demonstrate that they are moving forward on these commitments. Moreover, as leading economies, reporting would demonstrate a commitment to accountability.

### ***Recommendation***

- Consider possible annual reporting on implementation of the four *Course of Action* commitments noted above, with benchmarks and timetables for full implementation. The inaugural report could be issued by the November 2011 Leaders' Meeting in the US.

## **S. Supporting industry dialogues**

### **1. Chemical Dialogue**

Industry participation in and support for the work of the Chemical Dialogue has grown significantly in 2009-2010 as the Dialogue moves to implement the principles for best practice chemicals regulation as a substantive regulatory harmonization deliverable. ABAC

strongly supports this work and encourages APEC economies to ensure that it is given priority as a contribution to regional economic integration and economic growth. ABAC also welcomes the initiative of the Chemical Dialogue to develop a strategic framework for the work of the Chemical Dialogue through 2012 with the goal of developing a coordinated approach to the international chemicals agenda.

## **2. Automotive Dialogue**

ABAC welcomes the APEC Automotive Dialogue's focus on green vehicles advanced technologies as part of an overall effort to improve energy efficiency in the region. Further, ABAC supports the Dialogue's position that governments are an essential partner with industry in accelerating the movement to advanced technology and alternative fuel vehicles, moving from research and development to the marketplace by providing sufficient economic support in funding for R&D, consumer incentives when appropriate to mitigate cost differences and development of the infrastructure necessary to accommodate new advanced technology and alternative fueled vehicles. Economies should take early action to formulate common standards and explore options to share data and experiences to advance and facilitate the transition.

## **3. Life Sciences Innovation Forum (LSIF)**

ABAC has consistently supported the work of the APEC Life Sciences Innovation Forum (LSIF) as the premier high level regional forum to advance biomedical innovation and innovation in health systems. The LSIF regulatory harmonization agenda is far advanced with the development of a multi-year strategic plan to achieve regulatory harmonization -- an initiative supported by APEC Ministers that will help reduce costs significantly and help ensure that cutting edge, safe and effective treatments get to patients in the region as quickly as possible. ABAC urges APEC to ensure that the LSIF regulatory harmonization agenda is accorded priority as a significant REI deliverable and as an initiative that promotes human health. ABAC also welcomes the extension of the landmark LSIF Framework Study on the Returns to Investment in Health. Innovations to include infectious disease and the dynamic effects on economic growth and forward to working with LSIF as this study progresses.

## **T. Promoting environmental friendly goods and services (EGS)**

ABAC maintains that the introduction of energy efficiency labeling accelerates dissemination of EGS and has made such recommendations to APEC. ABAC is pleased to see many economies in the region have already implemented these labeling systems.

It is admirable that APEC has been making efforts to harmonize the different systems. Although developing a common labeling system is an ultimate goal, ABAC recognizes that it will take more time to accomplish this goal.

Energy efficiency and conservation on the demand side has a relatively low cost, and produces early results. ABAC encourages APEC to accelerate efforts to promote such actions on the demand side.

### ***Recommendations***

- Explore mutual recognition of other economies' labeling systems on a pathfinder basis.



- Explore ways to pursue policies to help dissemination such as through incentives.

## **U. Tackling climate change**

It is unlikely that negotiations at the United Nations will close soon.

Needless to say, it is necessary to actively participate in such discussions but APEC should take flexible and effective actions based on its voluntary, non-binding, consensus-based approach. APEC should try to reduce greenhouse gas (GHG) emissions through these approaches.

### ***Recommendations***

- Ensure that any measures designed to reduce GHG emissions take into account the impact of reduction on food production and distribution, and food safety and security generally; further, targets measures should have regard to individual economies' current conditions.
- Provide assistance, including transfers of technologies, to support efforts to reduce GHG emissions. APEC should consider ways to enhance the environmental PPP fund scheme to promote transfers of technologies.
- Develop standard metrics to assess efficiency, preferably by sector, to assist in measuring progress and quantify results.
- Develop an APEC Low-Carbon Pathfinder Scheme under which low-carbon policy measures by each APEC economy would be systematically and transparently prioritized and reviewed, with reports published annually or biannually so as to share experiences with other APEC economies.

## **V. Promoting human capacity building**

ABAC believes that human capacity building must be a core feature of the APEC growth framework.

### **1. Promoting ICT applications in human resource development**

The business sector, including SMEs, attaches importance to the further promotion of industrial workforce training as well as of general education. However, there are hurdles in enhancing education and training. The existing challenges include: (i) regional disparities in education; (ii) lack of teachers and poor quality of education; (iii) the need for diversified curriculums to meet regional variations; and (iv) the need for advanced training for the industrial workforce. The use of ICT can help overcome such challenges. It is important to assess the practical application requirements in each economy before developing the ICT infrastructure.

### ***Recommendations***

- Encourage cooperation among APEC economies to promote experimental demonstrations of advanced ICT application systems in the human resource development field to evaluate their effectiveness.
- Carry out basic infrastructure development for maximum use of ICT.

- Share information on best practices in ICT applications among APEC economies and promote further diffusion to relevant schools and institutions.

## 2. Reforming the educational system

The educational system curriculum should support the need to develop the skills and harness the drive of emerging entrepreneurs (and the development of SMEs). It should foster in its curriculum the creativity and skills to encourage entrepreneurial drive and innovation at an early learning phase of the educational framework.

### ***Recommendation***

- Institutionalize a culture of entrepreneurial innovation and creative thinking through reforms in the educational system.

## 3. Ensuring continuity of Voices of the Future Program

The Voices of the Future Program brings together a sample of the Asia-Pacific's next class of leaders in a dialogue and interaction with current senior policy decision makers and successful business performers, making a unique contribution to the younger generation's understanding of regional issues and their growth as regional citizens.

### ***Recommendation***

- Give the Voices of the Future Program a more permanent profile where successive host economies would routinely include the program with their preparations for the Leaders' Summit. This will provide continuity in carrying the APEC program forward with the next generation of Leaders.

## **W. Strengthening and Deepening the Region's Capital Markets**

### 1. Promoting Stronger Growth

- (a) Adopting prudent measures for economic recovery

Amidst the nascent recovery of the global economy after the unprecedented financial crisis, the Asia-Pacific region has been recognized as an important center of growth. Stimulus programs have contributed to this growth. While there is market concern about heightened sovereign risk and G20 Leaders' decision to regain sound fiscal standing, care must be taken in selecting the timing of implementation of exit strategies. Premature implementation will ruin a nascent economic recovery while belated action will have significant side effects especially on the APEC growth center economies. Fiscal and monetary policies should reflect each economy's specific situation while maintaining close collaboration across the globe. APEC economies should also well prepare for emergencies which occur outside the region. The Chiang Mai Initiative Multilateralization agreement is most welcomed. Complementary measures to provide liquidity to the markets such as cross-border securities collateral management need to be developed promptly. Close communication and collaboration among APEC Leaders is urged to achieve regional stability and to avoid any form of protectionism through any new trade impediments, new or increased tariff, transfer price manipulation, financial and industrial policies.

(b) Promoting regional integration through sub-regional financial integration

Today, economies face another crisis emerging outside the APEC region, which could potentially hinder them from attaining well-balanced and sustainable economic growth. The promotion of regional financial integration continues to be of immediate importance. At the 13<sup>th</sup> meeting in Tashkent, Uzbekistan on 2 May 2010, the ASEAN Plus Three Finance Ministers announced that the Chiang Mai Initiative Multilateralization (CMIM) agreement came into effect on 24 March 2010, and that consensus has been reached on all the key elements of the regional macroeconomic surveillance unit of the CMIM, called the ASEAN + 3 Macroeconomic Research Office (AMRO). ABAC supports such recent international initiatives for regional financial cooperation that provide a good model for APEC. ABAC expects that the establishment of AMRO will enhance supervision on volatile cross-border capital flows, especially into and out of emerging economies, and provide more assistance in strengthening the financial capacity building of emerging economies, including the study of Regional Monetary Unit (RMU). Development of regional structures, however, should complement, not replace or replicate, existing global institutions and structures.

***Recommendations***

- Promote regional financial integration to mitigate vulnerability to financial contagion from outside the region. Advance CMIM as a platform to enhance financial stability in the APEC region.
- Consider further improvements in CMIM's disbursement mechanism to enhance its effectiveness, in particular, by changing the 20% threshold of the IMF support program compliance.
- Strengthen the regional macroeconomic surveillance through AMRO.

(c) Encouraging Islamic finance

The co-existence of Islamic and conventional financial systems can promote greater financial system resilience by broadening and deepening financial markets. Islamic funds, mobilized from APEC Muslim communities kept unused and funds from the Middle East, can support financial needs in the region such as infrastructure development to accelerate the region's growth. Increased access by the Islam community to finance will enhance the economic integration and stability of the community. Important values such as business ethics, conscience, responsibility, and equitable contracts between investors and investees are embedded in the basic principles of Islamic finance. Islamic finance has a direct link to the real economy and possesses certainty, supported by underlying activities. Thus, it could be a good basis for enhancing business ethics and promoting greater transparency and disclosure. In addition, Islamic finance could prevent some financial bubbles as Shariah compliance eliminates speculative transactions. Recently, the Islamic finance industry has evolved to become an essential part of the international financial system, and almost 80% of Shariah compliant assets are in Islamic Banking. Islamic finance is inclusive and is for both Muslims and non-Muslims, and can co-exist with conventional financial systems. Nonetheless, there are many impediments in promoting it in view of its transactional nature. Efforts are needed to address tax, regulatory and accounting issues to ensure a level playing field for Islamic finance to become viable in APEC economies.

## ***Recommendations***

- Enhance the market awareness of Islamic finance, and increase the capacity of professionals and scholars to drive growth. Establish and develop regional educational and training institutions in economies which can function as a hub of the Islamic finance in the region.
- Remove such impediments as tax treatment for domestic/cross-border transactions (stamp duty; mark-ups and treatment of profit and deposits) with enhanced collaboration among domestic tax authorities, central banks and Ministries of Finance (MOFs). Maintain regulatory frameworks, including rules and procedures, for Islamic financial products.

### (d) Promoting infrastructure public-private partnership

According to a joint study of the ADB and the ADBI, Asia would need to invest about US\$750 billion annually on average to meet domestic and regional infrastructure needs over the period 2010-2020. There is a huge potential for public-private partnership (PPP) to help meet these needs. However, for PPP to be effectively harnessed toward this objective, key issues need to be addressed: the information asymmetry between the public and private sectors, broader and deeper capital markets and a more active role for multilateral institutions in partnership with public and private sectors. A regional infrastructure partnership among governments, international financial institutions and the private sector would help address these issues. A key element of this partnership is a structure to ensure sustained and continuous private sector inputs into the process of promoting infrastructure PPP in the region, which can work closely with APEC, multilateral institutions and governments.

## ***Recommendation***

- Launch an Asia-Pacific Infrastructure Partnership (APIP) as a pathfinder initiative to bring together private sector, government and multilateral development institutions to facilitate the growth of infrastructure PPP in the region.

### (e) Developing bond and equity markets

While the region's bond markets have undergone significant development in recent years, emerging bond markets are still far from adequate in meeting the financing needs of the private sector. Supply constraints related to depth and liquidity, market infrastructure and the legal, policy and regulatory framework continue to pose significant obstacles to market development, in particular for the corporate bond markets. Economies in the region also need to meet the challenges in developing the broader capital market, including equity markets.

Encouraging greater cross border flows of funds and the introduction of new products and services will contribute greatly to the development of bond, equity and regional capital markets. The cross listing of listed funds from outside and within the region, such as Exchange Traded Funds (ETFs), should continue to offer investors greater investment choice along with potentially lower costs and better returns. But governments should begin discussions on an important missing element – the cross border recognition of unlisted funds.

In the absence of regional agreement on the cross border recognition of unlisted funds, some regional economies are relying on European regulated structures (UCITS). If APEC members can agree to a set of regulations that allow for the manufacture, distribution, management and administration of unlisted funds within the region, an important new range of investment options and employment opportunities for APEC member economies would emerge. Recycling of funds within the region and regional integration would also be encouraged.

### ***Recommendations***

- Develop wholesale securities markets open only to professional investors (with less strict disclosure rules than those designed to protect retail investors) to encourage the expansion of the issuer base, including foreign issuers. Individual economies could establish such arrangements and eventually elaborate to develop regional arrangements for securities settlement, removing barriers to entry and undertaking further steps to create a regional professional securities market.
- Collaborate between government and regulatory officials and market players to reduce barriers to cross-border settlement. The public sector should take the lead in addressing barriers related to tax, foreign exchange controls, investor registration, omnibus accounts and quotas. The private sector should lead efforts to address barriers related to messaging formats and pre-matching. Both public and private sectors should collaborate in addressing barriers related to cash controls, physical certificates, securities numbering and settlement cycle.
- Promote the use of foreign securities as eligible collateral throughout the region to enable major domestic and foreign financial institutions and investors to participate in cross-border collateral markets. In these markets, bonds can be actively used as collateral in money market transactions or traded in repurchase agreements, contributing toward more liquid bond markets. Existing arrangements can be considered as starting points in developing new bilateral arrangements, with a view toward a region-wide system.
- Continue collaborative efforts among governments, regulatory agencies, credit rating agencies and market players to promote region-wide convergence of accounting standards, disclosure regimes and corporate governance practices toward robust global standards.
- Establish a pathfinder initiative to introduce a funds passport scheme. Such a scheme is intended to facilitate the distribution of collective investment funds complying with a widely agreed common set of fund investment guidelines across participating jurisdictions. It should be designed to provide superior standards of retail investor protection and regulation compared to non-qualifying funds. Development of the common set of guidelines under which funds can apply for distribution across participating economies will need to be accompanied by efforts to address related regulatory and tax barriers as well as currency issues. In particular for corporate bond markets, efforts should be made to first strengthen the enabling framework – including common rating standards, availability/transparency of issuer information, bankruptcy codes, etc. – before additional funds are introduced to pursue the already limited supply of bonds, driving spreads even lower and possibly distorting the capital allocation process. Investors will clearly benefit from a stronger legal, policy and regulatory framework.

## 2. Ensuring more sustainable growth

### (a) Advancing regulatory reform

Although faster than expected, global economic recovery remains largely driven by massive fiscal stimulus undertaken by major economies rather than a recovery of private demand, and the full recovery of financial intermediation remains uncertain. In certain economies, impaired assets in financial institutions' balance sheets continue to pose a challenge. ABAC believes that sustainable economic recovery is the foundation of any growth agenda. The development of a resilient, stable and flexible business environment is extremely important.

ABAC notes that a variety of regulatory reform efforts is undertaken across the globe. ABAC would like to, however, underscore the fact that the social and economic structures, stages of development and business models of many economies in the Asia-Pacific region are quite different from those whose financial system weaknesses current regulatory reform efforts are intended to address. Most financial institutions in Asia, for example, have a relatively broader deposit base compared to their counterparts in Europe or in the US and have a stronger focus on relationship banking.

While ABAC supports the establishment of a strong global regulatory framework designed to reduce excessive risk taking by financial institutions, it believes that general increases in regulatory capital will not help significantly in accomplishing that aim and will be counterproductive by inhibiting sustainable economic recovery. Concurrent requirements for minimum liquidity could compound this problem by disincentivizing financial intermediation and provision of needed liquidity, particularly to SMME borrowers that are a main source of innovation, financial inclusion and employment in both developing and many developed economies. Considering that the crisis was caused in large part by excessive risk taking in the investment banking and non-bank sectors, the new regulations proposed by the Basel Committee should not unduly affect the financial intermediary functions of commercial banks or equivalent lending by non-banks.

Regulations need to be coordinated globally, and implementation should take into account economic conditions, financial institutions' business model (e.g., differences between the business models of banks and insurance companies) and tax and accounting systems particular to each economy. And they need to ensure that in each economy all market participants who supply financial services on a commercial basis or in competition with other service suppliers are subject to the same laws and regulations administered by the same regulator in the same manner. Given that regulatory reform should aim to strengthen and stabilize financial intermediation, ABAC fears that while many of the proposed regulatory changes taken individually may seem to be optimal, taken together they might be damaging banks' and other regulated financial institutions' ability to intermediate finance. The Basel Committee's response to the global financial crisis, for example, should not be to advance "once size fits all" regulatory changes. New regulations should be cognizant of differences between economies. Supervisory capacities need to be strengthened to enable developing economies to effectively adapt the Basel framework to local conditions, particularly where issues are best addressed through supervisory review (Pillar 2). Most fundamentally, care must be taken that the new BASEL standards and related global reform measures do not swing too far toward impeding prudent, risk-based lending to SMME (Small, Medium and Micro-Enterprise) and other higher-risk borrowers, a result that could imperil more broad-based and inclusive economic growth policies.

ABAC supports the G20 agreement in Toronto. In particular, ABAC agrees with their assessment that excess volatility and disorderly movements in exchange rates can have adverse implications for economic and financial stability. ABAC also welcomes their agreement to phase the implementation of the rules for stronger capital and liquidity standards of financial institutions as financial conditions improve and economic recovery is assured. It also believes it important to ensure that there is no divergence and conflict between the direction of the G20's efforts and the direction of regional efforts within APEC to develop liquid capital markets and efficient financial services, which are vital to achieving balanced growth.

### ***Recommendations***

- Maintain close consultation and dialogue with the private sector to determine any threshold of important ratios, including but not limited to, capital and leverage. Review and evaluate the impact of new regulations on costs of doing business.
- Consider possible withdrawal effects in introducing a capital buffer. ABAC believes it extremely difficult to adjust the size of capital in accordance with economic cycles. Thus, it is of the opinion that careful thought must be given to the intersection of reserve and capital for addressing potential losses.
- Regulate activities beyond risk taking capabilities of financial institutions. Strengthen financial institutions' risk monitoring capabilities and financial standing.
- Undertake capacity building efforts to help financial regulators in developing economies strengthen supervisory capabilities and in effectively adapting the Basel framework to fit local conditions and business models.
- Ensure consistency between G20 regulatory reform outcomes and regional efforts to develop liquid capital markets and efficient financial services.

#### (b) Adopting International Financial Reporting Standards ("IFRS")

ABAC supports the G20's initiatives to achieve a single set of high quality, global accounting standards. It believes that the introduction of robust common accounting standards such as IFRS would enhance further development of capital markets in the APEC region, and promote sustainable economic growth. Nonetheless, various elements of IFRS should be studied to minimize cyclical effects on private sector economic activities. The studies should focus on impacts of accounting policies on the real economy and management of companies. Consistency with other regulatory frameworks such as Basel II (and its revisions) and the principles of the International Association of Insurance Supervisors should be also carefully studied. In studying these frameworks, it is particularly important to recognize that not all industries are the same. Insurance, for instance, is very different from banking despite superficial similarities.

In addition, the APEC region should commit itself to make effective contributions to the global discussions on the accounting standards. Accounting standards is one of the most important managerial tools for management to use to understand the company's operational results and create corporate value in the long run. Implementation of IFRS should have some flexibility, reflecting each economy's business practices to soothe the burdens of

financial statement preparation, but should not allow jurisdictions to pick and choose which pieces of a standard to accept, nor should we allow regionally tailored versions of IFRS.

### ***Recommendations***

- Establish a task force to discuss studies on smooth introduction of IFRS to ensure appropriate communication among IASB, APEC and ABAC.
- Establish clear guidelines to avoid arbitrary treatment, in calculating the fair value of non-financial information and financial products, in particular illiquid assets, for example, Level 3 assets in accordance with IFRS 7.
- Consider the costs of marking-to-market each loan extended by the financial sector and maintain close dialogue with the private sector when implementing forward looking provisioning as proposed in IAS 39.
- Coordinate diligently with the private sector in introducing changes which may have significant impact on companies' P/L statements (for example, IAS 19 on pension accounting).

#### (c) Financing the environment

Business faces a much higher level of environmental regulatory risk in the post-Copenhagen world. The international community has rightly eschewed any idea of a “one size fits all” policy response to environmental challenges. Also, many policy approaches to improve environmental quality and reduce greenhouse gas emissions are based on highly centralized and highly prescriptive. These approaches can be far more expensive in economic terms than an approach which defines the environmental outcomes required in precise and measurable terms but lets each market participant find the particular solution that best accords with their knowledge and circumstances.

On the other hand, currently the private sector faces significant challenges to expand our activities in the area of renewable energy projects, particularly in developing economies. Enhancement of renewable energy projects needs active public sector involvement in the form of providing guarantees, subsidies or preferential tax treatment to fill any commercial viability gap, making projects feasible for private investors. Such commercial viability gap includes the retail price of electricity set at a low level by regulation or based on inexpensive energy sources (cost or hydro); risks related to each economy's credit standing; weak financial standing of power purchasers; lack of (or inadequate) renewable incentives and regulations; lack of transparency of licensing procedures and legal systems; lack of efficiency and liquidity of financial markets.

### ***Recommendations***

- Establish a set of high level principles in a policy framework, including the following: a recommitment to reduce subsidies on fossil fuel use; a preference for tax credits or fiscal subsidies to promote private applied research and development in energy technology and the promotion of alternative energy sources; in designing regulatory regimes governments ought to consult with industry.



- Introduce incentives and regulations to provide sufficient cash flows for renewal energy projects. The host governments should maintain strong and viable commitments to maintain these incentive programs.
- Introduce credit enhancement for the power purchaser from the host governments or IFIs. Also, measures need to be introduced to increase efficiency and liquidity of financial markets or to fill in the funding gap.

### 3. Achieving More Balanced Growth

#### (a) Expanding SMME access to finance

ABAC has strongly supported reform initiatives to facilitate financing for enterprises, particularly SMMEs, in the areas of promoting commercial lending through an enhanced secured lending framework. SMMEs are, in general, more vulnerable and prone to be much more affected by the global economic circumstances than large corporations. Often lacking deep banking relationships, they also rely on more varied forms of asset-based financing. As SMMEs play a pivotal role to drive the economic growth in the region, regulatory initiatives should be undertaken to promote a transparent and efficient legal infrastructure for secured lending, to incentivize asset-based lenders to provide liquidity to this market.

Most SMMEs have limited access to bank loans because they cannot provide land and buildings as collaterals as required by the banks. Commercial banks normally provide secured loans, i.e., loans that are backed by collaterals. Land and buildings are the most accepted type of assets to be used as collaterals as they usually have a well established ownership registration and valuation system.

In many advanced economies, the law on collaterals is extended to include inventory, machinery and equipment, as well as intangible assets such as receivables, intellectual property, equity ownership in another company, and leasehold. Companies, particularly SMMEs, that have these assets thus would have greater access to financing if more reliable secured lending laws were promoted. These improvements would include not only expanding the classes of collateral that could be subjected to liens, and perfected, but also would include provisions for unified, exclusive and publicly searchable registries of such security interests, avoiding the problem of “hidden liens” that often create uncertainty for lenders and hence chill the provision of credit to higher risk borrowers. Reforms should also look at promoting more detailed provisions for “debtor-in-possession” financing, so as to encourage the provision of liquidity to companies that are experiencing short-term cash flow problems, but with viable business models that can allow for workouts and revitalization.

In addition to improving the regulatory process for secured lending, ABAC considers it important to develop properly structured credit information systems and legal frameworks, which are key issues in expanding SMMEs’ access to finance in many economies in the region, as well as to fill in any commercial gaps for financing in the form of guarantees. Modern technological developments such as introduction of digital promissory notes may alleviate the fraud risks and expand financing tools for SMMEs. Also, it is important to remove any impediments such as taxation issues to support the SMMEs to expand their activities across the globe.

### ***Recommendations***

- Launch a SMME Finance Initiative focused on helping APEC economies develop properly structured credit information systems and legal frameworks for expanding SMMEs' access to finance.
- Support business developments of SMMEs by offering some credit enhancement in the form of credit guarantees, and by introducing better regulatory framework to facilitate financial and international activities of SMMEs.
- Introduce an efficient, exclusive and transparent registry of security interests, and a reliable valuation system so that the creditor can determine with certainty prior liens, and their own relative lien priority, and move in quickly to foreclose and liquidate the collateral to pay for the loan when the loan defaults. Implement the collateral law to recognize a large variety of assets as collaterals in addition to land and buildings to secure the loan. Provide more opportunities for “debtor-in-possession” financing.

#### (b) Enhancing social safety nets

Implementation of sufficient social security policies plays a proactive role in alleviating difficulties confronted by enterprises and stabilizing employment. It also injects a strong impetus to transform the pattern of economic development. Social security policies thus contribute tremendously to sustaining economic growth, stimulating domestic demand, realizing economic restructuring and improving people's wellbeing.

### ***Recommendations***

- Implement social security policies with the purpose of raising relevant insurances, basic pensions of enterprise retirees and minimum living standard in accordance with unique characteristics of each economy such as aging population, diversification of employment types, and acceleration of urbanization.
- Introduce an adequate pension system on a funded basis. APEC member economies should conclude necessary agreements to facilitate pension systems that will enable sufficient labor mobility within the region.

#### (c) Promoting financial inclusion

In many developing economies, a majority of the adult population, especially those at the bottom of the economic pyramid, those living in rural areas, and women, remain without access to financial services. In the past few years, microfinance has proven effective as an initial tool to address this issue on a limited basis, especially due to the introduction of technologies and innovations that have lowered the cost of providing services. APEC has great potential to contribute in a major way to expanding financial inclusion by providing an effective platform for sharing of successful experiences of policy reforms that address different aspects of promoting microfinance. Regulatory reform measures should take account of the most recent and extensive research on what policies are needed to promote financial inclusion, allowing the requisite regulatory flexibility to structure products responsive to the needs of consumers while complying with standards of financial soundness. Measures such as interest rate regulation, lending caps, disclosure requirements and underwriting norms should be included in a holistic analysis under this initiative.

***Recommendation***

- Launch an APEC Financial Inclusion Initiative under the APEC Finance Ministers' Process as proposed by ABAC and the Advisory Group on APEC Financial System Capacity Building in 2009.