



EMPLOYING PEOPLE AND IDEAS FOR SUSTAINED GROWTH IN ASIA-PACIFIC



Peruvian President Ollanta Humala (standing, middle) welcomed the APEC Business Advisory Council (ABAC) and formally opened its 3rd Meeting for 2011 held on 22-24 August in Lima, Peru.

ABAC calls for close Government liaison with business to stabilize global markets

Lima, Peru - The APEC Business Advisory Council (ABAC), which comprises over 60 of Asia's leading business executives, has called on the region's Governments to liaise closely with business in tackling the festering global financial crisis.

In Lima, Peru, for ABAC's third meeting in 2011, ABAC called on political leaders to make progress in stabilising global financial markets, in developing credible plans for debt reduction, and in creating the foundations of sustainable growth and job creation. Absent such progress, they said Asia's businesses would remain reluctant to resume investment for growth. They also warned that protectionist pressures would rise.

At the August 21-24 meeting, with a wide-ranging agenda focused intensively on preparation for the business leaders' key dialogue with the 21 APEC Leaders in Honolulu in November, ABAC urged APEC leaders to raise public awareness of Business Continuity Planning and emergency preparedness when natural disasters strike. Establishing support mechanisms to build resilient societies and businesses, particularly the SMMEs, is cited as a critical factor in the pursuit of long-term balanced growth. A related recommendation from ABAC Russia to develop an APEC Unified Voluntary Risks Code Initiative to ensure interoperability of supply chain port infrastructures is one of the many specific measures agreed in Lima.

ABAC fully recognizes the importance of supporting the growth and trade expansion of SMMEs. The call for financial, technical and policy support to SMMEs is a cross-cutting issue between ABAC working groups and specific recommendations have been elevated to APEC. It was further noted that publicprivate partnership could expand the participation of SMMEs in trade as supply chain providers, and ABAC Korea will present ABAC's proposal on how PPP can work in this area in Honolulu.

In promoting trade and investment liberalization, ABAC underscored the importance of promoting progress towards regulatory coherence in the region. It urges the improvement of the process by which economies develop regulations, identify best practices, and establishing common standards that does not result in market distortion nor increase barriers and burdens to business.

Strategies for 'Green Growth' were also discussed and identified during this meeting. Among others, ABAC recommends the reduction of tariffs and nontariffs for environmental goods and services (EGS) technologies to promote the growth of the EGS sector. The Council points out that this would not only conserve resources but would also raise energy efficiency and increase quality jobs in the region.

ABAC's 2011 report and recommendations will be submitted and presented to APEC Leaders in November.

ABOUT ABAC

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 request information about business-related issues or to provide the business perspective on specific areas of cooperation.

ABAC Working Groups

Regional Economic Integration Working Group (REIWG): focuses on creating the pathway to FTAAP, next generation trade issues, and the smooth facilitation of movement of goods, services, investments and people.

SMME and Entrepreneurship Working Group (SMMEEWG): suggests and endorses policies that promote the establishment of new businesses and business models, the longevity of SMEs, and the economic inclusion, including women"s

Sustainable Growth Working Group (SGWG): focuses on food, energy, and water security, including environmental goods and services.

Finance and Economics Working Group (FEWG):

defines and develops finance-related recommendations related to objectives of other ABAC groups. It also monitors and assesses regional implications of G20 developments, and provides macro-economic overview for the Council. Through its Advisory Group on Financial System Capacity-Building, it also tackles in detail proposals for reform of the APEC region's financial systems.

Action Plan and Advocacy Working Group (APAWG): tracks APEC action on ABAC recommendations, develops advocacy strategies to promote adoption of ABAC recommendations, and collaborates on capacity building programs with APEC.

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Lima, Peru - The August 2011 analysis of the ABAC Finance and Economic Work Group (FEWG), presented by FEWG Chair John Denton (ABAC Australia), revealed further volatility and trade imbalances primarily caused by renewed global financial woes. Concerns over the European debt crisis and the downgrading of the US sovereign credit rating by Standard & Poors have created financial market instability.

Inflationary pressures have led APEC economies to focus on monetary policies to contain these pressures. Hong Kong, Singapore, China and the Philippines all have inflation rates rising above 5%. Thailand and Korea posted rates above 4%, while Viet Nam's consumer prices ballooned by more than 20% year on year in the past couple of months. However, the recent declining trend of commodities prices, such as crude oil, metals and agriculture prices, has raised hopes of suppressing global inflationary pressures.

Meanwhile, outlooks for the United States, Japan and China remain bleak. The US economy only grew at an annualized rate of 0.8% per annum in the first half of the year - and this sluggish growth makes the country susceptible to internal and

Uncertainties Loom Anew but Crisis Unlikely

Volatility in trading markets triggered by renewed concerns on debts and credit ratings downgrade. What is its impact on APEC economies?

undertaken by the Federal Government and the US Federal Reserve, such as an extended lowered interest rates and the rounds of

shocks.

external

quantitative easing, have yet to prove its effectiveness in making a significant impacts in the US's economic recovery. According to the FEWG paper, it will take some time before confidence in the US economy is restored, but self-sustaining recovery efforts are well on its way.

In another case, Japan's economy had a bad fall this year after the Tohoku earthquake and tsunami destroyed lives, properties and businesses earlier this year. While the FEWG observed that Japan's economy is "picking up again," much is to be fixed from both the political and economic fronts. The level of public debt is incredibly high, business and consumer confidence remains "fragile", and the political situation remains "uncertain".

On the other hand, China's economy grew in the second quarter by 9% from the same period in 2010. While the economy has somewhat slowed it is not enough to raise concerns for especially since key areas in the economy continue to perform well. Construction activity remains strong while demand for steel and electricity consumption remains robust.

Even the measures Export-heavy East Asian economies of Korea, Chinese Taipei, Hong Kong, and Singapore grew relatively slower compared to the 2010 export rebounds and business fixed investment they posted from the low levels of 2009. The disruption of the supply chain from the Japan disaster also had a pronounced impact on these countries' growth levels, as with Malaysia's and Thailand's. But unlike its Asian neighbours, Indonesia expanded remarkably with 6.5% growth in the first half of 2011 following a strong exports performance and rising foreign direct investment.

> Despite the uncertainties and current trade imbalances, the ABAC FEWG doesn't foresee a global financial crisis looming around the corner and dismissed the likelihood of another global recession on account of the growing momentum in emerging and developing economies. The working group warns against governments slipping into protectionist or trade distorting measures.

> Meanwhile, U.S. Senior Official to APEC, Kurt Tong, shared in Lima APEC's current financial and economic priorities. These included focused rebalancing of global growth, investing in infrastructure particularly through public-private partnerships (PPPs), and expanding financial services to develop inclusive growth.

Overcoming Insecurities

Recognizing the immediate need to act on food security threats, ABAC identifies key issues to address

Lima, Peru - During the ABAC Sustainable Growth Working Group meeting in Lima, Peru, ABAC China raised nagging concerns over global food security and the need to create a coherent action agenda in APEC to address this. Three overarching challenges that threaten food security were presented during the meeting, the first of which is the tightening balance between total global food demand and supply.

Frank Gaoning Ning of ABAC China presented key highlights of the August 2011 Cereal Supply and Demand Brief of of Food and Agriculture Organization (FAO), that forecasted cereal production reaching 2,307 million tonnes in 2011 is closely matching the 2011/12 forecasted cereal utilization 2,304 million tonnes.

Other identified challenges include the worsening imbalance of regional distribution of food and the higher, more fragile, food prices. ABAC members recognize these challenges and have agreed in Lima to fully support the call for APEC Leaders to enhance international cooperation, particularly in technology transfer and setting international standards on food, and in increasing financial support to developed economies.

The Council urges each economy to develop a set of guidelines for a balanced and productivity such as, but not limited to, improving efficient use of food sources for consumption by human, animals and energy sectors. Some of the suggested ways to achieve this are through agricultural land-use zoning, designating clusters for efficient use of water supply, adopting zero waste consumption, using genetically modified organisms (GMO) for energy sector use, and reducing trade barriers for proper pricing signals. Furthermore, ABAC is proposing that APEC governments focus on enhancing food production and pursuing policies that increase agricultural the end consumers.

Cereal production, utilization and stocks million tonnes million tonnes 2400 2300 2200 2100 Stocks —Production —Utilization

the knowledge base of farmers, ending export subsidies and restrictions, and developing irrigation systems and water resource management.

Lastly, it was agreed during the Lima meeting to elevate ABAC China's proposal to establish a strong regional cooperation in APEC aimed at strengthening supervision on grain market speculation as this uncertainties negatively impact

Linking economies in a seamless commercial environment

To unleash the growth potential of the Asia Pacific region, ABAC urges APEC to explore a common understanding of the supply chains and value chains affecting regional trade in goods and services

Integration Working Group has decided to to facilitate the development of trade in the region.

REIWG Chair, Tony Nowell, discussed the their citizens. conceptual framework to be submitted to APEC leaders for better understanding of the complex As shown in the framework, one of the key In understanding each step and component in the supply chain and the services supply network is initiatives to address chokepoints at each stage of commercial environment within the Asia Pacific region.

The framework below shows the integrated regional supply chain for both goods and services. The pathway for goods begins with the primary resources such as land, water, minerals being processed and then delivered to end-consumers. The pathway to market for services begins with the primary services, or set of knowledge and skills. There are a number of regional undertakings that being offered and demanded, and delivered directly to businesses and consumers.

Reducing Chokepoints

Chokepoints are barriers to the flow of goods and Trade Area (EAFTA).

Lima, Peru - At the recently concluded ABAC services that counters growth and competitiveness. meeting held in Peru, the Regional Economic These are also sources of waste in terms of time and monetary expenditures. ABAC believes that by recommend to APEC leaders the adoption of an identifying and addressing chokepoints in the integrated supply chain and value chain approach pathway, economies would be able to increase productivity and provide higher value-added services leading to a higher standard of living of

process of trade in goods and services within APEC. components that provide support to the goods supply chain and value chain, it is hoped that APEC market access. This year, ABAC has started to and ABAC can focus on region-wide business aggressively push for the establishment of a comprehensive and high quality Free Trade Area of the chain. The end goal is to achieve a seamless the Asia-Pacific (FTAAP). But in the process of creating the pathways to FTAAP, strategies in addressing the existing barriers to trade and investment, particularly the identified 'next generation issues', must be incorporated in the FTAAP, and this is when the understanding of the global and regional supply chain becomes significant.

> could serve as pathways towards an FTAAP, including ASEAN+3, ASEAN+6, and the Trans-Pacific Partnership (TPP). In addition to FTAAP, work is also continuing on the Comprehensive Economic Partnership in East Asia (CEPEA) and East Asia Free

Primary Resources	AN INTEGRATED REGIONAL GOODS SUPPLY CHAIN The Pathway to Market								Markets and Consumers
Land Water Oceans Minerals Forests etc	Discovery and Innovation	Primary Production	Primary Processing	Secondary Processing	Finished Product Manufacture	Storage and Handling	Freight and Logistics	Marketing and Distribution	Automotive Chemicals Electronics Pharmaceutical Food etc
		SUPPO	RTED BY RE	EGIONAL V	ALUE CHAIN	сомрог	NENTS		
Quality A	ssurance Fra	meworks	and Regime	s (e.g. food	standards,	PSP, mutu	al recognit	ion of qua	alifications)
Innovatio	n Developme	nt Frame	works (e.g. s	cience, R&	D, commerc	ialization,	multidiscip	olinary co	llaboration)
Business & Capal	ility Develop	ment Fran	neworks (e.	g. educatio	n, human r	esource de	velopment	, knowle	dge infrastructure)
	Human re	sources (e	.g. availabili	ty, mobility	y, standards	, immigrat	tion, social	security)	
"Border"	lows (e.g. cı	ustoms, ta	x, profit rep	atriation, l	oiosecurity,	visas, licer	nces and th	eir scope	of business)
	Funding	and Inves	tment (e.g.	venture / p	orivate / me	rchant / p	ublic / sove	ereign)	
Market Access	(e.g. WTO,	regional a	nd bilateral	trade and	investment	agreemen	its, FTAAP,	commerci	ial presence, IP)
Overarching Fram	eworks (e.g.	regulatory	coherence,	, transpare	ncy and effi	ciency, cro	ss-border i	nter-oper	ability, recognition)
Primary Services	AN INTEGRATED REGIONAL SERVICES SUPPLY CHAIN/NETWORK The 'Pathway' to Market								Markets and Customer
Legal Financial Engineering Architecture Accounting etc	Diagnostics Imagination Innovation	Planning Design	Evaluation Selection team formation	Sourcing people movement	Contracting, outsourcing	Quality control	Re-engineering	Execution After sales service	Financial professional, technical telecoms, IT, audiovisua transport/logistics business services, tourism, health, education etc

SMME Development

Hindrances to Trade

Small, micro and medium-sized enterprises (SMMEs) play important roles in economic and social development particularly in creating jobs and promoting innovation. ABAC, this year, has focused on identifying barriers to SMME's entry and engagement in cross-border trade and providing recommendations to overcome the challenges faces.

The following are the top nine barriers relating to SMME cross-border trade identified by ABAC:

- Lack of access to financing
- Lack of capacity to internationalize and difficulty in identifying foreign business opportunities
- Difficulty in navigating differing legal, regulatory and technical requirements
- Need for open and transparent business environments
- Inadequate policy and regulatory frameworks to support cross-border electronic commerce
- Inability to protect intellectual property
- Excessive transportation and related costs
- Customs clearance delays, including difficulties in navigating overly complex customs requirements and documentation
- Difficulty in taking advantage of preferential tariff rates and other aspects of trade agreements

Of these, four are being prioritized due to their critical role to business growth. The primary issue is lack of SMME financing. ABAC recommends the promotion implementation of reforms to ensure a clear legal infrastructure for lending. The Council also encourages available financing for SMMEs and start-up businesses such as venture capital and micro-finance solutions. Private-public coinvestment approaches may be explored in seeding the formation of innovation-based micro enterprises.

The other main concern is the lack of capacity to internationalize and difficulty in identifying foreign business opportunities. For this, ABAC recommends APEC to create a market knowledge center and promote better use of online technology and ICT infrastructure.

Transparency in business environments lower costs associated with handling different policy and regulatory requirements, and SMMEs need this type of environment as they venture into foreign markets in order to thrive and compete. ABAC stresses the need to create codes of ethics in APEC industries to support openness.

Lastly, ABAC urges APEC economies to establish IPR support centers and to review and enhance patent laws to encourage SMME innovation.

When Disasters Strike

ABAC calls for its governments to prioritize emergency preparedness in the midst of the recent, successive natural catastrophes



Lima, Peru - In the early part of the year, the world witnessed two horrible natural disasters that rocked the APEC region. The first was a 6.3magnitude earthquake that shook New Zealand in February, followed by a twin-catastrophe of an earthquake and a tsunami that swept across cities in Japan in March. These are just two

glaring cases of large scale natural disasters to services in their locality. hit the region where about 70% of natural catastrophes in the world occur.

In response to these incidents, ABAC Japan raised specific recommendations during the ABAC III meeting in Lima, Peru. These proposals call for a higher level of public awareness for emergency preparedness in the region and the regional and economy-wide joint public-private need to make our societies resilient, if not more, efforts for emergency preparedness. against calamities and other natural adversities.

The grave impact of these recent disasters to global trade and flow of supply chains was also raised by ABAC Japan, noting how these multiplied further the economic impact of the capacity building for Business Continuity unfortunate events. In addition, as a critical component of resurrecting a damaged community, business activity must quickly recover to facilitate the vital flow of goods and

Thus, ABAC has agreed in Lima to adopt the recommendations of ABAC Japan and elevate these to the APEC leaders for consideration. In particular, ABAC recommends APEC leaders and ministers to implement policies to support

The Council also emphasized the need to raise public awareness of these efforts, such as increased sharing of information to enhance Preparedness within a country and among APEC economies, with special attention to providing recovery support to SMMEs.



KEY DATES

√08-10 November 4th ABAC Meeting for 2011 Honolulu, Hawaii, USA

√10 November **ABAC Entrepreneurs Roundtable ABAC SME Symposium** Honolulu, Hawaii, USA

> √11-12 November **APEC CEO Summit 2011** Honolulu, Hawaii, USA

√ 13 November ABAC Dialogue with APEC Economic Leaders Honolulu, Hawaii, U.S.A.

Regulatory Coherence Explained

A framework on enhancing regulatory coherence provides a clearer view on what it is, what it aims to do, and how to achieve it.

Lima, Peru – The hot topic of 'regulatory coherence' and the critical role it plays in achieving APEC goals beg for a clearer understanding of what it is exactly. At the 3rd ABAC meeting, Kevin Thieneman of ABAC USA explained in detail the definition of 'regulatory coherence', what it entails, and how to approach it.

Regulatory coherence, he explained, is about improving the process by which economies develop regulations, develop best practices, and finding common standards acceptable to multiple economies. And contrary to promotes less regulation, he stressed domestic regulation. reducing regulation more competitive with higher degree of confidence in the encouraged standards of traded products and accountability from institutions. services while facilitating the smooth entry of SMMEs into foreign markets.

concerning standards well as the high cost of doing business. industries need to prosper. A harmonized international standards



some perceived notion that this should be used as basis for setting Meanwhile, that regulatory coherence is neither regulatory institutions should strive to nor increasing relieve business from the unnecessary better, effective burdens and costs of doing business regulations that would allow markets (e.g. duplicative requirements). And and one way to align regulations is by innovative. It creates an environment consulting with all stakeholders. This is

Indeed, transparent and equitable enforcement must be While APEC has successfully removed regulatory coherence. The presented tariffs and quantitative restrictions, it success stories of Japan's electronics should now recognize behind-border sector, New Zealand's dairy industry, issues particularly non-tariff barriers and USA's off-highway vehicle emission and serve as proof that regulatory qualifications at the domestic level as coherence might just be the thing that