Mind the Gap: Making Globalization an Opportunity for All
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Introduction

Over the past twelve months, we have witnessed a dramatic decline in the economic well-being of the regional economy. Its resilience is being sorely tested. All APEC economies, developing and developed, are feeling the dampening effects of market instability, rising inflationary pressures, declining consumer demand, and constraints on liquidity. Businesses are acutely aware of these negative trends and very few have escaped their impact, regardless of size or location.

It is important that the prospect of a regional recession is addressed with resolute action and that all economies resume the growth performance in production and trade in services and manufactured goods. It is essential to respond to the challenges in ways that will provide renewed opportunities for growth and development and avoid backsliding that will negate the advances made in recent years.

As business people, ABAC members fully accept their responsibilities to face up to problems as they arise and make decisions that will allow them to maintain viable businesses. We believe business people throughout the region are committed to contributing to identifying solutions. In the global economy, however, governments must act together to establish conditions within which business can operate with confidence.

In this report, we seek to set out practical responses which governments of APEC member economies should take to address the challenges noted above. The proposals are consistent with the basic tenets that have guided APEC since its inception, and relate to the three core pillars of APEC – liberalization, facilitation and capacity building. We recommend them to Leaders in the belief that they will assist in ensuring that the APEC economies can continue to show leadership on the global stage in dealing with common problems, and demonstrate how economies working together can achieve outcomes of mutual advantage and benefit to all their peoples.

A. Responding to the Suspension of the Doha Development Agenda Negotiations

ABAC has been consistent in providing support to the WTO, including the Doha Development Agenda (DDA) negotiations. The recent suspension of the Doha Round is a deep disappointment for the business community. The business community urges Leaders to continue to drive liberalization in international markets and particularly in the Asia-Pacific.

That being said, the suspension of the DDA does present an opportunity for APEC to focus on steps to strengthen and deepen trans-Pacific regional integration.

A stronger, fully committed and free trade oriented APEC is the best contribution we can make to the WTO under the current situation.

Recommendations

- Promote a more integrated and developed trans-Pacific regional integration through APEC;
- Encourage further efforts to secure what has been achieved to date in the Doha negotiations as well as to secure a balanced final Doha agreement; and
- Support the accession of Russia to the WTO.

B. Accelerating Regional Economic Integration

ABAC welcomes the Leaders’ decision to accelerate efforts to promote further economic integration in the Asia-Pacific region. ABAC reiterates its belief that the FTAAP represents a practical means to achieve convergence among RTAs/FTAs, advance regional trade and investment liberalization, and achieve the Bogor Goals.

ABAC has undertaken work in a number of areas that could serve as building blocks towards the
FTAAP. These include the development of model chapters, the assessment of high quality RTAs/FTAs in order to identify the core elements of regional economic integration and a study on rules of origin.

Recommendation

- Mandate APEC Ministers to accelerate the work on an FTAAP by completing the current studies on regional economic integration and exploring all options or other measures to achieve the free flow of goods, services, labor and capital within the region.

C. Addressing the Global Credit Contraction and Inflationary Pressures

The current global credit contraction sparked by the sub-prime mortgage crisis and write-downs by various international banks has had a serious and significant impact on the regional economy. ABAC therefore proposes recommendations for policymakers to help avoid future financial disruptions.

ABAC further recommends that high priority be given to coordinated action among the central banks and regulators within the region and globally. The systemic risk economies face from the credit/liquidity contraction is serious and far from over. Rapid communications, multilateral decision making and forceful and timely action by regulators and central banks on the dissemination of timely and transparent information would do much to mitigate the remaining problems and will facilitate a rapid return to stability and liquidity in the APEC capital markets.

ABAC recommends that policymakers find an appropriate balance between allowing sufficient liquidity for corporate and personal investment necessary to maintain growth, while keeping downward pressure on inflation that has begun to emerge in APEC economies. In addition, to promote market stability amongst economies, ABAC recommends enhancing cross-border regulatory cooperation aimed at improving and disseminating data on short-term capital flows.

Recommendations

- Improve confidence in the credit and capital markets by promoting consistent and prudent fiscal and monetary policies and timely liquidity mechanisms;
- Begin immediately to change the emphasis of regulation from entity-based to activity-based. The latter can be achieved through informal collaboration among the various regulatory bodies both within and across economies; and
- Implement measures to improve transparency in credit derivatives and highly leveraged markets so that counterparty risk can be clearly understood and established.

D. Enhancing SME Development, including Micro-Enterprises

A constant theme in ABAC Reports to APEC Leaders has been the high level of dependence every economy has on the contribution of its micro, small and medium enterprises. ABAC has made repeated calls for the reduction or removal of regulatory obstacles to SME growth, and to improving access to finance, information and technology, and training. This focus has been mainly on fostering the role of SMEs in domestic economies. In the past two years, there has been increased ABAC attention to ways of enabling SMEs to succeed in overseas markets. Under the general theme “ease of doing business,” ABAC has highlighted “behind-the-border” issues that influence the opportunity for SMEs to establish their presence offshore and perform successfully.

Recommendations

- Implement a Technological Infrastructure Program by providing appropriate Information Communication Technology (ICT) services and technological infrastructure for SMEs’ development in all APEC member economies by 2020. Detailed actions include, but are not limited to: establishing and improving the ICT social support, service and safeguard systems for SMEs by harmonizing all administrative and social resources; enhancing targeted financial support for ICT use by SMEs; promoting the introduction of programs which assist SMEs to protect their intellectual property; encouraging ICT R&D and utilization capability of SMEs; developing systems and methods for improving SME productivity, especially the use of evolving new technologies; and
supporting the development of business transformation mechanisms to help SMEs deal with major challenges to their business.

- Implement a Financing Capacity Building Program by carrying out comprehensive capacity building programs to reinforce SME financing capability of all APEC member economies. Detailed actions include, but are not limited to: establishing micro-credit and loan systems and sound financing legal frameworks by APEC member economies; establishing venture investment funds for SMEs; establishing governmental financing guarantee and re-guarantee institutions for SMEs; promoting the establishment of Internet-based lending systems; and promoting new capital markets for trading high risk equities, aimed specifically at SMEs, and especially on-line systems that ensure extreme transparency in investee companies.

- Implement a SMEs Training Program through the following actions: establish day-to-day cooperation and exchange mechanisms among APEC economies; fully utilize and exploit a full range of educational resources, strengthen coordination among relevant international and domestic training institutions; establish Special Fund to support SME management education under appropriate APEC economic and technical cooperation schemes; and consider whether SME management education could, as appropriate, be pursued as an APEC Collective Action.

E. Responding to Food Supply and Price Issues

There is widespread concern among regional business regarding the impact of shortages in the supply of basic food products and subsequent marked increases in prices. These problems are due to a number of factors, notably increased global demand for food products, as well as energy-related challenges including oil price rises. In some economies, defensive measures are being taken, including imposition of export restrictions to retain supplies for domestic markets, which cause adverse consequences for other economies. In addition to avoiding such unhelpful short-term measures, it is essential that the underlying long-term problems be addressed. Within APEC, there is an established framework for guiding policy decisions in this area - the APEC Food System (AFS) developed by ABAC and adopted by Leaders in 1999.

As set out in the 1998 and 1999 ABAC Report to APEC Leaders, the AFS visualizes a regional food system built on the guiding principles of rural development and capacity building, technology development and sharing, and trade and investment liberalization in food products. As APEC’s main vehicle for addressing food security issues, the AFS seeks to create an environment based on a vision of a regional food system where: consumers have access to the food they desire at affordable prices; the productivity of the food sector is enhanced through region-wide availability of food-related technological advances and through efficient resource use; supply security is improved through cooperation and interdependence; the vitality of rural communities is enhanced through improved infrastructural development and through access to viable non-farm employment and industry.

The AFS includes specific programs to pursue the vision. Those programs have direct relevance to the situations faced today. We recognize and applaud the fact that much work has been done in many economies to try and implement the System. Nevertheless, we feel that much more can be done within APEC to fully embrace the AFS. ABAC stands ready to work closely with APEC on this issue and plans to put special emphasis on the AFS and food issues from now through the 2009 Leaders’ Meeting.

Recommendations

- Renew the commitment entered into by APEC Leaders in 1999 to bring the AFS into effect, and to instruct officials to review and update the AFS and develop policies and programs required for its effective implementation; and

- Renounce the use of embargoes or export restrictions as a means of addressing food shortages.

F. Facilitating Investment Flows

1. Investment Facilitation Action Plan

Enhancing investment flows in APEC economies is critical to growth and
economic integration. As these goals are central to successful business growth across the region and reflected in the newly agreed Investment Facilitation Action Plan (IFAP), ABAC strongly endorses the Plan. In implementing the plan, emphasis should be placed on improving transparency in investment rules and decision-making, in simplifying processes and in making doing business in the region easier. ABAC applauds the far-sightedness shown by Leaders in convening the first Ministerial Meeting on Structural Reform to implement LAISR by 200 and to securing the objective of regional economic integration. We endorse work on core elements of bilateral investment agreements and efforts to develop model investment chapters in RTAs and FTAs. Our support for and engagement in the work of the Investment Experts Group and the Economic Committee demonstrates ABAC’s commitment to enhancing investment flows in the region.

Measurable and realistic targets and indicators of progress will be integrated in the IFAP and ABAC will propose effective indicators to measure implementation progress and the real business benefits of IFAP actions. ABAC is impressed by the support being given by the World Bank, UNCTAD, the OECD and the International Law Institute in promoting and facilitating investment in the region.

Recommendations

- Ensure that investment facilitation actions under the IFAP focus on improving transparency in rules and decision-making, simplifying processes and in making doing business in the region easier, and on model measures to promote the convergence of investment chapters in RTAs and FTAs between regional economies;

- Place emphasis on critical linkages which occur between the IFAP and measures arising from the Ministerial Meeting on Structural Reform in securing regional integration; and

- Continue to collaborate with major international agencies in promoting and facilitating investment.

2. Investment Facilitation in Financial Services

Financial services are growing rapidly in the region and liberalizing services is critical to achieving the Bogor Goals. In 2006, ABAC presented to Ministers and Leaders a series of checklists of goals and best practices to be used in the WTO negotiations on financial and other services. These checklists were a guide or benchmark to judge offers made or received by economies and were also highly relevant to domestic policy decision-making to improve investment flows. Building upon the 2006 “Checklists”, this year, ABAC has reviewed the financial services checklist to reflect best practices and goals for the securities industry.

Recommendation

- Review the checklist and consider instructing WTO negotiators to use them to further their deliberations in financial services in the securities sector, and implement the goals and best practices in the domestic policy framework for investment in securities services in APEC economies.

G. Facilitating Trade Flows

1. Movement of Goods

APEC economies prosper through profitability of their export sectors. As the region becomes an increasingly dominant global economic force, the challenge to reconcile border management regimes and trade growth assumes higher priority.

Removing impediments which impact on the efficient movement of goods at the border is therefore critical to business in the region. Regional business cannot maximize the benefits of improved market access and reduced tariffs, without efficient and cost effective border management regimes that enhance the ease and speed of moving goods and services among APEC economies.

Regional business favors a border regime that has minimal impact on the flow of goods and people but with maximum penalties for those who do not comply. A single-entry point for all regulatory
requirements and seamless data-sharing would help constrain compliance costs, supporting the growth of regional supply chains and economic integration.

**Recommendation**

- Accelerate the implementation of the “Single Window” approach across the Asia-Pacific region with adherence to recognized international instruments and uniform standards which increase international interoperability.

2. **TFAP II and KPIs**

Given that the objective of the Second Trade Facilitation Action Plan (TFAP II) is to facilitate trade, ABAC has promoted the value of utilizing Key Performance Indicators (KPIs) for measuring savings in time and transaction costs of the actions under TFAP II. ABAC has provided what it sees as suitable KPIs for particular APEC sub-fora whose work is directly related to business and will work with the sub-fora in the implementation of KPIs.

**Recommendations**

- Ensure that TFAP II outcomes are relevant to actual business practices; and
- Incorporate the business perspective in assessments of TFAP II implementation.

3. **Trade Security**

ABAC is concerned about a sudden and an excessive proliferation of trade security schemes in recent years which may have hampered smooth customs processes. While recognizing the importance of trade security, ABAC considers that enhanced trade security can and must be compatible with improved facilitation. Therefore, in order to balance the need to maintain secure borders with the need to facilitate trade, it is important that APEC economies adopt a “holistic” approach toward the development of trade security regimes.

**Recommendations**

- Develop a methodology for mutual recognition of Authorized Economic Operators (AEOs) sanctioned by other member economies to avoid inconsistent, redundant and/or duplicative requirements and audits for AEOs;
- Refrain from implementing trade security regimes that will significantly hinder shipments either due to time or prohibitive costs; and
- Address any such costs through countervailing measures such as provision of finance for expensive equipment and capacity building assistance.

4. **Behind-the-Border Issues**

ABAC has welcomed APEC Leaders’ recognition that closer regional economic integration requires closer attention to “behind-the-border” issues that impact on trade and commerce. The APEC Ministerial Meeting on Structural Reform in Melbourne in August has initiated a program of action in APEC and ABAC to address issues such as competition policy and regulatory reform. ABAC endorses the outcomes of the Ministerial Meeting and recommends them to Leaders.

ABAC strongly supports the Private Sector Development Agenda (PSD) launched by the APEC SME Working Group (SMEWG) to promote better regulatory and business practices. However, the related capacity building program should be accelerated with participation by both policy officials and those responsible for implementation. A coherent APEC approach is needed, which calls for the highest level of collaboration and cooperation among relevant APEC agencies. ABAC seeks appropriate opportunity at PSD workshops to provide a regional business perspective on planned new regulations to help address behind-the-border issues.

5. **Business Mobility**

It is clear that business mobility is crucial to promoting trade and investment. When business people do not meet, there is no business. Moreover, delays in travel because of visa requirements and immigration control exact a very real cost to businesses.
The APEC Business Travel Card (ABTC) scheme resulted from efforts by ABAC in 1996 to call attention to this fact.

Since the ABTC was introduced in May 1997 by Australia, Korea and the Philippines, the scheme has grown steadily. At the end of 2006, the United States indicated its intention to participate in the scheme, and as of now, has already started to participate as a “transitional” economy. In 2007, Mexico joined the scheme and the number of member economies reached 19. The gradual expansion of participating economies is the tangible evidence that APEC’s “pathfinder approach” is successful and trustworthy. However, some calculations reveal that the number of ABTCs to be issued in the next five years could increase ten-fold and ABAC believes the scheme has reached a key stage where its operational conditions can be further promoted and improved, while maintaining security.

Recommendations

- Continue to improve the operation of ABTC in participating economies, such as priority processing, further shortening the processing time for pre-clearance, extending the term of the validity of the card, providing seamless validity at the time of passport renewal, improving online services, ensuring definite recognition of ABTC at airports, and providing clearly marked ABTC lanes;

- Encourage transitional and non-participating economies to fully join the ABTC scheme through a minimum transition period (three year maximum) to eliminate cardholder confusion and facilitate the full participation of these economies;

- Provide sufficient capacity building for immigration officials to avoid confusion at airports;

- Publicize changes to ensure widespread awareness among cardholders and to avoid confusion both at the individual economy and APEC-wide levels; and

- Consider utilizing new technology such as a “Contact-less” chip, which would allow ABTC to store a cardholder’s biographic data, so long as it provides benefits even for economies with fewer cardholders, and is proven to be cost-efficient.

6. Harmonization of Standards

ABAC is building momentum towards harmonization of standards across the region. It has been utilizing some research on standards and capacity building across the region to advance an APEC-wide initiative on emergency management standards for security of critical infrastructure, a global initiative on the creation and introduction of disaster and emergency procedures. The outcomes from this project will be reviewed as to their possible value as a template for future work in other sectors.

H. Ensuring Access to Labor

With intensifying globalization and accelerating demographic changes, business is increasingly experiencing a marked shortage of skilled and lower skilled labor. The accelerating labor flows are becoming a permanent structural feature impacting APEC economies and could have the potential to be a source of tension that could affect business activity. From a business perspective there would be value in discussion in APEC on steps to manage issues surrounding international labor mobility in parallel with ongoing efforts in the region to facilitate the free flow of goods and investments.

Considerable progress has been made in liberalizing trade and financial flows. However, progress in labor mobility has been limited. An initiative in labor mobility would be consistent with the goals of APEC and greatly enhance the regional integration process.

ABAC has undertaken a study with PECC to assess the economic and business implications of labor mobility, identified common challenges and proposed possible cooperative responses including:

- Strengthening national and regional data and policy analysis in order that APEC economies and stakeholders can have a fuller understanding of labor mobility and their importance;

- Building capacity in labor mobility...
management at national and regional levels; and

- Sharing best practices on circular migration, reducing transaction costs for temporary workers, technology transfer and training, pension portability and facilitating social adjustments and others.

**Recommendation**

- Include in APEC’s 200 Agenda a work plan aimed at addressing issues that would enhance the benefit to APEC economies of labor mobility, ease adjustment problems associated with labor mobility, strengthen the transfer of human skills, overcome increasing demographic and labor imbalances and provide protection and enhanced well-being for temporary workers. ABAC and PECC are willing to join APEC in this program by sharing our knowledge, analyses and conclusions with APEC officials.

I. **Boosting Innovation**

**Intellectual Property Rights Protection**

(a) **Patent Cooperation and Enforcement**

In recent years, the increasing speed of knowledge acquisition and IP development, as well as the expansion of the global marketplace, have led to a surge in the number of worldwide patent applications. This has been accompanied by an increase in non-resident patent applications (patents filed in multiple economies). According to the World Intellectual Property Organization, in 2006, the number of patent applications world-wide reached 1,660,000, of which 77% were non-resident filings. The rapid growth in patent filings world-wide has increased the demand for both volume and capability of resources needed to assess these filings, has strained individual patent offices, and -- unless addressed -- could stand as an impediment to innovations.

Improvement in the patent application and examination processes will surely help, particularly in those economies with significant increases in new patent applications. Measures such as the adoption of a common patent application format, generally following the Patent Cooperation Treaty (PCT) standard, will reduce burdens on offices and filers and promote electronic filing and prosecution. Efforts to encourage and facilitate the sharing of search results similarly will serve to streamline the patenting process. Moreover, such measures will reduce costs for applicants as well as patent offices, promote certainty and consistency in outcomes, and reduce delays in the processing of applications. The US, Japan and European patent offices have been trying to leverage the work-search and examination done by other offices to avoid duplication and increase efficiency in processing. This effort could serve as a reference model for a pathfinder initiative within APEC to share knowledge and, thus, improve the quality and timeliness of patent approvals.

Also important to supporting innovation is the commitment by APEC economies to ensure that, once approved, patented products are protected from copies until expiration and, likewise, that copiers are not allowed to rely on the safety and efficacy data of the originator to gain marketing approval. Restoration of some portion of the patent time lost to administrative delays would also demonstrate support for advances in technology.

**Recommendations**

- Pursue efforts to increase cooperation in exchanging information relative to the examination and issuance of patents so that work-search and examination conducted in one economy can be applied to the patent filing process in another economy;

- Encourage patent experts in the APEC region to have a workshop for the analysis of the feasibility of a common patent application format according to the current patent status;

- Encourage greater investment in innovation through capacity building assistance from developed APEC economies to establish legislation/regulation to prevent marketing approval of patent infringing products and reliance by infringers on safety and efficacy data provided by originator companies; and

- Establish a pathfinder initiative to pursue related issues in the near- and long-term.
(b) Signal Theft

The 2007 declaration of APEC Ministers and the 2008 Ministers Responsible for Trade (MRT) Meeting Chair’s Statement affirmed a continuing commitment to the protection of intellectual property rights and, for the first time, called upon participating economies to direct attention to satellite and cable signal theft. APEC urged economies, in accordance with international obligations and legal systems, to explore ways to effectively address this problem, which harms copyright owners and broadcast and cable industries and exacts a toll on government coffers in the form of lost tax revenues.

**Recommendation**

- Give effect to APEC’s 2007 Ministerial Declaration and the 2008 MRT Meeting Chair’s Statement regarding theft of broadcast signals, through further documentation of the nature and extent of the problem, the development of guidelines and best practices and capacity building activities through public-private sector workshops, in order to prevent the unauthorized redistribution of copyrighted content, including “free-to-air” digital terrestrial broadcasts, over various platforms including the internet.

(c) Technological Protection Measures

As information flows become more globalized and information increasingly drives economic growth in the region, APEC economies need to adopt policies that provide adequate legal protection to content creators and owners.

**Recommendation**

- Pursue the protection of digital contents for purposes of information security, privacy protection and copyright management by limiting circumvention of technological protection measures (TPMs) and prohibiting the sale and distribution of circumvention devices.

(d) Anti-Counterfeiting Trade Agreement

In response to the global proliferation and increasing sophistication of counterfeiting and piracy, a number of APEC Members will be pursuing an Anti-Counterfeiting Trade Agreement (ACTA). The envisioned ACTA is expected to include commitments in three areas: (i) strengthening international cooperation; (ii) improving enforcement practices; and (iii) providing a strong legal framework for IPR enforcement. The discussions are in their initial stages and need not be duplicated in APEC. However, APEC should welcome timely opportunities to understand developments in the ACTA negotiations and how they can contribute to broadening the opportunities inherent in the Information Society.

**Recommendation**

- Promote and encourage a dialogue with partners who are working on the new Anti-Counterfeiting Trade Agreement so that APEC members recognize the importance of the ACTA.

(e) Sharing Information for IPR Counterfeit Enforcement

APEC member economies developed six Model Guidelines based on the APEC Anti-Counterfeiting and Anti-Piracy Initiative which was endorsed in 2005 and have made efforts to protect intellectual property rights and strengthen their own enforcement systems. Despite the recent efforts of industry, governments and various international organizations including APEC, the damage caused by counterfeiting and piracy has not diminished. On the contrary, the counterfeiting and piracy “business” has become international, complex and sophisticated.

Companies that are active in IP protection worldwide have accumulated a wealth of information related to international specialization and sophisticated methods of counterfeiting and piracy. It would contribute to an effective response if this information could be brought together to facilitate joint countermeasures by companies and industry organizations, and collaboration with appropriate authorities in efficient and effective enforcement action. Today, some industrial organizations, and government organizations in some economies have already started such collaboration to put in place effective and efficient countermeasures. The efforts and achievements differ among APEC
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2.

Improving health outcomes in APEC economies is an important shared goal of business and government. ABAC recognizes that a healthy workforce is a more productive workforce. In order to meet the increasingly complex disease challenges facing APEC economies, it is critical that the life sciences sector continue on the path of innovation.

Recommendation

• Support policies that enable investment and promote innovation in life sciences.

J. Promoting ICT-Enabled Growth

ABAC is encouraged by the progress that APEC has made in advancing the ICT-Enabled Growth Initiative since ABAC recommended its implementation in 2006. Specifically, ABAC endorses efforts to develop the Digital Prosperity Checklist as a tool for guiding economies in the implementation of ICT-related policies designed to enhance economic growth, including the APEC Data Privacy Pathfinder, Technology Choice Principles Pathfinder and others.

1. Closing the Digital Divide, Creating Digital Dividend

Effective utilization of ICT increases productivity and will continue to be encouraged. However, access to and adoption of ICT are not sufficient to close the digital divide, but the creation of socio-economic value or digital dividend through effective utilization of ICT and through the multi-stakeholder partnerships is key to closing the digital divide and thus reducing poverty as per the United Nations Millennium Development Goals (MDGs).

The APEC Telecommunications and Information Working Group (TEL) has developed various programs to close the digital divide and has successfully addressed some ICT access and adoption issues. However, a number of areas with regard to the creation of socio-economic value and to the multi-stakeholder partnerships need to be improved.

Recommendations

• Increase coordination amongst the multi-stakeholder partnerships of government, private sector, international organizations and civil society; and

• Provide a more effective system of evidence evaluation and monitoring with new emphasis on indicators measuring socio-economic value.

2. Information Technology Agreement

More than a decade ago, APEC Leaders in Manila sent the global trading system in a new direction by agreeing on a far-reaching Information Technology Agreement (ITA) that eliminates tariffs on information technology products among trading partners that account for nearly 95 percent of trade in such products. It was the first global sectoral agreement that required uniform coverage and given the dynamic nature of the sector, contained provisions that ensured continuation of the ITA treatment for products that benefit from changes in technology. APEC is proud of its leadership
in this effort and continues to be concerned that maintenance of the ITA treatment remains an essential plank in APEC’s work in the technology sector.

**Recommendation**

- Strongly support continued efforts to preserve the integrity of the Information Technology Agreement and its coverage, which was negotiated initially in APEC.

3. **Tariff Elimination for ICT/Electronics and Electrical Products**

If the ICT/Electronics and Electrical Products sectoral talks under the framework of the WTO Doha Development Agenda (DDA)’s Non-Agricultural Market Access (NAMA) negotiations are concluded successfully, further expansion of the trade in this sector can be expected. Referring to the success of the ITA, which has increased availability of the IT products, mitigated the digital divide, made people’s lives more convenient and affluent, and brought about the rapid growth of the ICT industry, APEC needs to make every effort to realize tariff elimination in the ICT/Electronics and Electrical sector, and thus seek further prosperity of the APEC region.

The “de facto” integration has been progressing in East Asia, as multinational companies that belong to the ICT/Electronics and Electrical sector, among other manufacturing sectors such as automotive sector, have been forming intra-regional production networks, and governments are following this move through institutionalization. This “de facto” integration can be considered as an important preceding example for the regional economic integration of APEC. The realization of tariff elimination in the ICT/Electronics and Electrical sector is also expected to be a driving force for the regional economic integration of APEC.

**Recommendations**

- Actively support and exercise leadership in the ICT/Electronics and Electrical Products sectoral talks under the framework of the WTO DDA NAMA negotiations; and
- Encourage all member economies to actively participate in the negotiations and to become participants of the ICT/Electronics and Electrical Products sectoral agreement so that it may be established as an integral part of the successful conclusion of the DDA.

4. **Technology Choice Principles**

In 2006, to advance the 2002 Leaders’ Pathfinder Statement to Implement APEC Policies on Trade and the Digital Economy, economies agreed to work together to promote the principles of technology choice in a market opening, trade-liberalizing manner that spurs the cycle of innovation and opportunity and promotes economic development across the region. To date, 15 APEC economies have joined the initiative. These principles underpin much of APEC’s future work plan, and APEC is uniquely placed to promote further acceptance and adherence to these principles by APEC economies.

**Recommendations**

- Unanimously adopt the Technology Choice Pathfinder Principles;
- Conduct a survey of APEC economies on the current status of legal and regulatory regime vis-à-vis the principles; and
- Conduct a study on the long-term economic growth and innovation benefits of adherence to the principles.

K. **Addressing Energy Security and Climate Change**

1. **Meeting the Climate Change Challenge**

Many of the aspirational challenges expressed in the “Sydney APEC Leaders’ Declaration on Climate Change, Energy Security and Clean Development”, endorsed on 9 September 2007, such as commencement of a negotiation process for all economies’ participation, the importance of setting a long-term goal, and the significance of innovative technology development, were reflected in the Bali Action Plan which was endorsed at the 13th Conference of
the Parties (COP13) of the United Nations Framework Convention on Climate Change (UNFCCC) held in Bali, Indonesia, from 3-15 December 2007. At COP13, members also reached agreement to set a new negotiation process to work towards the adoption of a new framework for a post-2020 arrangement by 2009.

It is critical to pursue energy efficiency and conservation internationally which has an immediate effect and provides a cost-effective solution that enables balanced economic growth and environmental conservation. At the same time, a large reduction in greenhouse gas emissions must be realized by developing and disseminating innovative technologies.

In order to establish long-lasting global cooperation framework to tackle the climate change challenge, it is indispensable to give due consideration to the following three points: (a) global climate change is the result of the greenhouse effects accumulated in the past; (b) as a result of the increase of foreign direct investment, the number of factories located in developing economies has risen; and (c) per capita GDP energy consumption should also be taken into account.

**Recommendations**

- Ensure that the following conditions are met in implementing the Post-Kyoto framework under the UNFCCC: (i) participation of major emitters, (ii) setting and implementing equitable and fair targets for greenhouse gas emissions reductions, and (iii) acceptance of flexible and diverse approaches, taking into account each economy’s situation;

- Focus on energy efficiency to reduce greenhouse gas emissions. Each APEC economy should formulate its goals and action plans for improving energy efficiency, and a peer review mechanism should be established to mutually monitor their progress;

- Develop the concept of sectoral approach to facilitate sector-specific activities toward contributing to mitigation of the global warming effects;

- Enhance public and private efforts to collect and share verifiable and objective data and indicators on energy efficiency of major sectors upon setting goals and monitoring results;

- Move ahead on a public-private partnership toward research and development of new energy technologies, as well as to remove barriers in the sharing of clean energy technologies at a fair price; and

- Accelerate deployment, transfer and dissemination of existing energy-saving technologies by providing such incentives as low interest financing, tax benefits and rewards, which will help encourage investment by business and early adoption by consumers.

2. **Trade in Environmental Goods and Services**

APEC Leaders agreed in Sydney in September 2007 to review and discuss at their 2008 meeting the progress achieved in the WTO Doha Round on the liberalization of trade in environmental goods and services. For their part, Ministers requested officials to continue work in this field with a particular focus on the scope to help economies meet their climate and energy security objectives.

**Recommendations**

- Attach priority to trade in environmental goods and services in APEC’s liberalization agenda in 2008/2009;

- Promote practical ways of exchanging further information between public and private sectors and monitoring new developments, such as through participation in the APEC Market Access Group (MAG) panel discussions and workshops;

- Encourage, support and participate in work initiated in the MAG to build a regional database of up-to-date material on environmental trade and tariff regimes; and

- Request Ministers Responsible for Trade for wider flexibility in the WTO negotiations on environmental goods and services.

ABAC has begun developing a five-year strategy for increasing energy security in the region. With the likelihood of sustained elevated prices for energy resources, it is now extremely critical for Leaders to reach consensus on, and begin implementing, policies that will lead to narrowing the gap between supply and demand growth of energy resources. ABAC will provide Leaders and Ministers over the term of five years with a comprehensive plan to advance policy development, which will include measurable objectives for improvements in the areas of efficiency, technology development, and energy portfolio diversification.

L. Deepening and Strengthening Capital Markets and Pension System Provisions

This year, ABAC has concentrated its efforts on two initiatives with regard to financial markets: deepening and strengthening capital markets and pension system provisions. ABAC has placed emphasis on taxes on capital markets, and on measures to enhance investment flows in financial services and to maintain open markets. Our recommendations are closely integrated with initiatives to deepen and strengthen capital markets, namely (i) financial measures to decrease greenhouse gas emissions, (ii) the rationale for and ways to promote microfinance and social inclusion, and (iii) consumer finance in market development.

Current efforts by APEC economies to deepen and strengthen capital markets will dampen market volatility and allow economies to withstand future financial shocks, such as the current credit contraction, by providing a diverse and broad supply of liquidity to those entities seeking funds. The recommendations listed below include specific areas of capacity building initiatives on local bond markets in the region, investment facilitation in financial services, commercializing microfinance, and fiscal reforms to encourage capital market development.

1. Taxes and Financial Integration

Taxes matter for financial integration and they can raise barriers both for financial development and global financial integration. In response to concerns expressed last year by Ministers about taxes and the impact on financial integration, ABAC recommends a review that would identify taxes that are inefficient from an economic point of view in each member economy or by regions. Such a review would be most effective if it were supported by international institutions such as the OECD or the IMF. This could be supplemented by survey of APEC economies and the analysis incorporated into APEC “IAP Peer Studies Reports”.

2. Strengthening Pension Systems

APEC economies, both developed and developing, are facing a variety of new challenges related to disproportionate population ageing and the funding and management of retired workers’ pensions. Costs related to ageing are latent liabilities of the state, and are a result of its roles as both employer and provider of social safety nets. ABAC recognizes that savings rates, investment levels, and financial market strength vary in individual economies, and therefore, there is no single prescription available for addressing this challenge. For all economies, it is important to recognize that pay-as-you-go social security structures have inherent weaknesses, should be replaced over time with some form of funded mechanisms. For all economies, it is essential that governments urgently attach importance to the significance of social security systems.

3. Financial Inclusion and Microfinance

In many developing economies, large portions of the adult population – as high as 60-70 percent in certain cases – remain without access to financial services. Microfinance has emerged as a potent tool to address this issue, and its ability to do so has grown in recent years with the expanded use of technology and financial innovation, increasing sophistication of microfinance institutions, growing linkages to capital markets and policy reforms. The development of microfinance remains uneven across the region, underscoring the significant potential of regional cooperation to assist economies in providing a favorable environment for promoting financial inclusion through microfinance.
Government has an important role to play in the process of promoting financial inclusion and can accelerate progress toward financial inclusion by identifying the most critical policy solutions. A study that examined alternative policy measures to promote financial inclusion identified six sets of access policy solutions that governments in the region could consider. These refer to policies and regulations governing correspondent banking agents, mobile phone banking, entry barriers to the financial sector, the governance and management of publicly-owned financial institutions, financial identity regulations and financial consumer protection.

**Recommendation**

- Launch a policy initiative to promote financial inclusion, focused on providing an enabling legal, policy and regulatory environment for microfinance, in collaboration with ABAC. In developing this initiative, APEC Leaders and officials should consider the conclusions of the ABAC/Advisory Group Workshop Report “Commercially Sustainable Microfinance: A Strategy for Promoting Financial Inclusion in APEC.”

4. **Consumer Credit and Consumer Protection**

The development of a strong financial sector is an underlying consumer-driven economy, which will compliment financial inclusion. Corporate activity and macro-economic growth ultimately trace their source to consumer activity, which generates the demand for corporate products, and in turn for more complex financial services that facilitate the development of those products. Without the conditions for robust consumer demand, broader economic growth becomes more difficult. Furthermore, risk management is vital for a healthy consumer and commercial financial services market. ABAC recommends that economies should concentrate on making available accurate, robust, full-file credit bureaus and credit information resources. Such systems allow the deployment of superior risk analytics, which can more efficiently allocate capital to minimize losses, extend more capital to credit worthy borrowers, and end inefficiencies related to cross-subsidization of credit risk.

5. **Environmental Finance**

There is a significant gap between the current scale of financial support and the levels required to achieve a global low carbon growth trajectory. Therefore, it is critical to mobilize private funds.

**Recommendations**

- Eliminate various barriers and impediments hindering the expanded flow of private funds into these fields and provide incentives such as low financing, tax benefits and rewards; and

- Promote public-private partnership to mitigate risks specific to environmental finance through credit enhancement by international and public financial institutions.

6. **Sovereign Wealth Funds and National/Security Interests**

The growth of sovereign wealth funds has become an important policy issue in the cross-border movement of capital. Similarly, there is increasing interest in policies relating to controls of capital inflows on security or national interest grounds. ABAC is concerned that to gain the full benefit of capital movement, markets should be open to such movements; the benefits of sovereign wealth funds in the recapitalization of some global banks is an example of the value of such flows at a time of constraints on global liquidity.

At the same time, ABAC appreciates the concerns arising from the fact that some funds lack transparency and accountability. ABAC also is aware of the interests that economies have in foreign investment which may have an impact on national security. There is value in seeking a balance in economies’ policies in these areas and in upholding the international investment principles of non-discrimination, national treatment, accountability and predictability.

Important discussions are on-going on these matters in the IMF and the OECD and with other international agencies, aimed
at reflecting the balance of interests just noted. An agreement between the US, Singapore and Abu Dhabi on principles that host and investing countries in that agreement should adhere to, provides a sound example of balancing of interests outlined above.

Recommendations

- Support international efforts to ensure (i) the orderly development of sovereign wealth funds and the objective of improved disclosure and data collection of funds that comply wholly with the laws of host economies, and (ii) host economy laws and policies provide for non-discriminatory treatment, predictable investment environments and avoid intrusive policies in regard to such funds; and

- In respect of policies relating to national/security and other related investment interests, commend work being undertaken in the OECD and participate in on-going discussions aimed at developing policy guidelines and best practices in these matters.

7. Capacity Building in Financial Services

ABAC calls on APEC Leaders to work with Finance Ministers to further deepen regional public-private sector cooperation in capacity-building for the development of financial markets. In particular, ABAC endorses the 2008 Report of the Advisory Group on APEC Financial System Capacity-Building and urges the adoption and implementation of the following recommendations from this Report.

(a) Bond Market Development

Following the successful First APEC Public-Private Sector Forum on Bond Market Development in May 2007 in Melbourne, the Second Forum was held in Cusco, Peru on 9 July 2008. ABAC endorses the conclusions of this Second Forum, which focused on the bond markets of Chile, Mexico and Peru. ABAC sees much value in the sharing of bond market development experiences among economies, and the dialogue between public and private sectors.

Recommendation

- Continue holding the APEC Public-Private Sector Forum on Bond Market Development, with a Third Forum to be held in Singapore in 2009.

(b) Infrastructure Public-Private Partnerships

Successfully promoting infrastructure public-private partnerships (PPPs) requires a transparent process that can reduce uncertainty on the part of the private sector and improve understanding of the process on the part of the public sector and communities. It also requires steps to address the challenge of limited skills, particularly in the financial analysis of projects and negotiation of appropriate frameworks. There is much potential for greater public and private sector involvement from APEC economies in ongoing work in this field, such as the work of the ADB, ADB Institute, IFC and PECC, through a coordinated regional approach. Training policymakers and regulators is needed to deepen the skills base in the region’s economies.

Recommendation

- Support the establishment of a Regional Infrastructure Dialogue which should include key representatives from government, private sector and host communities, with the objectives of strengthening planning capabilities for infrastructure requirements and promoting best practice governance arrangements within government and the private sector in the region, and support capacity building training initiatives for the region’s policymakers and regulators in infrastructure management and financing arrangements.

(c) Strengthening Regional Financial Stability

The failure of regulators and markets to anticipate the degree of turbulence arising from the sub-prime crisis underscores the need to better understand ongoing innovations and developments in financial markets. There is a need for responses that strike a healthy balance between regulation and transparency on one hand and fostering efficiency and innovation on the other.
Keeping in mind that the nature of financial crises is likely to continue changing as the financial landscape evolves, further efforts are needed to help deepen understanding by regulators and financial market players of changes in the financial environment, particularly in light of the sub-prime crisis, as well as improve collection and dissemination of data on private sector financial flows to enhance early warning systems. The Advisory Group is working with finance system specialists in cooperation with the ADBI and other agencies to review ways to enhance reporting and dissemination of data of relevance to both the public and private sectors.

**Recommendation**

- Consider ways to promote collaboration between public and private sectors in improving understanding of current financial markets and the collection and dissemination of data on private sector financial flows and encourage official involvement and support for the Advisory Group’s work with the ADBI, IMF and other groups on these matters.

**Improving Credit Reporting Systems**

Studies examined by ABAC provide strong evidence that greater participation by data furnishers in a private consumer credit reporting system and the use of full-file (as opposed to negative-only) and comprehensive (as opposed to segmented) credit reporting promote increased and more socially equitable access to credit and improved lending performance. Concerns about privacy, identity and confidentiality need to be addressed, through legal and policy reforms and the use of technology, to ensure public support for such systems.

**Recommendation**

- Consider measures to promote full-file comprehensive reporting to private credit bureaus that also effectively address concerns about privacy, identity and restricted distribution of confidential data and ensure public support for such systems, through legal and policy reforms and the use of technology.

**Strengthening Risk Management and Governance in Banking Systems**

ABAC continues its work in collaboration with other regional institutions to promote effective implementation of Basel II and governance in banking systems. This year marks the fourth annual dialogue between bank regulators and the region’s financial industry hosted by the SEACEN Centre and co-organized by ABAC. Sustained participation by commercial banks and the region’s bank regulatory authorities is key to ensuring robust risk management systems and governance in banking systems.

**Recommendation**

- Support continued participation of banking supervisory agencies in the annual regional public-private dialogue on Basel II implementation and strengthening banking systems hosted by SEACEN.

**M. Promoting Corporate Social Responsibility**

ABAC agrees that Corporate Social Responsibility (CSR) is an important and wide ranging issue. ABAC members represent a wide range of industries and economies at various stages of economic development. As such, there are many different perspectives on the topic of CSR. Nevertheless, ABAC has identified three common understandings with regard to CSR.

CSR is strictly a business activity, driven by corporate values and circumstances unique to each company and the communities in which they operate. ABAC believes that good corporate citizenship is good for business and enhances a company’s position and value; but it must be voluntary, based on each company’s own values and judgment, and should not be mandated or legislated.

CSR is not a way to have business fund activities and undertakings that government should rightly fund. Services such as schools, health facilities, infrastructure and other basic needs are fundamental responsibilities of governments.

CSR can include a range of voluntary activities and that will vary widely from industry to industry; but understood broadly, CSR includes
those activities companies undertake to improve living, working, or environmental conditions for its employees, its customers, and its neighbors in the communities in which they operate.

ABAC will undertake further work on CSR, including a showcase of best practices in CSR currently underway in APEC economies, an inventory of available global resources on CSR practices, and an inventory of CSR principles, standards, codes of conduct, and definitions.