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**SHARING DEVELOPMENT  
TO REINFORCE  
GLOBAL SECURITY**

**2002 ABAC REPORT TO APEC ECONOMIC LEADERS**

## **Index**

- I. ABAC Letter to President Vicente Fox
- II. Executive Summary
- III. ABAC Recommendations
  1. Trade Facilitation and Antiterrorism
    - i. Trade Facilitation
      - Trade Facilitation Action Plan
      - Standards, Mutual Recognition and Conformance
      - APEC Food System
      - Strengthening the Business Environment Through Judicial Training
      - e-Commerce Enabling Environment
      - e-Government Benefits to Business
      - Preventing the Growing Use of Non-Tariff Measures and Misuse of Anti-Dumping Measures
      - Strengthen IPR Enforcement
      - Improve the e-IAPs for Business Friendliness
      - Engage in More Dialogue and Partnership with the Private Sector
      - System of Formal Feedback from APEC to ABAC
    - ii. Antiterrorism
      - Cost and Availability of Insurance Cover and Curtailing Terrorism Financing
      - Movement of Goods and People
      - Technology to Strengthen Security
  2. Issues Affecting Micro-enterprises and Small and Medium Enterprises
    - SME Access to Financing
    - Micro-finance
    - Enabling Policy Environment for SME Growth
    - Promoting SME Partnerships
    - Using Technology to Access SME Information

### 3. Globalisation and Shared Prosperity

- Measures to Improve Corporate Governance
- Multilateral Trade Negotiations
- Trade in Services
- Explaining APEC and Globalisation
- Regional Monetary and Economic Co-operation
- Deepening and Broadening Capital Markets/Unidroit Financing Conventions
- Sovereign Debt Restructuring
- Capacity Building Initiatives for the Implementation of the Basel 2 Capital Accord
- Biotechnology
- Utilise e-Learning to Develop Human Resource

### IV. Annexes

- i. ABAC: Founding and Structure
- ii. Trade Facilitation Action Plan
- iii. ABAC Events in 2002
- iv. Trans-Pacific Multimodal Security System
- v. Glossary of Terms

## **I. ABAC letter to President Vicente Fox**

His Excellency President Vicente Fox Quesada  
President of Mexico  
Chair, Asia Pacific Economic Co-operation 2002  
Mexico

Dear Mr. President:

On behalf of the APEC Business Advisory Council (ABAC), we are honoured to present you with the 2002 ABAC Report to APEC Leaders.

In the last year, the foundations of the world economy have been shaken by cowardly terrorist attacks and unprecedented corporate scandals. In these times of dramatic change, APEC must band together to ensure a stable and prosperous future for all of our citizens. We must remain vigilant in the face of adversity and APEC has a historic opportunity to lead the global community back onto the road of security, peace and prosperity. For these reasons, ABAC has chosen “Sharing Development to Reinforce Global Security” as its theme for 2002.

We applaud the APEC Leaders for their courage and vision in bringing us to the halfway point towards Bogor. The road ahead presents significant challenges. Therefore, APEC must reenergize itself to build the momentum necessary to ensure we stay on track. As the voice of the business sector in APEC, ABAC has a significant role in this process.

In 2001, ABAC modified its work schedule and presented a “Pre-Report to Ministers”. The purpose of the Pre-Report was to increase ABAC’s interaction with ministers and introduce the views of the private sector in the APEC process in a more timely fashion. This Report puts in a wider context the recommendations contained in the Pre-Report.

We are hopeful that the recommendations contained in this Report will lead to specific actions by the respective APEC governments and we look forward to a meaningful dialogue in Los Cabos.

Very truly yours,

Mr. Javier Prieto  
ABAC Chair  
Senior Vice President of External Affairs  
CEMEX Group  
Mexico

ABAC Co-Chair  
Mr. Qin Xiao  
Chairman  
China Merchants Holdings Co., Ltd.  
People's Republic of China

ABAC Co-Chair  
Dr. Viphand Roengpithya  
President  
Viptel Co., Ltd.  
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## II. Executive Summary

There is considerable uncertainty about the global economy heightened by the collapse of asset prices and major corporate governance failures which threaten to slow down growth further and to delay recovery. Since September 11, 2001, concerns about security have also affected business decisions as well as the flow of commerce. ABAC believes that APEC should work with a sense of urgency to support the recovery of the global economy. A key step is to help rebuild trust in the global economy that has been eroded by poor corporate governance, the perceived inequality in access to the benefits of globalisation and concerns about security.

ABAC's 2002 work programme responds to the challenges of making the Asia-Pacific region a more secure place in which to live, for investments to flourish, and for businesses to grow. At the same time, our goal is to ensure that the benefits of our endeavours extend to all levels of society recognising that security and development are mutually reinforcing. APEC's vision of a community of shared development and prosperity, underpinned by trade liberalisation and capacity building mutually reinforcing each other, has thus become even more relevant in these difficult times. This approach ensures that trade and investment play their full part in promoting economic growth for all its members.

To reflect the challenges of uncertainty in the business environment, the new focus on security, and equitable access to the benefits of globalisation, ABAC chose as its theme for 2002 **“Sharing Development to Reinforce Global Security.”**

The following are ABAC's key messages to Leaders under this theme:

- Now is the time for APEC economies to reaffirm their commitments to the Bogor Goals and to undertake initiatives to secure desirable outcomes from the WTO negotiations at the earliest possible time. These actions should continue to be balanced with a more focused capacity building programme aimed at promoting the growth and the competitiveness of its developing member economies.
- Facilitation of trade and investment is central to APEC's mission. Harmonising standards and eliminating impediments to the conduct of cross-border business is essential to encouraging the free flow of people, goods, services, long-term investments, and know-how.
- Terrorism has effects that go beyond the political arena and impact directly on the entire business environment. It stifles and erodes business confidence. The APEC community must therefore join forces to enhance security, curtail terrorist financing, and develop effective management processes to resist, respond and recover from crises. Both the public and private sectors must address these challenges and implement effective security solutions that also respect the interests of legitimate commerce.

- As recent events have demonstrated, good corporate governance and transparency are essential underpinnings to the efficient functioning of financial markets and the overall economy. APEC economies must improve corporate governance to restore confidence and stimulate economic recovery in the region.
- Small and medium enterprises (SMEs) play a vital role in all APEC economies. SMEs contribute to economic growth, job creation, regional and local development, social cohesion and poverty reduction. Particularly during this period of economic uncertainty, it is vital that APEC Leaders work to free the entrepreneurial spirit in our people by eliminating impediments to entrepreneurship and small business development. Micro-enterprises, which provide a business approach to the alleviation of poverty and contribute to a more inclusive world economy, should be encouraged by APEC member economies.

To give substance to these messages, ABAC calls upon Leaders to:

- Develop a concerted action plan to be pursued by APEC members participating in the negotiations on the Doha Development Agenda. While all issues on the negotiating agenda are of interest to business people, priority and concentrated attention is needed to regain the momentum for trade liberalisation in those areas of negotiations where the greatest gains for the greatest number can be anticipated. In our view, urgent action is required to free up access and eliminate export subsidies in agricultural products; free up access and reduce tariffs on tropical products; liberalise the services sectors; lower high tariffs on manufactured products including textiles and apparel; eliminate the misuse of anti-dumping actions and trade restrictive non-tariff measures. Priority must also be given to enhancing the capacity of members to negotiate effectively, implement WTO commitments, and lock-in gains from liberalisation of trade and investment.
- Take urgent action to restore investor confidence by measures to improve corporate governance standards and practices in member economies and promote the transparency of policies affecting trade and investment. In particular, APEC economies should move to adopt one set of internationally accepted accounting standards, implement measures to promote the highest standards of ethical corporate behaviour, audit independence and transparency and fairness in reporting.
- Create the regulatory framework and implement capacity building initiatives so that goods, business travellers, financial services, information and ideas would flow freely throughout the region while meeting security concerns. This will continue to be a major element in the work of ABAC as it contributes to the new initiatives launched by Leaders in the Shanghai Accord to reduce business transaction costs in the region by 5 per cent by 2006 including those identified by ABAC.
- Undertake concerted public and private sector action aimed at promoting economic growth; restoring confidence and integrity in financial systems, markets and companies; enhancing the international financial architecture and regional and sub-

regional co-operation in addressing financial challenges; and capacity building measures to assist economies and firms in adopting international standards and practices.

- Remove the impediments in the economic and business environment to free the entrepreneurial spirit in our populations through progressive programmes that allow micro, small and medium enterprises to flourish. Efforts must be redoubled to create an enabling policy environment for SME growth through reduced compliance costs, and improved access to information, technology, and financing. Effective development and delivery of micro-finance in developing economies can strengthen the growth of micro-enterprises.
- Expedite implementation of necessary laws and capacity building initiatives to create an enabling environment for e-commerce, meet agreed targets under the trade policies for the new economy initiative, broaden and deepen e-government applications drawing on private sector expertise to measure progress, and work with the private sector to develop concrete projects that can improve information communications and technology skills to enable broader participation and benefit from the digital economy.
- Encourage more public/private partnerships to realise the APEC vision. The Trans-Pacific Multimodal Security System (TPMSS) is an innovative example of how public/private partnerships between several APEC economies can promote business facilitation, customs modernisation, the use of intelligent transportation systems, capacity building and enhanced global security.
- Improve communication of the benefits of trade liberalisation and regional integration to our respective communities, to strengthen support for and generate momentum to achieve the Bogor Goals. ABAC finds the sectoral dialogues which APEC has begun with the private sector useful and urges their continuation. For its part, ABAC has implemented an aggressive outreach programme to articulate the benefits of globalisation, free trade and the unique role of APEC on the world stage.

APEC is at the halfway point towards the Bogor Goals. APEC must take decisive steps to reenergize itself and build momentum for the more challenging half of this journey. As the voice of the business sector in APEC, ABAC hopes that the recommendations contained in this report will contribute to the achievement of our shared goals.

### **III. ABAC Recommendations**

#### **1. Trade Facilitation and Antiterrorism**

Facilitation of trade and investment is central to APEC's mission. ABAC has always focused strongly on ways of reducing border restrictions impeding the conduct of business and limiting the movement of people, goods, services, information and capital. This will continue to be a major element in the work of ABAC as it contributes to the new initiative launched by Leaders in the Shanghai Accord to reduce business transaction costs in the region by 5 percent by 2006.

The repercussions from the September 11 attacks raised questions on the compatibility of measures permitting the free flow of goods, capital and people with necessary steps to protect against terrorism. ABAC is committed firmly to the view that the APEC goals for trade and other economic activity cannot be achieved in the absence of a secure environment. Security and trade facilitation are not in competition. Both are vital and both can and must be advanced in harmony. The key to success will be public and private sectors working together to develop and implement effective security solutions while utilising and respecting the interests of legitimate business. It is from this perspective that ABAC has addressed the crucial trade facilitation and security issues discussed in this section.

##### **i. Trade Facilitation**

###### **Trade Facilitation Action Plan**

ABAC welcomes and endorses the framework for the APEC Trade Facilitation Action Plan and schedule approved by Ministers Responsible for Trade for consideration by Leaders.

ABAC has made numerous recommendations for trade facilitation initiatives in the four target areas – customs procedures, standards and conformance, mobility of business people, and e-commerce. We strongly support the establishment in the Shanghai Accord of the target of reducing business transaction costs in the region by 5 percent by 2006. ABAC is ready to contribute private sector perspectives on the concrete actions and measures to be included on the trade facilitation action plan menu, and on the setting of objective criteria for measuring cost reductions.

ABAC is informing Ministers and Officials of areas of focus to be included in the Trade Facilitation Action Plan. These include past recommendations in ABAC Reports and issues identified in recent surveys and consultations in member economies (Annex ii).

## **Standards, Mutual Recognition and Conformance**

**Background:** The slow progress in harmonisation and/or mutual recognition of standards remains one of the most significant constraints to the growth of regional trade flows. ABAC is disappointed with the advances made to date in achieving “one standard, one test accepted everywhere” objective. The existence of different standards in different APEC markets adds significantly to the costs of doing international business.

**Current status:** While some progress has been made, not all member economies are on track to achieve the targeted 100 per cent alignment with international standards in the identified priority areas. Very little has been achieved with respect to mutual recognition. APEC needs to identify and resolve impediments to faster progress.

One explanation for the lack of progress lies in the fact that the standards and conformance infrastructure is unevenly developed across the region. ABAC sees a need for more human resource capacity building to facilitate developing member economies’ participation in international standards setting bodies. Capacity building is also required to build technical competence to the point where regulators have the confidence to co-operate actively and governments can move to the treaty status obligations of mutual recognition agreements (MRAs).

### **Action required:**

- Renew the commitment to aligning domestic standards with international standards according to an explicit timetable with explicit milestones.
- Stress the value of establishing a strong standards infrastructure in each economy and of participating actively in the international standards bodies, such as the ISO, IEC and Codex.
- Stress the importance of accelerating efforts to integrate APEC markets through the development and implementation of APEC-wide government-to-government mutual recognition agreements on conformance testing, in order to meet the target that all APEC member economies should participate in regional MRAs by 2005.
- Call on all APEC economies to adopt Codex food standards, to implement the Medical Equipment Regulatory Harmonisation agreed under EVSL and to promote greater co-operation on health care accreditation.
- Call on the APEC Secretariat to measure progress in participation in international standards bodies and the extent of harmonisation in a more consistent manner; to continue work to identify obstacles to faster progress; identify a next tranche of priority sectors, e.g. health and business excellence; and support capacity building for regional participation in standards setting bodies.

## **APEC Food System**

**Background:** In 1998 and 1999, ABAC urged the adoption of an APEC Food System. This is a blueprint for achieving rural development, liberalised agricultural trade and food

security. In 1999, Leaders approved the APEC Food System and ordered its implementation. In 2001, Leaders called for “accelerated implementation of the APEC Food System initiative.” In 2000 and 2001, citing concerns about inaction, ABAC made very specific recommendations designed to jump start implementation. In 2001, Ministers instructed Senior Officials to respond to ABAC’s recommendations. In 2002, ABAC sent a letter to Senior Officials expressing concern that responsibility for action on the APEC Food System was too diffused and urged the Senior Officials to find “ a structure within APEC that will take responsibility to reliably implement the AFS in the accelerated manner the Leaders have called for.”

**Current Status:** ABAC is hopeful that this year will see a more purposeful response from APEC bodies to the recommendations it has made on the APEC Food System.

**Action required:** ABAC invites Leaders to reaffirm their past support for the APEC Food System. Specifically, ABAC recommends: that Leaders declare the renunciation of the use of all food embargoes within APEC (per the original ABAC recommendation in 1999); that agricultural ministers become directly involved in the implementation of the APEC Food System; and that Leaders direct that implementation of the APEC Food System be made a chapter in the Individual Action Plans.

### **Strengthening the Business Environment through Judicial Training**

**Background:** A judicial system that effectively resolves conflicts in accordance with established legal norms and within the culturally defined notions of fairness in each economy is a vital element for business facilitation. In order to positively impact the institutional and human capacities of each economy’s judicial system, APEC member economies should contribute to a growing cadre of professional educators with enhanced skills and expertise in the area of judicial training. Local businesses and civil organisations should advise judicial training programme co-ordinators (planners) to take into consideration socio-economic and practical business phenomena. ABAC strongly believes that involvement of the private sector in legal education programmes is of critical importance.

**Action required:** ABAC recommends that Leaders endorse the development of a model judicial training programme for judges and magistrates in substantive areas such as intellectual property protection, unfair trade practices, competition policy, consumer protection, environmental law, e-commerce, international contracts, as well as in non-substantive areas including docket management, use of innovative technologies for the administration of justice, alternative dispute resolution, and codes of ethics. ABAC recognises that judicial reform and capacity building is an area where limited governmental resources can make a particularly substantial contribution to aiding democratic initiatives and business facilitation.

<p>“Promising Practices in Judicial Education”</p>
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This document outlines promising practices in judicial education. The recommendations outlined below offer guidance about how to promote the continuing education of new and experienced judges; they do not address the training and education a professional receives before selection as a judge.

- **Mandatory Orientation Programmes for New Judges.** All newly selected judges should be required to attend a new judge orientation programme, consisting at a minimum of one continuous week of courses designed specifically and exclusively for judges.
- **New Judge Orientation Programme Content.** The content of new judge orientation programmes should focus on the unique role and duties of the judge, promotion of judicial independence, ethical requirements, basic functions of all judges in the court system, and effective techniques for evaluating and ensuring adherence to culturally defined notions of fairness.
- **Substantive Education of New Judges.** Within their first year of judicial service, all new judges should be required to participate in an additional judicial education.
- **Ongoing, Continuing Judicial Education.** During their entire judicial service, all judges should be required to participate in ongoing, annual continuing education programmes.
- **Current and Emerging Issues in Law and Society.** All judges need programmes that focus on current and emerging issues in the justice system and society at large.
- **Incorporation of Ethical and Fairness Considerations.** All judicial education programmes should incorporate information about ethics limitations that apply specifically to the substantive content of the programme.
- **Assessment and Determination of Judicial Education Needs.** To ensure the independence of the judiciary, the content of all judicial education programmes should be determined ultimately by the judicial branch of government.
- **Codes of Judicial Ethics.** Actions of all judges should be guided by a mandatory, specialised code of judicial ethics that includes restrictions on judicial behaviour necessary to ensure fairness and the appearance of propriety in judges' actions.
- **Education and Ethical Requirements of Court Staff.** The fair and effective functioning of the judicial system depends on the continuing education of all non-judge staff who work in the courts. The crucial role of court staff demands that the judicial system adopt a Code of Ethics governing the conduct of court employees, with an effective enforcement mechanism.
- **Professional Judicial Education Staff.** The judicial system should employ professional staff to design and develop judicial education programmes and publications specifically for judges and court staff.

## e-Commerce Enabling Environment

**Background:** APEC's e-Commerce Readiness Assessment Initiative allowed economies, working with the private sector, to self-assess how well they are positioned to benefit from the digital economy and with the private sector develop effective strategies to move forward. Building on this work, the e-APEC Strategy includes specific actions to remove impediments to e-commerce. To support Mexico's emphasis on implementation, ABAC has informally reviewed progress in several areas important for e-commerce, recognising that other issues such as secure electronic payments systems, taxation, cyber crime laws, and competitive express delivery services have significant impacts as well on economies' ability to benefit fully from e-commerce.

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<sup>1</sup> Mr. Runner serves as Chief of Party of the National Center for State Courts (NCSC) Mexico-US Judicial Partnership for Justice project, based in Mexico City.

**Current Status:** Many APEC economies, including Hong Kong, Malaysia, Japan, Korea, Peru, the Philippines, the United States, Brunei, Singapore, and Canada have enacted legislation giving legal effect to electronic signatures; Chile and Chinese Taipei have legislative processes well underway. Methods for authenticating transactions that meet business requirements and are acceptable for legal and evidentiary purposes exist in most economies and a technology neutral approach and interoperability are important for effective authentication schemes. Consumer trust and privacy issues form important pieces of an e-commerce enabling environment; Mexico and Australia have drawn on Organisation of Economic Co-operation and Development (OECD) Guidelines on the Protection of Privacy to amend existing laws. The Global Business Dialogue on e-Commerce (GBDe) has developed guidelines for personal data privacy protection for voluntary application by Internet merchants, trustmark providers, and others. OECD Guidelines for Consumer Protection in the Context of Electronic Commerce have provided useful models as well as GBDe guidelines for developing trustmark programmes. ABAC encourages APEC's E-Commerce Steering Group (ECSG) to facilitate agreement by member economies on online consumer protection guidelines by the October 2002 APEC meetings. In the area of commercial disputes, alternative dispute resolution (ADR) mechanisms that are used in more traditional business areas are also available for online transactions in economies such as Hong Kong, Australia, Korea, Chile, and Singapore.

Japan is targeting 50 percent of SMEs engaging in e-commerce by end-2003 by developing "IT-literate" personnel within SMEs with advice and financial support of public sector bodies. This programme strengthens e-commerce infrastructure by distributing basic software and other computer tools, in part to improve consumer trust and privacy and encourages co-operation with academic institutions and industries. Additional information is outlined at <http://www.chusho.meti.go.jp/english/>

Telecommunications and information technology infrastructure underlies all electronic transactions and a competitive market that provides access and affordable options for users can greatly enhance business and consumer uptake. While most APEC economies have some restrictions on foreign investment in the telecommunications sector, some economies have adopted policies to encourage competition among value-added service providers and are moving toward greater liberalisation. APEC economies are also moving forward on implementation of the trade policies for the new economy initiative included in the Shanghai Accord. ABAC has previously underscored the importance of adherence to WTO provisions, including the Information Technology Agreement (ITA) that was underpinned by APEC support. Fourteen APEC economies, ranging from Hong Kong, China, Korea, the Philippines, Indonesia, and Chinese Taipei have adhered. Peru, Japan, New Zealand, Singapore, and Korea are among economies that have also implemented the commitments in the WTO Telecommunications Reference Paper on establishment of an independent regulator, cost-oriented interconnection pricing, non-discrimination and other pro-competitive policies.

**Action Required:** ABAC reiterates its support for Trade Ministers to adopt by their Joint Ministerial Meeting in October 2002 targets for services liberalisation and adherence to tariff and intellectual property regimes based on information exchanged under the trade policies for the new economy initiative. As part of this digital trade initiative, ABAC urges APEC economies to achieve throughout the region as expeditiously as possible full market

access with a minimum of exceptions for trade in services critical to electronic commerce and take leadership collectively in the WTO to encourage other WTO members to pursue the same degree of openness to digital trade. APEC economies should fully implement the WTO Telecom Reference Paper as well as TRIPS, seek ratification of the WIPO Copyright and Phonograms treaties, and address in local law ISP liability for IPR infringing content. APEC economies should also commit to signing and implementing the ITA to lower tariffs in high tech goods, commit to submitting data to the WTO integrated database, and agree to discuss customs valuation of digital products. In expanding digital economy opportunities economies should draw on expertise available through APEC fora and organisations such as OECD and GBDe to develop an enabling environment that addresses issues such as privacy and consumer trust, expedite implementation of necessary laws, and report progress in their IAPs.

### **e-Government Benefits to Business**

**Background:** ABAC continues to believe that e-government can produce significant efficiencies and opportunities for business and initiatives in customs and procurement can significantly contribute to Leaders' pledge to reduce transactions costs. The ability of customs agencies to receive and process data electronically at the desktop and dock and have data for all ports of entry electronically integrated increases efficiencies. Transparency is enhanced in the first instance when governments develop an online database of laws and regulations, as well as through online procurement opportunities. Making bid documents and processes more readily available online can particularly increase access for SMEs.

**Current Status:** Integrated electronic customs networks are already in use in some economies, including the Philippines, Peru, Indonesia, and Singapore. Electronic processing of customs clearances has improved dramatically in some economies. For example, in Australia, the Customs Service has achieved 98 percent electronic clearance of import declarations and 90 percent electronic reporting of cargo consignments. Japan has proposed the Trade Electronic Data Exchange (TEDI) as one of the common frameworks for paperless trading systems for the APEC region.

<p>In the Philippines, the Bureau of Customs' import processing system provides for a fully computerised end-to-end cycle. The system uses UNCTAD's Automated System for Customs Data (ASYCUDA) software which is being used by over 85 countries world-wide. It covers manifest, lodgement, assessment, risk management or selectivity, payment and release. Importers may file their entries either at their premises or at the Customs Bureau through the services of the entry-encoding centre. A fully computerised system assesses taxes due. Payments over \$500 are done at authorised banks which are connected with the Bureau in a secure local area network. Cargo release is done electronically after confirmation of receipt of payment of duties and taxes. The system covers real-time connectivity among 21 different sites involving 650 computer terminals and 30 servers.</p>
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For online procurement, economies such as Chinese Taipei, New Zealand, and Hong Kong have developed systems whereby bid documents are available online and bids can subsequently be submitted online for purchases by at least some government agencies. ABAC understands that more comprehensive e-procurement systems are currently under

development in economies such as Mexico, Malaysia, and the Philippines. Economies such as Canada and the United States provide online resources for SMEs to enable them to better utilise e-procurement.

ABAC applauds recent APEC efforts to share best practices on e-government through recent symposiums and commends those APEC economies that have developed Individual Action Plans on Paperless Trading, encouraging all economies to participate. GBDe has also recommended that e-government operations impacting on international electronic commerce should be given high priority. eASEAN Task Force has included e-government as one action area under the eASEAN Framework Agreement on e-commerce development.

**Action required:** APEC economies should draw on work being done through APEC's paperless trading initiative to document and quantify reductions in transactions costs being realised through e-government initiatives. Economies should use the expertise available in the private sector to do an annual evaluation of e-government progress in APEC economies to ensure that e-government systems developed are efficient, effective, transparent and meet business needs.

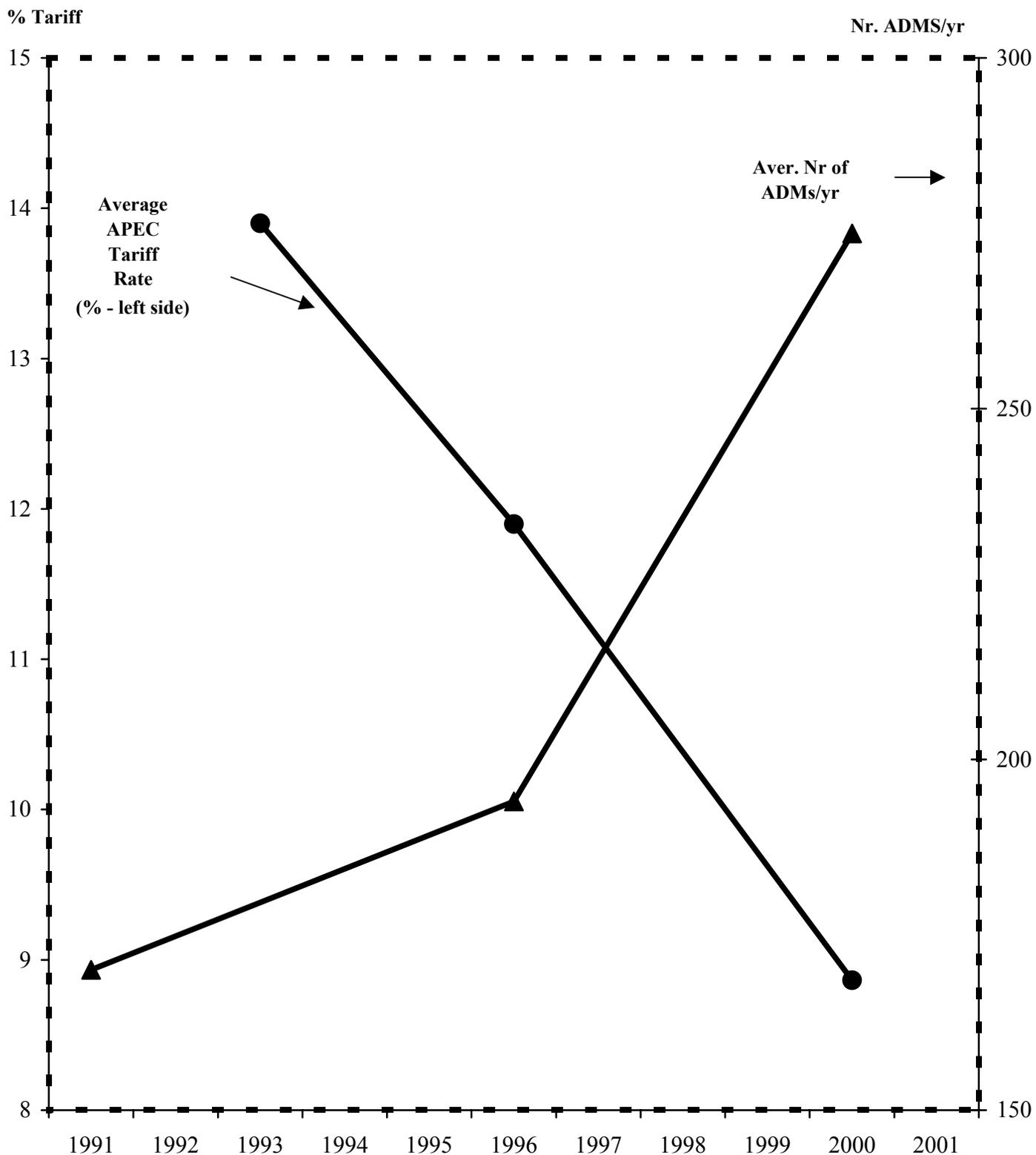
### **Preventing the Growing Use of NTMs and Misuse of ADMs**

**Background:** Last year in its report, ABAC noted that, "as tariffs come down, it is increasingly important for APEC to tackle other impediments to trade." ABAC is concerned that as liberalisation measures resulting from the implementation of the Uruguay Round and APEC's Bogor Goals take effect, there is an increasing use of Non-Tariff Measures (NTMs), and misuse of legitimate tools such as Anti-Dumping Measures (ADM), to create a new brand of protectionism.

**Current Status:** Data from a May 2000 Pacific Economic Co-operation Council study, as well as data from a study commissioned by ABAC, indicate that indeed there might be a disturbing pattern concerning the use of NTMs and the misuse of ADMs.

**Recommended Actions:** APEC member economies need to recommit themselves to avoiding the use of NTMs and the misuse of ADMs and to participate in the review of NTMs and the WTO Anti-Dumping Agreement, with the aim of strengthening rules to prevent protectionist abuse of such measures. Leading APEC economies should exercise leadership in addressing these abuses. APEC member economies should communicate and co-ordinate on how to do this and create an APEC roadmap to collectively push for an effective agenda in the WTO on these issues.

### APEC Tariff Reductions and ADMs: Heading to 2020



Source: Unpublished IMF data for tariff rate data. Published WTO anti-dumping notifications for the number of ADMs.

## **Strengthen IPR Enforcement**

**Background:** In the past, ABAC has submitted a number of recommendations to the Leaders to protect Intellectual Property Rights (IPR) and to cope with infringements such as the unlicensed production and distribution of counterfeit trademark goods, design imitation goods and pirated copyright goods. ABAC finds that the protection of intellectual property rights is still insufficient in the APEC region, with weak enforcement in some economies.

**Current Status:** This year, APEC is considering strengthening IPR protection through the establishment of an APEC IPR Service Centre and the sharing of best practices. ABAC strongly supports these steps forward in strengthening IPR protection and proposes that APEC take further measures through having developing and developed economies share experiences in order to make the work of the APEC IPR Service Centre Network more effective.

### **Recommended Actions:**

- 1. Accumulate information on IPR infringement:* It is crucial for APEC IPR Service Centres to accumulate information on IPR infringement measures taken by right holders and the consequences of the actions taken. APEC should establish a system of information exchange between the APEC IPR Service Centres and business communities in the region.
- 2. Promote public awareness of the IPR issue:* ABAC also urges APEC Leaders to redouble their efforts to boost public awareness of the IPR issue and educate nationals on the importance of IPR protection. This will ensure long-term economic development through the joint efforts of government authorities, the business community, schools and media.
- 3. Strengthen enforcement through Capacity Building:* Well-developed human resources in member economies' governments are crucial to strengthening IPR enforcement. Without stronger enforcement practices, the protection of IPR will not be guaranteed. Therefore, the education and training of enforcement officials is critical. Since it is naturally very difficult to uncover infringement, enforcement authorities, including customs and police officials, must deepen their understanding of IPR. APEC and international aid agencies should jointly reinforce capacity building programmes on IPR enforcement.
- 4. Promote involvement of the private sector:* ABAC strongly believes that involvement of the private sector in all aspects of capacity building and policy making through public-private partnership is crucial to achieving the goals of implementing the efficient protection of IPR and strengthening the enforcement of IPR in all APEC economies.
- 5. Building capacity through sharing experiences:* ABAC is convinced that the above four measures cannot be implemented effectively without capacity building efforts in which developed economies share experiences with developed economies and vice versa.

## **Improve the e-IAPs for Business Friendliness**

**Background:** ABAC applauds the full placement of the Individual Action Plans (e-IAPs) online. This was a past ABAC recommendation. It also applauds the improved IAP peer review process and the encouragement of private sector input into the reviews. However, in its review of the e-IAPs, ABAC still finds them not yet to be an effective tool by which business can make investment and marketing decisions. APEC needs to realise that government is not the only audience for the e-IAPs. As 2010/2020 approaches, the e-IAPs will increasingly be scrutinised by business as well as academia and the media, and judgements as to the efficacy of APEC will be made accordingly.

**Current Status:** As they stand now, the e-IAPs are more the domain of governments, written by government officials for other government officials. It is a longstanding ABAC belief that an economy's roadmap to liberalisation by 2010 or 2020 should be a dynamic tool regularly consulted by business. In fact, ABAC has found that businesses do not know of the existence of the e-IAPs and, if they do, often consider them too cumbersome or obscure to use. ABAC has decided to contact prestigious business schools in the region to ask them to have their MBA students do projects in which they integrate the use of the e-IAPs and the *BizAPEC* website. The schools will then feed back to ABAC evaluations of the business-friendliness of the e-IAPs. ABAC expects this to be an ongoing project, year after year. It hopes the project will also serve to introduce APEC to new MBAs and through them the companies they go to work for.

**Recommended Actions:** APEC needs to put special emphasis on ensuring that the IAPs are looked at with fresh eyes. The IAPs need to be improved for clarity, specificity and business friendliness. The APEC Secretariat should undertake a programme both for reaching out to the private sector and other sources for critiques of the e-IAPs, and for funnelling that information, as well as that received through ABAC from the business schools, to the individual economies so that they can use it to improve their IAPs.

### **Engage in More Dialogue and Partnership with the Private Sector**

**Background:** ABAC believes APEC is best when it engages the private sector. There have been several successful examples such as the Auto Dialogue, the Chemicals Dialogue, the Shanghai Model Port Project, etc., and many of the Working Groups work closely with business. And there are other examples.

**Current Status:** ABAC has received feedback that there is “dialogue fatigue” in APEC and that many officials do not welcome more engagement with the private sector. While the strain on human resources for many economies is understood, ABAC believes there is no substitute for private sector input if APEC policies are to reflect the up-to-date needs and realities of the business community. Rather than avoiding dialogue with the private sector, we believe more APEC fora should seek it in issues such as energy, transportation, security, telecommunications, life sciences, biotechnology, rural development and the APEC Food System.

**Actions for Implementation:** APEC should commit itself to successfully carrying out the programmes it has begun with the private sector such as the Auto Dialogue and the just

started Chemicals Dialogue as well as recommit itself to projects started in the past such as RISE (Regional Integration for Sustainable Economies). In addition, APEC should welcome new initiatives that may arise in the future in key sectors and not reject serious dialogue with the private sector on important issues or projects even if they may seem to represent a “proliferation.” Future requests by the private sector to engage APEC on specific issues should be weighed primarily on their merits in promoting trade liberalisation/facilitation or economic and technical co-operation.

#### **APEC Automotive Dialogue**

The APEC Automotive Dialogue, established in 1999, promotes open discussion of a broad spectrum of automotive issues among industry and government representatives. Participants in the Dialogue have agreed to pursue liberalisation of automotive trade on a regional basis, and in support of this goal, the ASEAN economies have reaffirmed their commitments to include automotive trade in the ASEAN Free Trade Area. Dialogue members encourage the WTO, during its deliberations on automotive issues, to seek out the substantial body of information and expertise compiled by the Dialogue. The Dialogue has established working groups focused on customs, technical regulation harmonisation, environment, information technology, ECOTECH, and market access that aim to promote the facilitation of automotive trade throughout the APEC region.

#### **APEC Chemical Dialogue**

APEC launched the Chemical Dialogue in May 2002, with representatives of industry and government discussing issues affecting the competitiveness of the chemicals industry, including non-tariff measures and facilitation. APEC Trade Ministers endorsed the implementation of the Globally Harmonised System (GHS) for the classification and labelling of chemicals and hazard communication by as many APEC economies as possible by 2006. Significant cost savings to all manufacturing firms in the region can be gained through implementation of the GHS, contributing to the Shanghai Accord objectives on trade facilitation to reduce business transaction costs by a target of 5% by 2006. This effort will also improve worker and end user safety and will develop a common basis for management of chemical products in the APEC region.

### **System of Formal Feedback from APEC to ABAC**

**Background:** ABAC notes that little or no action has been taken on many of its recommendations and many appear never to have been taken into consideration or evaluated by APEC.

**Current Status:** While ABAC is an advisory body and there is no requirement that its recommendations be implemented, ABAC believes its recommendations offer solid advice to Leaders and to APEC in general. Its recommendations should not be ignored. Each should be fully evaluated and an informed decision made to implement it or not. Feedback from APEC would also improve future ABAC input.

**Recommended Actions:** A formalised system of ensuring that ABAC’s recommendations are fully evaluated should be put in place, as well as a formal system for providing feedback to ABAC. We recommend that the APEC Secretariat be tasked to collect information concerning actions/evaluations of ABAC recommendations and present it to ABAC prior to the second ABAC meeting of each year (usually in April or May) and that

the APEC Secretariat Executive Director should attend the second ABAC meeting each year to discuss the results of the Secretariat's report directly with ABAC.

## ii. Antiterrorism

### **Cost and Availability of Insurance Cover and Curtailing Terrorism Financing**

**Background:** The September 11 terrorist attacks impacted on the efficient workings of economic systems and created new challenges for private financial institutions: in the case of banks and some non-bank finance institutions, in their efforts to assist in curtailing terrorist funding; and in the case of the insurance industry, in their efforts to manage new risks and provide adequate insurance to business at prices which allow insurance firms to remain viable.

**Current Status :** Insurance costs are higher or services are reduced or unavailable. Measures must be taken in the insurance and reinsurance sectors to support recovery from the claims experiences and capital dilution and to ensure viability into the future. It is clear that more efforts are needed to curtail the financing of terrorism, involving greater collaboration between business and governments at the national, regional and global levels. Business stands ready to support security efforts. Solutions should ensure maximum efficiency and cost-effectiveness and minimise the impact on transactions so as not to disrupt economic activity. Interests of *bona fide* customers' privacy and the integrity of the global payments system need to be fully protected.

**Action required:** Insurance companies must be allowed (free of pricing or other legislative constraints) to respond on a market basis through premium adjustment and/or limits to coverage and availability, based on their own assessment of risk. APEC economies, which have witnessed excessive compensation payments as a consequence of judgements in their tort law systems, should reform that system to build and give sustainability to insurance coverage. Where emergency government reinsurance backstops are established, these should fully price risk and have planned exit strategies as the private market recovers.

Governments should ratify the OECD's Financial Action Task Force (FATF) measures aimed at curtailing terrorist financing and anti-money laundering, and all APEC economies should undertake the self-assessment recommended by FATF. Governments should cooperate with the private sector as it seeks to implement the spirit and the principles reflected in the Wolfsberg Statement on the Suppression of the Financing of Terrorism.

### **Movement of Goods and People**

**Background:** The ramifications of the terrorist attacks on September 11 have directly affected the movement of goods and people across borders, producing serious effects on business and trade, raising the cost of doing business, and underscoring the interconnectivity of the global trading system. While the business community recognises the need for increased vigilance and seeks to work with government authorities to address

security concerns, restoring economic growth to the region also requires facilitation of cross border trade without compromising streamlined flow of goods and people across borders.

**Current Status:** In its pre-report, ABAC called for Ministers to develop a co-ordinated plan to secure supply chains and facilitate the movement of goods and people; further recommending that such a plan should draw on the experience of existing initiatives and pilot projects. ABAC applauds the strides made by various APEC economies and APEC fora on counter terrorism measures. Currently, there exist a number of efforts within APEC fora to address increased security as a direct result of the Shanghai Leaders' statement on Counter Terrorism. These efforts include ratification of the UN resolution on counter terrorism and implementation of ICAO standards on security through the APEC Transportation Working Group. Progress has also been made in business mobility, as Indonesia has recently agreed to join the APEC Business Travel Card raising the number of participating economies to 13.

**Recommendation:** While efforts have been made by economies to respond to Leaders' call for action, the current environment lends itself to further efforts to secure supply chains and facilitate the movement of legitimate travellers. Both trade facilitation and increased security must be achieved, not balanced. APEC must accelerate co-operative efforts to implement security measures to ensure supply chains are secure and cross border trade is facilitated. The US/Canada Smart Borders Project, Operation Safe Commerce, Container Security Initiative, the US/Mexico Smart Borders Project and Customs-Trade Partnership Against Terrorism are examples of current initiatives aimed at securing supply chains and facilitating cross border trade which APEC economies can draw on for lessons learned. Initiatives such as the Advanced Passenger Processing, Simplified Passenger Travel and the APEC Business Travel Card can help facilitate the movement of people across borders. Further work must also be done to ensure infrastructure systems are capable of resisting, responding and recovering from future catastrophic events.

ABAC stands ready to work with governments to contribute to counter terrorist efforts. Through the development of more Business Anti-smuggling and Security Coalition Chapters within the APEC region, and through the use of advanced technologies, the private sector can support counter terrorist efforts while building confidence and creating growth in the region.

### **Technology to Strengthen Security**

**Background:** Technology used within the framework of well-defined processes to enhance security can assist in managing security risks efficiently. Economies must adopt a deliberative approach that first defines security problems and the processes to be used for existing and emerging technologies to assist. Research on the use of advanced technologies and intelligent systems can also help streamline operations and increase border security while simultaneously promoting cross border flow. Tighter security regulations and operations should not impede APEC's efforts to achieve its trade and investment liberalisation goals.

Information technology has played an important role in creating efficiencies in international trade. Economies can build on this success by integrating security-related measures into evolving management systems, ensuring they are comprehensive and deployed enterprise-wide. Policy challenges for "trustworthy computing" will require enforcement and international consistency in cyber crime laws, laws that are technology neutral and promote innovation, a balance between privacy and security, meaningful penalties for online piracy, and balanced rules for online intermediaries. Other technologies such as electronic seals, container tracking and intrusion detection technology, biometrics, x-ray and gamma ray machines and others may also facilitate solutions once problems and processes are clearly defined. Financing solutions for new technologies employed as well as training will be critical.

**Current Status:** The need for a public-private partnership is critical, as innovations will come from the private sector. While surveys suggest companies are making progress to ensure computer networks are cyber secure, network security remains vulnerable. Pilot security-related projects in the region include the Australian Advance Passenger Processing project and the US/Canada Smart Border project on mobility of people. A pilot project focused on port/cargo security issues, "Operation Safe Commerce", is beginning in several U.S. ports. Mexico is also working on an innovative intelligent transportation system (ITS) - driven project called the Trans-Pacific Multimodal Security System (TPMSS). Projects to test and implement new technologies, applications and systems can be highly effective at refining and sharpening tools and ultimately answers.

**Action required:** ABAC urges APEC economies to accelerate efforts to clearly define needs, co-ordinate the development of security standards, and implement projects with the private sector to test possible technological solutions to enhance security, including cyber-security. Economies should share results widely, explore effective financing options, and develop training modules for broad dissemination within the region.

#### **Trans-Pacific Multimodal Security System**

An important step towards the further integration of the APEC economies and the promotion of secure trans-Pacific cargo transportation is the development of a technology-driven secure multimodal system between North America and Asia. The backbone of this new system will be frequent maritime routes between selected Asian ports and the Mexican ports of Manzanillo and Lázaro Cárdenas. These sea routes will be supported by Intelligent Transportation Systems (ITS) and enhanced by secure rail service running through the heart of North America. The **Trans-Pacific Multimodal Security System (TPMSS)** constitutes an innovative public/private partnership that can be duplicated throughout the APEC region.

The TPMSS will promote greater multilateral customs co-ordination and work to increase the integrity of cargo shipments as a means to advance the **Shanghai Counter-Terrorism Declaration**. An important aspect of the TPMSS is its ability to enhance the security and integrity of global trade in four distinct ways: 1) the advancement of existing security initiatives; 2) promotion of multiple security checkpoints throughout the system; 3) reduction of border and port congestion; and 4) increased inspection levels and thoroughness. Founded on basic APEC principles, the TPMSS proposes to serve as an APEC Pathfinder risk management initiative for trans-Pacific cargo transportation. ABAC recognises the TPMSS as an innovative security and multimodal transportation system promoting key APEC principles. It is an example of APEC at work.

## 2. Issues Affecting Micro-enterprises and SMEs

Small and medium enterprises make up over 98% of all enterprises in the APEC region, provide over 60% of the private sector jobs and over 30% of all employment. It is estimated that they generate about 50% of sales, 30% of direct exports and 10% of foreign direct investment by value.<sup>2</sup>

Given the critical contribution of SMEs to economic growth, job creation, regional and local development, social cohesion and poverty reduction, ABAC urges all APEC member economies to free the entrepreneurial spirit in our populations through progressive policies and programmes that provide measurable benefits to SMEs.

The dual forces of globalisation and rapid technological advancement represent both new challenges and opportunities for SMEs in the Asia-Pacific region. In this changing business environment, APEC governments must redouble their efforts to promote entrepreneurship and small business growth through an enabling policy environment, the reduction of compliance costs, and improved access to information, technology, and financing.

ABAC encourages global best practices applied to suit the local business environment, recognising that different APEC economies have different needs and priorities in terms of small business development.

In addressing the needs of smaller companies, it is imperative that APEC member economies recognise that micro-enterprises will require specific and particular measures. Through the effective development and delivery of micro-finance in developing economies, APEC can strengthen the growth of micro-enterprises – contributing to a more inclusive world economy.

ABAC has identified a number of measures to broaden and strengthen the capacity of micro-finance institutions (MFIs) and to promote their relationships with commercial financial institutions. Steps can also be taken in APEC developing economies to improve access to micro-finance services by individuals and by micro-enterprises. This business approach to the alleviation of poverty has allowed millions of individuals to work their way out of poverty with dignity.

### **SME Access to Financing**

**Background:** Since its creation in 1996, the APEC Business Advisory Council has presented a range of recommendations to APEC Leaders on SME financing. Nevertheless, access to financing remains the highest priority for SMEs in the APEC region.

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<sup>2</sup> *Profile of SMEs and SME Issues in APEC 1990-2000*, Dr Chris Hall, PECC SME Network Leader, APEC SME Profile 2000, 2001.

Commercial banks in APEC economies can take further steps to lend to SMEs on more favourable terms. Difficulty in accessing equity financing is an ongoing problem for the region's SMEs.

#### A) Bank Lending

**Current Status:** Banks in the APEC region do not often differentiate in the risk weightings placed on capital provisioning between their large loans to individual corporate borrowers and the much smaller loans to a large and diverse SME sector – even though the latter involves a lower risk weighting.

**Recommended Actions:** APEC economies should support proposed changes to the Basel Accords to give effect to lower risk weights for SME lending. Bank supervisors should consider lower risk weights for SME loan portfolios where those portfolios are secured, more diverse than corporate loan portfolios, priced for risk and where the enforceability of securities is certain under local legal systems.

As part of its ongoing commitment to SMEs, ABAC will work to develop guiding principles for defining SMEs, to assist bank supervisors in assigning proper risk weights to SME loan portfolios.

#### B) Access To Equity

**Current Status:** Difficulty in accessing equity financing is a factor that puts many SMEs at risk. ABAC believes that the deepening and strengthening of capital markets, with particular emphasis on the development of equity markets can ease this problem and contribute to the growth of SMEs.

**Recommended Actions:** ABAC asks APEC Ministers to review the range of financing options available to SMEs in their economies and identify 'financing gaps' that may exist, with particular emphasis on equity financing. We encourage APEC to examine incentives that will encourage private sector investment in SMEs and the creation of venture capital funds.

#### **Japan's Small and Medium Business Investment & Consultation Companies (SBICs)**

Small and Medium Business Investment & Consultation Companies (SBICs) are semi-public corporations that provide capital and consulting services to promote the growth of Japan's SMEs. SBICs are established in the cities of Tokyo, Nagoya, and Osaka. Local governments and financial institutions own most SBICs, with oversight provided by the national government.

SBICs provide access to equity for small companies seeking to increase their capital base. This is done through a variety of investment instruments, including initial share offerings, subsequent share offerings, convertible bonds and warrant bonds. Start-ups must hold their planned capitalisation to a maximum of ¥300 million, and SBIC's investments in these new firms are centred on subscriptions to their initial share offerings. Eligible start-ups must have solid management expertise and a credible business plan in place, and show some promise of growth in the future. SBIC acquires up to 50% of the initial share offering, generally at par value.

For established companies, capitalisation also has a ceiling of ¥300 million. An SME's pre-tax income must have reached a specified point, and must show some prospect for growth following SBIC's investment. SBIC relinquishes its equity holdings when a client goes public. To help a client makes a smooth transition to listing on a stock exchange and an increased capital base, SBIC may transfer a portion of its shares to client's employees, customers or financial institutions, with the company's consent.

## **Micro-finance**

**Background:** ABAC recognises the importance of micro finance in promoting entrepreneur-ship among the least wealthy members of our societies unable to participate in economic development or to obtain access to the formal finance system.

**Current Status:** ABAC has considered measures to enhance micro-finance institutions (MFIs); including upgrading the quality of management, improved accounting and administration, and facilitating links between MFIs and public institutions providing existing flows of aid funding, as well as new private donors keen to enter the field and links with commercial banks.

**Action required:** ABAC urges APEC to promote an enabling and conducive legal, regulatory and business environment, including through various incentives for the creation and development of micro-enterprises and MFIs, and to develop accompanying capacity building measures - which should be supported by multilateral financial institutions. "Best practices" in MFIs should be promoted and a rating system established to reflect the credit worthiness and competencies of MFIs. Aid funding, a critical component of micro financing, should be continued and expanded. ABAC encourages commercial institutions to support micro finance programmes to promote entrepreneur-ship. Support could be as part of commercial lending activity - where lending conforms with sound prudential standards - and/or as a philanthropic activity. Where appropriate, banks could use IFC mechanisms, which provide guarantees on loans to MFIs. Regulators should separately measure the size of bank lending to MFIs and consider these loans as a particular category of lending with an appropriate capital-weighting ratio applying to them.

### **Philippines' National Strategy for Micro-finance**

The Philippines has developed a national strategy for micro-finance, aimed at creating a viable and sustainable private micro (financial) market, with government providing a supportive role through the provision of an appropriate policy environment and institutional framework. The objective is to provide access to financial services to the majority of poor households and micro-enterprises by the year 2005.

The strategy provides an institutional framework for the various players involved in the delivery of micro-finance, including: micro-finance institutions (MFIs); the National Credit Council (NCC); the People's Credit and Finance Corporation (PCFC); government financial institutions; commercial and other private banks; NGOs and donors.

The national strategy articulates a three-pronged approach to micro-finance. First, policy reforms are aimed at creating effective and efficiently functioning financial markets, including interest rate policy, the removal of distortion in financial markets such as loan quotas, and the rationalisation of all existing government credit and guarantee programmes. Secondly, measures are aimed at broadening and deepening micro-financial services, including the development of new products and services, and the application of new technologies

and lending practices. Finally, capacity building for MFIs is a key component of the strategy, with an emphasis on such areas as local deposit mobilisation; financial and project management; and the use of information technology in the delivery of micro-credit.

### **Enabling Policy Environment for SME Growth**

**Background** A top priority for all APEC economies should be to create a policy environment that is conducive to entrepreneurship, innovation and sustainable growth for SMEs. This consists of a regulatory environment that does not impose undue compliance burdens on SMEs; encourages good governance and greater accountability in public administration; establishes fair and transparent competition policy; and enforces effective anti-corruption measures. An important component of an enabling policy environment is a tax system that is fair and equitable, stable, transparent, and encourages investment in SMEs.

**Current Status:** Last year, ABAC called upon APEC to adopt policies that are “small business-friendly”. We encouraged APEC governments to undertake a review of their policies and programmes in order to identify gaps or weaknesses in the policy environment. This year, at least sixteen APEC economies have participated in an APEC SME Policy Questionnaire that identifies where policies are in place to support SMEs in the areas of information access, finance, technology, HRD and training, market access and administrative burden.

**Recommended Actions:** ABAC urges all APEC economies to continue to review and adjust their economic, legal and regulatory policies with a view to easing the administrative burden on SMEs and creating an enabling environment for growth. This involves reducing compliance costs, simplifying legal and regulatory systems, strengthening basic infrastructure and promoting access to information.

As a first step in this process, ABAC asks all APEC Ministers Responsible for SMEs to insure that their officials have completed the APEC SME Policy Questionnaire by the end of 2002.

As part of an SME policy review, ABAC encourages Ministers Responsible for SMEs to examine what steps can be taken to reduce compliance costs associated with the filing of tax by SMEs. This will encourage SMEs to formalise their status as a first step toward integration with the global economy.

#### **Hong Kong’s SME-Friendly Policy Environment**

Hong Kong is a magnet for SMEs of all types and places of origin. There are currently close to 300,000 SMEs in Hong Kong (over 98% of all private-sector companies), employing some 1.36 million people (60% of private-sector employees). Part of the reason for Hong Kong’s attractiveness to SMEs is its tried and trusted, long-term adherence to free-market principles. While the government provides maximum support for all businesses, large and small, in order to enhance their competitiveness, it intervenes in the economy as little as possible in a bid to allow business people to make business decisions, unfettered by red tape. At least 90 per cent of company registrations and incorporations are completed in six to eight working days or less. The government does not pick winners: all businesses are eligible to benefit from the support systems provided,

whatever their size or sector. Moreover, any company registered in Hong Kong, irrespective of its country of origin, is entitled to use these support systems too.

Hong Kong's tax system is the most business-friendly in the world. Firms pay only 16% profits tax, with unlimited carry-over of losses, and the maximum rate of salaries tax for individuals is 15%. There are no value-added or sales taxes, no capital gains taxes, no withholding taxes on dividends or interest and no estate-duty taxes on non-Hong Kong assets. Only income originating in Hong Kong is taxable: there is no global taxation. A low, simple tax system that is Hong Kong's trademark makes it a sanctuary for preserving capital. This is consistently rated by firms as one of Hong Kong's foremost incentives for business.

### **Promoting SME Partnerships**

**Background:** The forces of globalisation and liberalisation can be viewed as a threat by local small businesses that find themselves in a newly competitive environment. It is critical that SMEs are included in the globalisation process and not isolated. Market opening can offer new export opportunities for SMEs seeking to 'go global' – but many small companies need partners to access these opportunities efficiently.

**Current Status:** A variety of approaches to small business collaboration have emerged around the region, including SME 'clusters' and SME linkages with transnational corporations (TNCs).

*SME clusters* allow small companies to achieve economies of scope and scale and efficiency gains through joint marketing, mutual credit guarantee associations, sponsorship of joint training, and more efficient division of labour amongst enterprises. Clusters also enhance SME abilities to participate in international trade

*Linkages with transnational corporations (TNCs)* strengthen SME competitiveness and assist in bringing SMEs into the global marketplace. These linkages may take the form of mentoring programmes to coach SMEs in total quality management, access to corporate training, and assignment of staff temporarily to SMEs.

**Recommended Actions:** ABAC invites APEC Leaders to identify what steps they are taking to facilitate business-to-business solutions to assist small enterprises to adapt to changes in their business environment. We encourage APEC economies to share their 'promising practices' in facilitating SME partnerships, including clusters and linkages with larger companies.

#### **Malaysia's Cluster-based Approach to SME Development**

The Malaysian Government recognises the important role played by the SMEs in supporting national industrialisation efforts through forging linkages across the manufacturing sector. A major feature of Malaysia's industrial strategy is a cluster-based development approach.

Malaysia's industrial linkage programme (ILP) encourages large companies to source parts, components and services from SMEs. It is also intended to promote and nurture local SMEs to become reliable and competitive manufacturers and suppliers to leading industries. Malaysia's electronics and electrical industry, particularly in Penang, has been successful at providing opportunities for technology transfer and linkages to

SMEs. This sector in turn has stimulated the growth of SMEs in other sectors such as machinery and equipment, precision engineering, plastic injection moulding and metal fabrication industries.

Malaysia's global supplier programme (GSP) involves the commitment from transnational corporations (TNCs) to "adopt" local SMEs and assist them in upgrading their leadership skills and technology. SMEs become integrated into the supplier development programmes of TNCs. Regular monitoring and progress updates by skills development centres underscore the success of the programme. Through the global supplier programme, SMEs benefit from a synergistic relationship with global companies, enhancing their capacity and capabilities to provide world-class services and products.

## **Using Technology to Access SME Information**

### **a) An APEC SME Information Hub**

**Background:** Many APEC governments offer information programmes and services to SMEs. Awareness of these resources amongst the small business community is often very low and accessing the information is difficult. Last year, ABAC encouraged APEC to take steps to provide one-window access to all programmes and services available to small business through the development of an APEC SME Information Hub. This SME Information Hub would provide links to information in each APEC economy on programmes available to assist small business, including finance, marketing, international trade, human resources management, legal, tax and accounting issues, business diagnostic tools, and e-commerce.

**Current Status:** ABAC is encouraged to learn that initial funding for an APEC SME Information Hub has been approved and looks forward to providing input on its development. The success of this Information Hub will be determined by its user-friendliness, availability in the local language of its intended users, and in its proper maintenance and promotion.

**Recommended Actions:** ABAC encourages APEC Leaders to ensure that all relevant government departments are made aware of and provide relevant links to the APEC SME Information Hub.

### **b) Improved Access to Online Services**

**Background:** Before any online information hub can be effective, the capacity of SMEs to access online services must be strengthened.

**Current Status:** Many APEC economies are actively seeking to improve SME access and awareness to information technology tools and business opportunities online. These include specific training programmes to promote SME e-commerce preparedness, as well as online business training and diagnostic tools. However, in other APEC economies, regular access to online services remains out of reach for small business.

**Recommended Actions:** ABAC calls upon all APEC Ministers Responsible for SMEs to share their timetable, with implementation target dates, for improving access and usage of

online services by their SME communities. Furthermore, we urge APEC economies to share their promising practices in helping small businesses access the Internet.

#### **Canada's SME e-business Information Toolkit**

To members of a Canadian e-business opportunities roundtable, it became increasingly apparent that an important sector of the Canadian business population was lagging in the adoption of e-business - namely SMEs, the backbone of the Canadian economy. For many SMEs, e-business is an intimidating business proposition. Key barriers to e-business adoption by SMEs include security concerns, questions about return on investment, developing an e-business strategy, securing management commitment, and sourcing suppliers.

To address these concerns, the Canadian e-Business Opportunities Roundtable in partnership with the Canadian Chamber of Commerce created an SME e-business Information Toolkit, designed to demystify the hype surrounding e-commerce and help small companies think about how e-business applications can make their day-to-day business operations more efficient.

The e-business Information Toolkit provides SMEs with practical and applicable tools to determine the value of e-business investments; devise a solid e-business strategy; source credible e-business suppliers and address Internet security issues. The online toolkit also features links to diagnostic tools to assess e-business readiness, success stories, and where to go for more information.

The SME e-business Information Toolkit is accessible through *Businessgateway.ca*, the Government of Canada's portal that provides a single point of access to key government services and information for Canadian business. The site is organised in an accessible manner, covering such priorities as business start-up, tax, regulation, financing, import/export, human resources, and government procurement. Since its launch in February 2001, over one million people have visited *BusinessGateway.ca*, most of them first-time visitors and owners of small businesses.

### **3. Globalisation and Shared Prosperity**

Now, more than in any period since the end of the cold war, action is needed to promote confidence, to revitalise commitments for trade and investment liberalisation, to improve economic and financial security and to commit to specific programmes to improve the capacities of institutions and to raise the knowledge and skills of peoples in the region. At this time APEC needs to be seen as confident and forward looking.

The significant progress that has been achieved since the Bogor declaration in lowering tariffs is easily forgotten in this period of uncertainty. We need to recognise the gains so far made and to state that the end goals of Bogor are entirely within reach. Such a statement, supported by the implementation of the various actions we recommend in this section, would reflect a confident APEC community.

Governments and business need to co-operate urgently to restore confidence following the damning disclosures of major corporate failures and malfeasance. While the vast majority of businesses follow sound governance standards, honourable and respected ethical values need to be promoted and measures introduced which ensure that businesses follow sound governance practices and apply internationally agreed accounting, reporting and audit standards. Measures are needed to streamline the processes for the resolution of sovereign

debt restructuring so as to make more efficient and effective the international financial architecture.

The recommendations we propose in this section aim to improve confidence, to improve the basic foundations for growth and development - which will create employment opportunities and improve living standards - but to also provide direct means by which all members of our communities can share in the benefits of economic growth by better and more assured access to education through e-technology and through capacity building programmes.

### **Measures to Improve Corporate Governance**

**Background:** The spate of major corporate failures in the US and in other APEC economies (and in other regions) and the consequential sharp fall in equity values and in business confidence has raised fundamental questions on corporate governance, the role of independent auditors and financial advisers, and application of accounting standards.

**Current Status:** ABAC notes that major reviews are ongoing in a number of jurisdictions and urges that any new measures aimed at strengthening governance standards continue to emphasise open market mechanisms and reinforce trade and capital market liberalisation. It is clear in a globalising world that economies should seek to develop an agreed-upon set of international accounting standards that would establish a baseline of principles permitting greater transparency and comparability of financial data. This would allow a more effective assessment of corporate financial performance by various stakeholders.

**Action Required:** APEC economies should move to the adoption of one set of internationally accepted accounting standards at the earliest possible date, promoting principles rather than the rule-based standards. In addition, each economy should have in place by 2003 processes for sharing and analysing information on board structures and practices with a view to developing APEC best practices governance models. Governments should co-operate with a broad range of private sector organisations in this effort. Each APEC economy should ensure that governance standards are of a quality that is attractive to domestic and international investors by reflecting high standards of ethical behaviour, the avoidance of conflict of interest and insider trading, the fair representation of minority interests, transparency in reporting and audit independence.

### **Multilateral Trade Negotiations**

**Background:** ABAC members are convinced that open markets and the free flow of goods and services contribute significantly to economic growth, development, employment and the alleviation of poverty. Through the WTO multilateral trade negotiations launched last year wide scale benefits are attainable from lowering barriers to trade, reinforced by certainty and security delivered by the WTO rules-based trading system.

The path of the negotiations will not be easy. Strong leadership will be required. APEC member economies, committed already to the achievement of the Bogor Goals of trade liberalisation, are well placed to provide such leadership.

**Current Status:** This is the time to project the APEC agenda into the global environment. ABAC applauds the reaffirmation by APEC Ministers Responsible for Trade to reject the use of protectionism and to abide by multilateral rules. APEC members should now also be seeking actively opportunities for concerted action to move the Doha Round negotiations forward to achieve the earliest and fullest possible degree of market openness.

All issues on the negotiation agenda are of interest to APEC business people. But priority and concentrated attention is needed to regain the momentum of trade liberalism in those areas of the negotiations where the greatest gains to the greatest number can be anticipated. In our view, urgent action is required to free up access and eliminate export subsidies on agricultural products; free up access and reduce tariffs on tropical products; liberalise the services sectors; lower high tariffs on manufactured products including textiles and apparel; and eliminate anti-dumping actions and trade restrictive non-tariff measures.

**Action required:**

APEC Action Plan: ABAC has proposed that a concerted action plan be developed and pursued by APEC members participating in the negotiations. Particular emphasis was given to the concept of seeking an “early harvest” from the negotiations in areas including agricultural subsidies and anti-dumping measures. Such a plan would be an immediate and visible declaration of commitment by APEC to the reform and liberalisation of trade policies and build confidence in the process amongst all participants. Leaders are invited to endorse the proposal for a concerted APEC action plan for achieving early results from the Doha Round in key areas.

Confidence building: Confidence building within APEC economies is vital to enhance the capacity of members to negotiate effectively, implement WTO commitments, and lock in gains from the liberalisation of trade and investment. There is an evident need also to counter protests against the multilateral trading system and ensure informed public debate about the vital importance of successful outcomes in the Doha Round and the achievement of the Bogor Goals.

ABAC endorses the efforts already being made in APEC through technical assistance and capacity building and urges continued emphasis on this activity; and recommends that programmes be developed and implemented to inform citizens in each member economy of the economic and social advances that can be achieved through trade liberalisation. ABAC members stand ready to contribute to this important work.

## **Trade in Services**

**Background:** The services sector plays an increasing role as a percentage of total world-wide economic activity, supporting all forms of trade and all areas of global economic activity. The liberalisation of services markets in both developed and developing economies is critical to the strengthening of domestic services capacity and competitiveness; and has associated spill-over benefits to trade in goods and foreign direct investment. Liberalisation of the services sector will provide APEC economies improved

market access, and the efficient supply of services will generate significant gains in productivity for industries. Liberalisation of the services sector is also critical to the implementation of the Bogor Goals, the continued economic integration of APEC and the maintenance of global economic growth.

**Current Status:** A significant portion of the WTO agenda is dedicated to trade in services. With the WTO Ministerial scheduled for September 2003 in Cancun, Mexico, APEC economies are now in a position to set achievable goals for the WTO Ministerial in the area of trade in services.

**Recommendation:** ABAC recommends the APEC Leaders commit to developing a concerted plan of action to achieve liberalisation in the services sector prior to the WTO Ministerial in 2003. This plan should include a commitment by APEC economies to address cross cutting issues that affect all APEC economies, including a commitment to enhancing transparency and reducing barriers to market entry in services sectors and to reforming domestic regulations that hinder fair and open markets. APEC economies should be encouraged to submit GATS requests and actively participate in implementation and enforcement of all GATS commitments already negotiated. APEC economies should work to achieve progress in all sector areas, including information technology and telecommunications, financial services, express delivery services, energy services, and environmental services. Special emphasis should be placed on movement and mobility of people and extending technical assistance to developing economies to ensure their participation in services negotiations.

To assist in this effort, ABAC will address in its work plan the issue of trade in services and provide thoughtful input to APEC through its pre-report to Trade Ministers in 2003.

### **Explaining APEC and Globalisation**

**Background:** “Globalisation” has become a controversial term. Its meaning is murky to many. APEC was wise in 1994 when it set its Bogor goals and anticipated that trade and investment liberalisation would spur wealth creation but had to be accompanied by economic and technical co-operation. But the story of globalisation and how APEC is designed to meet its challenges is often little understood by the general populace in many economies. The “*APEC Dialogue on Globalisation and Shared Prosperity*” held in May in Merida, Mexico focused on these issues and APEC has created an *APEC Communications and Outreach Strategy*.

**Current Status:** There is no central reference tool that the general populace can use to understand expanding global trade and investment, where the needs for economic and technical co-operation lie, and where APEC fits in all this. The public television network in the U.S. has prepared an excellent three-part video series on the globalised economy that ABAC believes is very balanced in describing the background to the current world economy and the challenges that it poses. The series is called “Commanding Heights: The Battle for the World Economy” and is based on the book by the same name written by

Daniel Yergin and Joseph Stanislaw. It includes interviews with a number of world leaders, including APEC Leaders.

**Action required:** ABAC recommends that APEC economies consider the use of the “Commanding Heights” video series as a teaching tool for their populations and students, have it translated if necessary, and work to get it maximum television air time so that the people of the APEC region can have a common understanding of the fundamental concepts behind trade and investment liberalisation. APEC should prepare a trailer to the video that explains APEC’s goals and role.

### **Regional Monetary and Economic Co-operation**

**Background:** Following the Asian financial crisis, various measures have been implemented in the region under the Chiang Mai initiative, the Manila Framework and in other forums aimed at strengthening regional and sub-regional monetary arrangements. There is a strong need for co-operative measures to deal with crisis-prevention, improved regional financial surveillance and data collection and monitoring short-term capital flows within the region - all aimed at ameliorating the impact of any future financial crisis in the region and thereby contributing to enhanced global security.

**Current Status:** Increased regional financial and economic co-operation is gaining momentum: various elements of co-operation will impact on regional financial and economic structures and arrangements, with implications for business. It is timely now for private business to become more involved in discussions in these processes.

**Action required:** APEC economies should ensure that regional and sub-regional financial and economic mechanisms not only contribute to financial system stability but also to efficiencies in business transactions and to economic growth in the region. APEC should endorse the establishment of an IMF/private sector financial consultative group to deepen and improve understanding of emerging financial and economic developments in the region and the establishment of a policy forum including specialists from the public and private sectors to develop and to promote enhanced regional monetary and economic co-operation.

### **Deepening and Broadening Capital Markets/Unidroit Financing Conventions**

**Background:** Sustained economic development and social enhancement is dependent in large measure on the depth and range of services available from the domestic economic system. While the availability of foreign capital remains an important source of finance to supplement domestic savings in many economies, the mobilisation of domestic long-term savings is also vital to sustained activity and to ameliorate the impact of sharp variations in foreign capital flows. For many emerging economies, domestic capital markets continue to be underdeveloped - indeed the state of the capital market is a crucial indicator of the level of national development.

**Current Status:** To give effect to the concept of shared development vigorous efforts are required by both emerging economies themselves and by regional and international

collaboration to deepen and broaden capital markets. Risks in cross-border financing can be reduced by participation in financing conventions.

**Recommended Action:** APEC economies should take action on an earlier recommendation to establish high-level domestic co-ordinating bodies to oversee the development of bond markets and supplement this with a regional conference involving representatives from ABAC and PECC and regional and international specialists to advise on measures and processes needed to enhance bond market developments in the region. APEC members should sign up to the Unidroit financing convention. Early ratification of the convention would make a real contribution to securing finance and reducing risk in transactions concerning heavy mobile equipment.

### **Sovereign Debt Restructuring**

**Background:** Because sovereign creditor countries have increasingly borrowed from private sector lenders, including through bond issues, the dispersion of creditors has widened, making more difficult rescheduling negotiations where these are required. Economic circumstances can deteriorate further during a protracted rescheduling, requiring more IMF support to the affected debtor country. The IMF has been criticised in part for slow rescheduling arrangements and for the fact that its actions are sometimes seen as "bailing out" the private sector.

**Current Status:** Responding, the IMF proposed a state bankruptcy law to smooth procedure for rescheduling sovereign debt. While there is support for the new measures, the IMF proposal raised questions about the practicalities of implementation and the equitable treatment of private capital. The G7 has in turn recommended improvement to voluntary case-by-case rescheduling and for market solutions, including the adoption of new clauses in debt contracts to provide for arrangement on debt restructuring. While the IMF recently amended its original proposal questions still arise about the concept of a state bankruptcy system, and in particular the practical issues involved in implementing it.

**Actions required:** ABAC urges consideration of an effective mechanism of debt rescheduling to be agreed to by the IMF aimed at early resolutions on rescheduling, and which would seek to maintain private capital flows. As a matter of priority, APEC economies should support the development of uniform contingency clauses for inclusion in new debt contracts. APEC Finance Ministers should set a timetable for agreeing standard collective action clauses in sovereign bond contracts to be implemented by around mid 2003 as an effective measure in facilitating timely agreement to debt rescheduling by widely dispersed bond holders.

### **Capacity Building Initiatives for the Implementation of the Basel 2 Capital Accord**

A joint ABAC/PECC symposium was convened in Sydney on 16/17 <sup>th</sup> May, to consider the implications for bank regulators and banks in APEC arising from the implementation of the Basel 2 capital accords - being developed by the Bank for International Settlements (BIS), and likely to be fully implemented by late 2006.
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**Background:** Basel 2 involves changes to risk management, risk weighting and capital management by deposit taking institutions. Banks with significant international operations are expected to adopt advanced internal risk management approaches, while other banks are likely to adopt a standardised approach, similar in some respects to the present Basel 1 capital accord.

**Current Status:** Basel 2 will enhance financial system stability, promote co-operative bank-regulator relations, improved disclosure and market discipline. Costs may arise if the new approach is poorly implemented, for example, through discretionary aspects of Basel 2 available to national regulators. Many banks do not have the resources, analytical tools nor the data to build reliable risk models and there is an urgent need to help regulators and banks develop required skills and consistent approaches in implementing the accord. There are gaps in capacity building measures which APEC could fill, especially where public-private sector co-operation is needed, and where it could work co-operatively with the BIS.

**Action required:** APEC economies should endorse the value of Basel 2, review the resourcing needs of regulatory agencies to implement the new accord, develop information sharing and transition arrangements and the infrastructure for data collection and credit rating systems. Measures to promote consistent implementation across the region, to encourage market discipline and effective disclosure and regional co-operation should be implemented. The APEC Financial Regulators' Training Initiative should be renewed and enhanced and the ADB should be requested to provide financial support for regional capacity building initiatives. A public/private sector advisory group should be established to oversee a comprehensive capacity building programme - co-ordinated by the ADB. This should include an initial project involving APEC economies and relevant public and private institutions in collaboration with ABAC, to enhance skills and governance practices in regulatory agencies and banks.

## **Biotechnology**

**Background:** Agricultural biotechnology is a new, emerging technology that fosters new business growth and all signs indicate that it could lead to a revolution in productivity. There should be convergence and harmonisation of regulations, standardisation of patent processes, etc. If each economy takes different and asymmetrical approaches in regulating agricultural biotechnology, then the resulting complexity could adversely affect this industry and its safe use. The benefits of this technology should be safely introduced and shared by all, with efforts made by APEC economies to help bring a balanced understanding to all citizens.

**Current Status:** ABAC commends APEC's decision to hold a policy-level Dialogue on Agricultural Biotechnology in February 2002 and supports the follow-on Dialogue scheduled for 2003. ABAC pledges to assist on APEC biotechnology initiatives if private sector input is desired.

**Action required:** ABAC calls on Leaders to accelerate their policy level dialogue on agricultural biotechnology and adopt an effective programme that addresses all the major

aspects affecting the introduction of agricultural biotechnology, such as science-based benefit/risk assessment and public education. An effective programme should incorporate actions directed at improving knowledge and understanding at the policy, technical, and consumer level.

### **Utilise e-Learning to Develop Human Resources**

**Background:** In its 2001 Report ABAC emphasised how e-learning could assist in reducing the digital divide and the important policies economies should implement to enhance e-learning. A number of excellent examples of best practices from companies which contributed to ABAC's work through the Asia-Pacific e-Learning Alliance can be accessed at [www.abaconline.org](http://www.abaconline.org). Another example is the Asia e-Learning Network (AEN) at [www.asia-elearning.net](http://www.asia-elearning.net).

**Current Status:** Many economies now have available a range of training programmes that address specific aspects of human resource development needs, with courses offered by governments, schools, foundations, and/or other private companies and institutions. Some illustrative examples are highlighted here.

In the Philippines a number of programmes train IT professionals. Comprehensive IT certification programmes are being implemented by service providers and software companies and co-ordinated by the Technical Education and Skills Development Authority (TESDA). The Virtual Centre for Technology Innovation in Information Technology (VCTI-IT) is a training and certification programme with higher education institutions partnering with multinational IT software companies.

In Hong Kong, the IT Awareness Programme has provided training to over 46,000 on basic computer and Internet operation, with programmes tailored to particular segments of the population, such as people with disabilities and the elderly.

In Shanghai, the Model Port Project highlighted in ABAC's 2001 Report included specialised IT training for customs officials for modernisation of Chinese customs procedures.

In Peru, the Huascarán Project and Technological Innovation Centres provide Internet access in rural and urban areas.

In APEC, a Human Capacity Building Promotion Programme developed by IT companies following the 2001 High Level Meeting on Human Capacity Building organised by China and Brunei is providing free online training in network technology for 1500 IT professionals from APEC economies.

In Chile, a technology education programme entitled "Enlaces" has expanded Internet usage while providing equipment to rural schools.

In Korea, the government has established 90 IT specialised training centres with the government meeting 50 percent of costs.

**Action required:** APEC economies should jointly and individually work with the private sector to develop concrete projects that can develop information communications and technology skills to enable broader participation and benefit from the digital economy. Projects should include measurements to facilitate evaluation of final outcomes. Results

should be shared widely through APEC fora and workshops in the region and included on relevant websites.

## **Annexes**

### **i. ABAC: Founding and Structure**

The APEC Business Advisory Council (ABAC) was created by the APEC Economic Leaders in November 1995 to provide them with advice on the implementation of the Osaka Action Agenda and on other specific business sector priorities, and to respond to the various APEC fora requests for information about business-related issues or to provide the business perspective on specific areas.

ABAC comprises up to three members of the private sector from each economy. ABAC members are appointed by their respective Leaders, and represent a range of business sectors, including small and medium enterprises (for ABAC members' biographies, please refer to [www.abaconline.com](http://www.abaconline.com)). The economy determines the term of membership of each appointee as well as its own administrative arrangements and staff support.

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

#### **ABAC in 2002**

In 2002, Mexico assumed the chairmanship of the Council, with China and Thailand serving as co-chairs following the APEC order. Co-chairs represent immediate past and future chairs, respectively.

ABAC adopted the theme "Sharing Development to Reinforce Global Security". The approved programme of work was organised into four task forces and a committee: Business Facilitation Task Force; Finance Task Force; Technology Task Force; SME Task Force; and the Action Plan Monitoring Committee.

Four meetings were held in 2002: Vancouver, Canada (6-9 February); Sydney, Australia (12-15 May); Hong Kong, China (7-10 August); and Los Cabos, Mexico (22-26 October). Over the course of the year, ABAC sought to network more actively with the Ministers and Senior Officials by participating in the various APEC meetings: First APEC Senior Officials Meeting (SOM I) (27-28 February, Mexico City); SOM II (24-25 May, Merida, Mexico); SOM III (20-21 August, Acapulco, Mexico); Meeting of Ministers Responsible for Trade (29-30 May, Puerto Vallarta, Mexico); APEC High Level Meeting on Micro-enterprises (17-18 August, Acapulco, Mexico); Meeting of APEC Ministers Responsible for Small and Medium Enterprises (24-25 August, Acapulco, Mexico); and APEC Finance Ministers Meeting (5-6 September, Los Cabos, Mexico). The Council also participated in the IAP peer review sessions of Japan and Mexico held at the margins of SOM III and the Workshop on Implementing the APEC Trade Facilitation Principles held in Bangkok,

Thailand in August. It jointly organised with PECC the Symposium on Risk Management, Pricing and Capital Provisioning held in Sydney, Australia on 16-17 May. Others events organised by ABAC members include Business on Alert: the Private Sector Addresses Increased Global Security (3-4 April, Seattle, USA) and the Business Conference on SME Development (9 August, Hong Kong, China).

In a change from past tradition, ABAC presented a Pre-Report to Ministers aimed at having ABAC's recommendations considered and reflected in the APEC agenda in a more timely fashion. The Pre-Report outlines issues of priority to ABAC that require immediate implementation.

### **Studies and Related Work**

The Council undertook and/or commissioned a number of research studies and initiatives to support its deliberations. These include:

- Non-Tariff Measures Study
- Financing schemes for Micro, Small and Medium Sized Enterprises
- Study on the Economic Impact of Prescriptive Building Codes in APEC Economies
- Trans-Pacific Multimodal Security System
- Review of the Implementation of Member Economies' Alignment of their Standards with International Standards
- Current Efforts to Reform International Banking Standards: Implications for Regional Co-operation and Capacity Building
- Sovereign Debt Restructuring and Private Sector Involvement: Overview and Prospect of the Krueger Debt Restructuring Proposal
- Promising Practices in Judicial Education
- Technology Task Force Progress Report on e-Commerce and e-Government

Recognising the need for business to act in a more concerted manner, ABAC actively networked with relevant business and international organisations such as the Pacific Economic Co-operation Council, Pacific Basin Economic Council, Global Business Dialogue on e-Commerce, e-ASEAN Task Force and the World Agricultural Forum in the pursuit of its work programme.

The Council also initiated a programme for improved communication outreach to better serve core constituencies.

### **Future Work**

ABAC is committed to provide advice to APEC Leaders on the business sector priorities and push forward the APEC agenda on trade and investment liberalisation and facilitation. To this end, the Council will continue to place emphasis on small and medium enterprises, technology, finance, business facilitation, and in monitoring APEC commitments.

## **ii. Trade Facilitation Action Plan**

### **Past ABAC Recommendations:**

ABAC has submitted a number of recommendations to the APEC Economic Leaders to reduce border restrictions, which impede the conduct of business, thus limiting the movement of people, goods, services, information and capital. ABAC's past recommendations include areas Ministers have targeted for the APEC Trade Facilitation Action Plan and if implemented could contribute to the reduction of transaction costs by 5%.

### **Standards and Conformance**

ABAC urges the APEC member economies to align their standards with international standards in the four priority areas and adopt mutual recognition agreements.

### **Business Mobility**

ABAC urges greater participation of the APEC member economies in the APEC Business Travel Card scheme.

### **Processing of Visa Applications and Work Permits**

ABAC urges implementation of streamlined visa application process for new business residency, work permits and extension of business residency visas.

### **E-commerce**

ABAC urges APEC member economies to remove impediments to e-commerce identified in their e-commerce readiness assessments and to put more government services online promoting paperless trading.

### **Harmonisation of Customs Procedures**

ABAC urges APEC complete implementation of all customs facilitation, harmonisation and standardisation measures, which include standardisation, and simplification of customs documents and procedures, and full implementation of an APEC-wide electronic customs processing system.

#### **Express Consignments Clearance Project**

Based on the successful model of the 2001 Shanghai Model Port Project, Mexico, in co-operation with the private sector, is launching a similar public-private partnership to modernise customs operations and package clearance in Mexican ports. The project aims to implement specific action items from APEC's Blueprint for Customs Modernisation: Risk Management (#11), Express Consignments Clearance (#12) and Customs-Business Partnerships (#14). This project is led by Mexican government officials who co-ordinate a

Business-Customs Working Group consisting of Mexico Customs, private sector carriers and customers. The project was discussed further at the APEC Customs-Business Dialogue, held in Mexico, August 9-10, 2002.

Key elements of the project are accelerated clearance for low-value packages, consolidated entry procedures, selective examination of high-risk shipments, bond and debit systems to facilitate duty payment and engaging the express package industry to assist in detecting suspect shipments. These practical steps will increase efficiency and significantly reduce transaction costs for all businesses using express delivery services through Mexican ports.

ABAC urges APEC member economies to implement above past recommendations ABAC has made on these issues in order to achieve trade facilitation goals.

This year, ABAC found various constraints still existing in the APEC economies. In order to eliminate or reduce impediments to trade facilitation, ABAC proposes APEC focus on the following areas.

**Next Possible Areas of Focus:**

- Development of a Single-Window System for import and port and harbour procedures
- Adoption of common frameworks for systems for trade related procedures in Internet environment
- Implementation of the standardisation of data elements and formats for member economies' computerised customs clearance system
- Adoption of the revised Kyoto Convention on the Simplification and Harmonisation of Customs Procedures
- Publicise up-dated import and export procedures, and standards and technical regulations
- Introduction of Ombudsman system for regulations related to trade and investment
- Implementation of pre-arrival documentary examination of cargo
- Open markets for services
- Design border measures to protect intellectual property rights at customs entry
- Reduce administrative and procedural fees which hinder trade facilitation

### **iii. ABAC Events in 2002**

#### Business on Alert Workshop:

More than 80 senior public and private sector representatives participated in the “Business on Alert” workshop held April 3-4, 2002 in Seattle, Washington. The purpose of the workshop was to gain insights, views and suggestions from the business sector concerning post-September 11<sup>th</sup> security issues. Specifically, panellists were asked to examine, (1) how the business sector might contribute to enhanced security efforts mandated by APEC Economic Leaders meeting in Shanghai, and perhaps more critically, (2) how any adverse effects of heightened security measures on businesses, and ultimately on the continued liberalisation and facilitation of trade and financial flows in the APEC region, can be mitigated by technology. For more information on this event, please refer to [www.abaonline.com](http://www.abaonline.com).

#### ABAC/PECC Symposium on Risk Management, Pricing and Capital Provisioning

An ABAC/PECC symposium was convened to consider the implications for banks and regulators in the region arising from the implementation of the Basel 2 capital accords being developed by the Bank for International Settlements (BIS) and which are expected to be fully implemented by late 2006. The symposium was held in Sydney 16-17 May 2002. For more information on this event, please refer to [www.abaonline.com](http://www.abaonline.com).

#### Business Conference on SME Development

On 9 August, during its third meeting in Hong Kong, China, ABAC held a Business Conference on SME Development. The conference focussed on two main issues: Promoting SME partnerships across the region, and SME financing. For more information on this event, please refer to [www.abaonline.com](http://www.abaonline.com).

#### **iv. Trans-Pacific Multimodal Security System**

An important step towards the further integration of the APEC economies and the promotion of secure trans-Pacific cargo transportation is the development of a modern multimodal security system. Mexico is developing a pilot project that brings together elements of security, trade facilitation, and new technologies to serve as a model for APEC.

Manzanillo is Mexico's busiest Pacific port and will be the first seaport incorporated into the Trans-Pacific Multimodal Security System (TPMSS). Subsequently, the port of Lázaro Cárdenas will be added to the programme. Cargo generation programmes, customs modernisation, infrastructure enhancements and the use of Intelligent Transportation Systems (ITS) will help justify more frequent maritime service between Mexico and Asia. The Trans-Pacific Multimodal Security System constitutes an evolving and innovative public/private partnership that can be a model for other APEC economies.

The essence of the TPMSS is to build additional transportation capacity in the APEC region, realise operational improvements, implement innovative security and customs protocols while providing Mexico and its trading partners with direct access to globally competitive multimodal systems. The project proposes the development of a secure and agile transportation system to increase current capacity and enhance security.

##### **APEC Principles advanced by the project:**

- Trade facilitation & capacity building
- Full participation of smaller economies and SMEs
- Public/private partnerships
- Enhanced security through customs co-ordination & technological innovation

In terms of capacity building, the project seeks to create both the "hard" and "soft" infrastructure necessary to develop direct multimodal links, a forum of transportation that is becoming increasingly more important in the region. Together, the parties will intensify economic, technical and customs co-operation between the United States and Mexico; demonstrating how co-operation can increase trade while enhancing transportation infrastructure capacity.

The project promotes full participation in that Mexican businesses will be afforded facilitated access to global trade. The development of frequent, secure and direct maritime service between Mexico and its trading partners would facilitate trade, reduce costs and boost economic growth.

The public and private sectors are collaborating closely on the TPMSS. A close and continuous dialogue between the project stakeholders has established a platform for envisioning, defining and formulating regional initiatives designed to facilitate trade and promote global security.

##### **Counter Terrorism Strategy – Promoting Enhanced Security:**

The recent terrorist attacks in the U.S. have heightened concerns for security within the APEC region. The TPMSS will promote greater multilateral customs co-ordination and work to increase the integrity of cargo shipments as a means to advance the Shanghai Counter-Terrorism Declaration.

That declaration called for the implementation of projects designed to strengthen activities in the area of critical sector protection, including transportation. The Shanghai Declaration also called for customs authorities to better enforce laws while simultaneously minimizing the negative impacts of new security programmes on the flow of goods by implementing enhanced customs communication networks and developing a global integrated electronic customs network.

Founded on basic APEC principles, the TPMSS proposes to serve as an APEC Pathfinder risk management initiative for the trans-Pacific movement of cargo. The ABAC Chair has proposed that several APEC economies create a public/private working group that would jointly develop the TPMSS as a pilot project for the Business Anti-Smuggling and Security Coalition (BASSC), the Container Security Initiative (CSI), the U.S.-Mexico Smart Border plan and the U.S. Customs - Trade Partnership Against Terrorism.

### ***Security Enhancement # 1: Advancing Existing Security Initiatives***

#### ➤ Business Anti-Smuggling and Security Coalition (BASC)

The TPMSS could easily serve as a pilot project for the BASC programme. ABAC subscribes to BASC's efforts to unite the public and private sectors to combat terrorist activities and narcotics smuggling via legitimate commercial activities. The TPMSS envisions the use of Intelligent Transportation Systems that will permit officials to oversee the security of the entire manufacturing and shipping process, thus, creating a more security conscious environment at manufacturing plants. Eventually, Mexico would like to see the entire TPMSS obtain BASC certification.

#### ➤ Container Security Initiative (CSI)

The TPMSS can also serve as a pilot project for the CSI. Approximately 90% of the world's cargo is transported in containers, including half of the goods that enter the U.S. Therefore, container security is a vital issue. With the proper risk management and ITS, the TPMSS could help increase container safety by establishing security criteria to identify high-risk containers and pre-screening containers before they reach the U.S. border. The TPMSS will also provide facilitated treatment for those shippers who use advanced technologies such as laser sealing, bar coding and light or temperature sensitive alarms in containers. Advance information sharing would also be a significant part of the TPMSS's customs protocols. Vital information along the route would be shared through ITS between all the participating economies. The project will be a model for how mid-sized ports like Manzanillo, that are not amongst the world's top 20 megaports, can work to achieve CSI goals.

#### ➤ U.S.-Mexico Smart Border Plan

As part of the U.S.-Mexico Smart Border plan, laser-scan identification cards for frequent border cargo crossings, X-ray facilities, shared computer databases and special express lanes for pre-inspected shipments will be included in the TPMSS. All of these provisions will help increase security.

➤ U.S. Customs-Trade Partnership Against Terrorism

The TPMSS could be the genesis of a public/private initiative to build co-operative relationships that strengthen overall supply chain and border security. Through a TPMSS pilot project, Customs officials could work with the private sector to ensure the integrity of their business practices and communicate their security guidelines to their partners within the supply chain.

***Security Enhancement #2: Multiple Security Checkpoints***

Currently, Mexico is working with the a private firm to create an ITS Security White Paper for the TPMSS. The preliminary security plan foresees a system that will serve as a risk management pilot project with a series of physical and virtual checkpoints. Goods will be sent via secure containers, pass through several X-ray arcs at different locations, and have ITS lead them along the route.

For example, it is envisioned that goods shipped through the TPMSS will travel the following path. First, goods will undergo an initial security revision at the shipper's location and/or during their transshipment. The originating port will then send advance notification to the transshipment port and the destination economy's Customs agency with the corresponding "pre-clearance" information on the cargo. When the containers arrive at the transshipment port, they will proceed through an X-ray arc, but will not clear Customs. Any containers with anomalies will be removed from the special in-bond regimen. If no anomalies are detected, the containers will continue on towards their final destination. The containers will be tracked by a GPS system and monitored by ITS during the entire journey. When the train crosses the U.S. – Mexico border, the containers will pass through yet another X-ray arc, but may not clear Customs at that time. Again, any containers with anomalies will be removed from the special in-bond programme. They will undergo a full customs inspection at their border crossing into the destination economy. The cargo will then travel to its final destination, while being GPS/ITS tracked to the trade-processing centre.

Another part of this agile transportation system is the provision of special treatment for "AAA" cargo. For a business to be certified as an "AAA" client under the pilot project, it must have passed a series of rigorous information sharing, security and best practices requirements. Security measures like "AAA" client certification and ITS will enhance the overall system of multiple checkpoints throughout the entire TPMSS.

**Conclusion**

In conclusion, using the TPMSS as a pilot project for the above mentioned programmes would be a positive contribution to global security. The TPMSS could be a laboratory for the development of innovative risk management and customs modernisation protocols for

the participating APEC economies; and could serve as a pathfinder initiative that can be readily duplicated in other economies. The project advances several important APEC principles, such as trade facilitation, public/private partnerships and capacity building. Most importantly, the risk management systems proposed under the TPMSS would help increase trans-Pacific trade while promoting a more secure transportation network for the entire APEC community.

## v. Glossary of Terms

### *Action Agenda on the New Economy*

The Action Agenda on the New Economy outlines programmes that will help APEC economies use advances in information technology to boost productivity and stimulate growth and extend services to the whole community. The Action Agenda includes ways to promote the right policy environment and to build capacity to help create a framework to strengthen markets, electronic commerce, infrastructure, knowledge and skills development and provide affordable and more efficient access to communications and the Internet.

### *APEC Food System*

The APEC Food System aims to link together food production, food processing and consumption to meet the food needs of people and achieve sustainable growth, equitable development and stability in the APEC region. It calls for action in three areas, namely: (a) rural infrastructure development; (b) promotion of trade in food products; and (c) dissemination of technological advances in food production and processing.

### *APEC Trade Facilitation Action Plan*

The APEC Trade Facilitation Action Plan provides the framework and schedule to achieve the Trade Facilitation targets set out in the Shanghai Accord. It includes a menu of concrete actions and measures to reduce the costs of international trade transactions. The actions and measures fall under one of four categories: (a) movement of goods (to include customs, port, health and quarantine and similar procedures); (b) standards; (c) business mobility; and (d) e-commerce.

### *APEC Vision*

This relates to the vision, created by APEC Leaders in 1993, of a community of Asia-Pacific economies in which, *inter-alia*, the spirit of openness and partnerships deepens; dynamic economic growth continues; goods, services, capital and investment flow freely among economies; and people share the benefits of economic growth.

### *Bogor Goal*

The Bogor Goal pertains to the commitment of APEC member economies to achieve free and open trade and investment by no later than 2020. The pace of implementation will take into account the differing levels of economic development among APEC economies, with the industrialised economies achieving the goal of free and open trade and investment by no later than 2010 and developing economies by no later than 2020.

### *Capacity Building*

Capacity building is derived from the original goal of economic and technical co-operation in which institutional, individual and system capacities are enhanced and/or developed in order for economies and organisations within economies to better participate in growth from a position of relative competitiveness.

#### *Collective Action Plans*

Collective Action Plans contain measures agreed upon in different APEC fora through the process of consensus. These measures focus essentially on facilitating trade and investment and on making the conduct of business in the region easier, cheaper, faster, more predictable and transparent. Collective Action Plans are carried out through the APEC Committee on Trade and Investment and its various sub-fora.

#### *Doha Development Agenda*

The Doha Development Agenda relates to the ongoing negotiations in the World Trade Organisation (WTO) launched by the Fourth WTO Ministerial Conference in Doha, Qatar in November 2001. The declaration of the Ministerial Conference provide the mandate for negotiations on a range of subjects and other work, including issues concerning the implementation of present agreements.

#### *Economic and Technical Co-operation*

Economic and technical co-operation (ECOTECH) relates to measures that directly support liberalisation and facilitation. In 1996, APEC adopted the Declaration on an APEC Framework for Strengthening Economic Co-operation and Development to give greater coherence and direction to ECOTECH. The Framework provides for six organising themes, namely: (a) developing human capital; (b) developing stable and efficient capital markets; (c) strengthening economic infrastructure; (d) facilitating technology flows and harnessing technologies for the future; (e) safeguarding the quality of life through environmentally sound growth; and (f) developing and strengthening the dynamism of small and medium enterprises (SMEs).

#### *ECOTECH Action Plans*

The ECOTECH Action Plans (EAPs) provide a way of tracking individual and collective efforts in ECOTECH. They are currently focused on the theme human resources development (HRD) and based on the Common Policy Concepts (goals, basic principles and priorities in a specific area) set out in the Osaka Action Agenda. EAPs seek to move forward ECOTECH to show the progress APEC has made in this area and list the co-operative activities economies are considering to achieve HRD goals. The rationale behind the focus on individual and co-operative actions is to share best practices among APEC economies.

#### *e-APEC Strategy*

The e-APEC Strategy develops and expands the Action Agenda for the New Economy by identifying the necessary policy environment and specifying appropriate goals and actions, drawing upon the existing efforts and on-going works within APEC. It develops a forward-looking, long-term, and action-oriented plan under three pillars: (a) to create an environment for structures and institutions; (b) to facilitate an environment for infrastructure investment and technology development; and (c) to enhance human capacity building and promote entrepreneurship.

### *Individual Action Plans*

Individual Action Plans (IAPs) are voluntary submissions by APEC member economies that record trade and investment liberalisation and facilitation measures undertaken or planned by them to achieve the Bogor goal. Aside from the fifteen trade and investment liberalisation and facilitation issue areas listed below, APEC economies have also submitted IAPs on paperless trading.

### *Osaka Action Agenda*

The Osaka Action Agenda is the template for achieving the Bogor goal of free and open trade and investment. It has three pillars, namely: (a) trade and investment liberalisation; (b) trade and investment facilitation; and (c) economic and technical co-operation. APEC economies are guided by a set of fundamental principles in the pursuit of liberalisation and facilitation: comprehensiveness; WTO-consistency; comparability; non-discrimination; transparency; standstill; simultaneous start, continuous process, and differentiated timetables; flexibility; and co-operation. The principles of mutual respect and equality, mutual benefit and assistance, constructive and genuine partnership and consensus building govern the conduct of economic and technical co-operation.

Trade and investment liberalisation and facilitation, to be pursued through individual and collective actions as well as actions related to multilateral fora, include the following issue areas: tariffs; non-tariff measures; services; investment; standards and conformance; customs procedures; intellectual property rights; competition policy; government procurement; deregulation/regulatory review and reform; implementation of WTO obligations (including rules of origin); dispute mediation; mobility of business people; and information gathering and analysis.

Specific areas covered under economic and technical co-operation include: agricultural technical co-operation; energy; fisheries; human resources development; industrial science and technology; marine resource conservation; small and medium enterprises; telecommunications and information; tourism; trade promotion; and transportation.

### *Pathfinder Approach*

The pathfinder approach is a mechanism designed to enable economies that are ready to implement a particular co-operative arrangement to do so as long as it is in the general direction approved by all APEC member economies and/or is consistent with what APEC wants to achieve.

### *Shanghai Accord*

The Shanghai Accord is a visionary document that spells out APEC's agenda for 2002 and beyond. It broadens the APEC vision, clarifies the roadmap to Bogor, and strengthens implementation mechanisms within APEC. Key elements include, among others: broadening the Osaka Action Agenda to reflect fundamental changes in the global economy (e.g., through implementation of the e-APEC Strategy and strengthening the functioning of markets); adopting the pathfinder approach in advancing some APEC initiatives; promoting the adoption of appropriate policies for the New Economy; follow up on the Trade Facilitation Principles (i.e., reduce transactions cost by 5% over the next 5 years); adoption of transparency principles; and strengthening the IAP Peer Review Process.

### *Trade Facilitation*

Trade facilitation generally refers to the simplification, harmonisation, use of technology and other measures to address procedural and administrative impediments to trade.