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

I. Introduction

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

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

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

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

II. Business Vision of an APEC Community

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

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

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

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

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

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





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

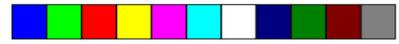
III. Changes in the World Economic Environment since Bogor

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

Key features of the new environment are:

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

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



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

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

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

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

IV. What and How Can APEC Deliver?

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

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

A. Trade and Investment Liberalization

(1) Trade in Goods

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

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

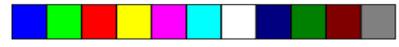
APEC economies need to see:

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

(2) Trade in Services

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





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(3) Investment Liberalization

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

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

B. Trade and Investment Facilitation

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

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

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

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

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

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

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

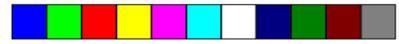
C. Mitigating Negative Effects of RTAs/FTAs

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

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

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

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



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

D. Capacity Building

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

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

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

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

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

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

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

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

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

E. Strengthening Financial Systems

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





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

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

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

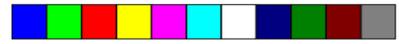
- The development of robust long-term capital markets;
- Providing high quality public and private bond issues to meet the needs of pensioners/retirees in properly regulated savings products and markets;
- Risk assessed bond issuance practices with reliable credit rating assessments, market risk pricing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

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

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

F. Coping with Emerging Challenges

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



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

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

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

V. Toward a Stronger and More Effective APEC Process

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

A. Moving to Enhanced “Concerted Action” on Facilitation

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

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

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

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

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





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B. Going Further to Binding Commitments

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

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

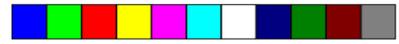
In the Santiago Declaration, Leaders sought "recommendations on how to further liberalize trade and investment in the region". ABAC suggests that a Free Trade Area of Asia-Pacific should be examined. To that end, ABAC reiterates its 2004 recommendation that APEC Leaders establish a high-level task force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

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

C. Strengthening APEC's Institutional Capability

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

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



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

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

D. Reform of APEC and Relationship with ABAC

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

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

