



APEC Business Advisory Council
Report to APEC Economic Leaders **2004**
Volume 1 EXECUTIVE SUMMARY

Bridging the Pacific:

**COPING with the
CHALLENGES of
GLOBALIZATION**

Santiago, CHILE



APEC Business Advisory Council



His Excellency

Mr. Ricardo Lagos

President of Chile

Chair, Asia-Pacific Economic Cooperation

Santiago, Chile

Your Excellency:

We, the members of the APEC Business Advisory Council, are honored to convey to you our Report and recommendations to APEC Leaders based on our work in 2004.

It has been a year of greatly increased business attention to trade policy. The Council has worked intensively to carry out its duties of providing timely and relevant advice to APEC.

Regional economic growth and prosperity were threatened by the long pause in the WTO negotiations and it is with considerable relief that we welcome the recent progress in Geneva. We reaffirm our full continued support for the WTO negotiations and call on APEC Leaders to summon with urgency the will to complete the Doha Development Agenda. Much is at stake because the future prosperity of the Asia-Pacific region hangs on a positive outcome.

In our work this year, we have focused on what needs to be done to reinvigorate APEC's agenda and its relevance to business. We believe that the Bogor Goals that remain at the heart of APEC's agenda will not be achieved unless APEC adopts a much more ambitious approach. We observe that increasingly, the will for trade and investment liberalization in the region is being channeled into regional trading arrangements/free trade agreements. While we acknowledge that these arrangements may enhance trade relations between individual economies, we urge APEC Leaders to ensure that they are designed and implemented to serve as 'building blocks' toward the achievement of the Bogor Goals and progress at the multilateral level.

As part of our work this year, we have examined a number of new ideas and initiatives. In our Report, we tabled a proposal for an ambitious Trans-Pacific Business Agenda that can significantly enhance the scope and effectiveness of APEC's trade facilitation initiatives and we call for a joint scoping study with a view to launch this initiative by 2005. We also explored a proposal for a Free Trade Area of the Asia-Pacific (FTAAP) that may have the potential of bringing significant economic benefit to the region as a whole. We believe that this idea requires and is worthy of further careful study. We therefore recommend the establishment of a high-level task force by APEC Leaders to examine the concept in more detail.

Our work this year also covered a number of other areas that are central to the needs of business and economic prosperity. We examined the impact of the new security threats on business costs, the need to strengthen financial systems and improve financial security, the importance of building capacity at all levels, the continued relevance of APEC's work on standards and conformance, and the urgent need to address the debilitating effects of corruption on business. In each of these key areas we make recommendations in our Report on what can be done to enhance APEC's effectiveness and relevance.

In the spirit of public and private sector partnership, we have interacted more closely with the APEC process at different official levels this year. We have found this closer engagement most constructive in terms of facilitating mutual understanding of common challenges.

We look forward to your response to our recommendations and hope that they will be reflected in your 2004 Declaration. We commit to you our support for their implementation.

Yours sincerely,

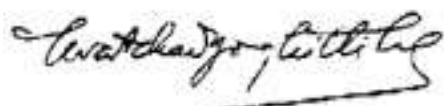


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ABAC Chair 2004

President

Chilean Association of Banks and Financial Institute



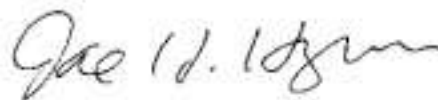
Dr. Twatchai Yongkittikul

ABAC Co-Chair

Secretary General

Thai Bankers' Association

Thailand



Mr. Jae-Hyun Hyun

ABAC Co-Chair

Chairman

Tong Yang Group

Korea

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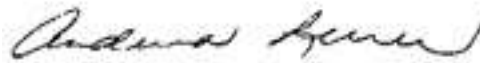
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Fletcher Challenge Forests Ltd.
Chair, Action Plan Monitoring Committee
New Zealand



Dr. Qin Xiao
Chairman
China Merchants Group Ltd.
Chair, Capacity Building Working Group
China



Dato' Dr. Tan Tat Wai
Group Managing Director
Southern Steel Berhad
Co-Chair, Action Plan Monitoring Committee
Malaysia



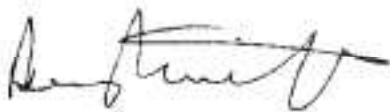
Ms. Andrina Lever
President
Lever Enterprises
Co-Chair, Capacity Building Working Group
Canada



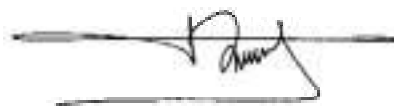
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Chairman
Raffo Group
Co-Chair, Action Plan Monitoring Committee
Peru



Mr. Palgunadi Setyawan
Managing Partner and Vice Chairman
UPR's Board of Trustee
UPR Communications
Co-Chair, Capacity Building Working Group
Indonesia



Mr. Benigno Ricafort
Chairman
Naturecraft Industries Corporation
Co-Chair, Action Plan Monitoring Committee
Philippines



Eng. Javier Prieto
Senior Vice President for External Affairs
CEMEX Group
Co-Chair, Capacity Building Working Group
Mexico



Ms. Wendy Pye
Managing Director
Wendy Pye Group
Co-Chair, Capacity Building Working Group
New Zealand

ABAC Members



Mr. Mark Johnson
Deputy Chairman
Macquarie Bank Ltd.
Chair, Finance and Services Working Group
Australia



Mr. Roberto Romulo
Chairman
Equitable Card Network, Inc.
Chair, Trade and Investment Liberalization and Facilitation Working Group
Philippines



Mr. Yasuo Kanzaki
Special Advisor
Nikko Citigroup Ltd.
Co-Chair, Finance and Services Working Group
Japan



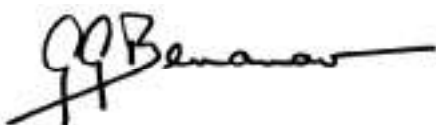
Mr. Gordon Chu
Advisor to the President
Chief Executive Officer
Terminal Systems, Inc.
Co-Chair, Trade and Investment Liberalization and Facilitation Working Group
Canada



Dr. Jeffrey Koo
Chairman and Chief Executive Officer
Chinatrust Financial Holding Company Ltd.
Co-Chair, Finance and Services Working Group
Chinese Taipei



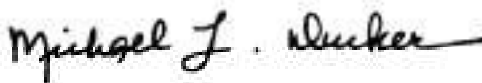
Mr. Juan Villarzu
President and Chief Executive Officer
Chilean Copper Corporation (CODELCO)
Co-Chair, Trade and Investment Liberalization and Facilitation Working Group
Chile



Mr. Gary Benanav
Chairman and Chief Executive Officer
New York Life International
Co-Chair, Finance and Services Working Group
USA



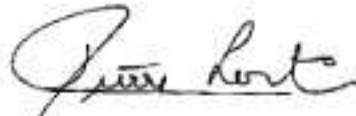
Mr. Nobuhiko Kawamoto
Executive Advisor
Honda Motors Co., Ltd.
Co-Chair, Trade and Investment Liberalization and Facilitation Working Group
Japan



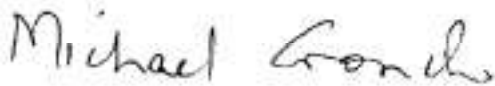
Mr. Michael Ducker
Executive Vice President
International and Express Freight Service
FedEx Express
Co-Chair, Trade and Investment Liberalization and Facilitation Working Group
USA



Mr. Peter Charlton
Chairman
First Charlton Communications
Australia



Mr. Pierre Lortie
President and Chief Operations Officer
(Retired)
Bombardier Transportation
Canada



Mr. Michael Crouch
Executive Chairman
Zip Industries (Aust) Pty. Ltd.
Australia



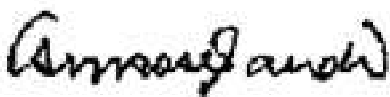
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Vice Chairman
Banco de Chile
Chile



Mr. H. Idris BH Abas
Founder and Principal
Arkitek Idris
Brunei Darussalam



Ms. Wang Lili
Executive Vice President and Board Member
Industrial and Commercial Bank of China
China



Mohd Roselan Mohd Daud
Managing Director
The Islamic Bank of Brunei Berhad
Brunei Darussalam



Mr. Zhang Lijun
Chairman
Sino-Interest Worldwide Economic Group
China



Mr. Timothy Ong
Deputy Chairman
Brunei Economic Development Board
Brunei Darussalam



Mr. James Hughes-Hallett
Chairman
Swire Pacific Ltd.
Hong Kong, China

ABAC Members



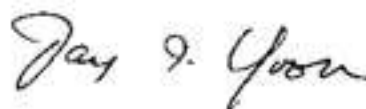
Dr. Raymond Chi'en Kuo-fung
Executive Chairman
Chinadotcom Corporation
Hong Kong, China



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Chairman and Chief Executive Officer
Daesung Group
Korea



Mr. Chee Chen Tung
Chairman and Chief Executive Officer
Orient Overseas (International) Ltd.
Hong Kong, China



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President and Chief Executive Officer
Cadland, Inc.
Korea



Ms. Gunarni Soeworo
Vice President Commissionaire
P.T. Bank Niaga Tbk.
Indonesia



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Chairman
AmBank Group
Malaysia



Mr. Iman Taufik
Founder and Chairman
P.T. Gunanusa Utama Fabricators
Indonesia



Tengku Tan Sri Dr. Mahaleel
Chief Executive Officer
Proton Berhad
Malaysia



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Senior Vice President
Fuji Xerox Co., Ltd.
Japan



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Chairman and Chief Executive Officer
Coraza Corporación Azteca, S.A. de C.V.
Mexico



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Executive Chairman
Montana Group NZ Ltd.
New Zealand



Ms. Teresita Sy Coson
President
Shoemart, Inc.
Philippines



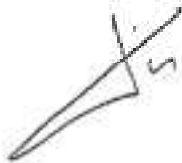
Mr. Wayne Kenneth Golding
Chairman
Manufacturers' Council of Papua New Guinea
Papua New Guinea



Mr. Oleg Deripaska
Chairman, Board of Directors
JSC Basic Element
Russian Federation



Mr. Matthew Tjoeng
Managing Director
Shine Way Development Ltd.
Papua New Guinea



Mr. Yuri Komarov
Deputy Chairman, Executive Board
JSC Gazprom
Russian Federation



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Executive Director
Sudamericana de Fibras S.A.
Peru



Mr. Andrey Kostin
President-Chairman, Executive Board
Vneshtorgbank
Russian Federation



Mr. Eduardo Hochschild
Executive Vice President
Hochschild Group
Peru



Mr. Ng Ser Miang
Chairman
TIBS International Pte. Ltd.
Singapore



Mr. Teng Theng Dar
Chief Executive Officer
Intraco Ltd.
Singapore



Dr. Savaraj Sachchamarga
Vice Chairman
Thai Chamber of Commerce
Thailand



Ms. Chong Siak Ching
President and Chief Executive Officer
Ascendas Pte.Ltd.
Singapore



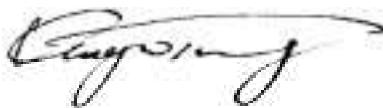
Mr. Roberto Prieto
Senior Vice President
Fluor Corporation
USA



Mr. Henry Kao
Vice Chairman
I-Mei Foods Co., Ltd.
Chinese Taipei



Mr. Le Quoc An
Chairman
Vietnam Textile and Apparel Association
Vietnam



Mr. Theodore Huang
Chairman of the Board
TECO Group
Chinese Taipei



Mr. Ngo Van Thoan
Director General
Vietnam Trade Promotion Agency
Vietnam



Dr. Vu Viet Ngoan
General Director and Chief Executive Officer
Bank of Foreign Trade of Vietnam
Vietnam

ABAC Report to APEC Economic Leaders Executive Summary

ABAC is encouraged by this year's brighter global economic picture, which gives the region the opportunity to move aggressively on measures to promote economic growth and prosperity. While ABAC anticipates stronger growth in the APEC region, there are continued risks and uncertainties with regard to global trade and investment.

In the 2004 ABAC Report, ABAC urges APEC Economic Leaders to take prompt and decisive action to promote global and regional free trade, ensure the growth of financial markets that underpin economic growth, and secure economic stability in all economies. ABAC's theme in 2004 is "**Bridging the Pacific: Coping with the Challenges of Globalization.**" In this report, ABAC makes recommendations to APEC Leaders in six key issue areas, as follows:

1. ABAC applauds the significant breakthrough achieved by the World Trade Organization (WTO) members on 31 July 2004 in approving a framework and other agreements that are considered the foundation for the continued negotiation in the Doha Round. It urges APEC economies to continue to work together to achieve an early and substantive outcome to the Doha Development Agenda. ABAC recommends that economies:

- Present a collective approach to advance the WTO negotiations on agriculture involving improved market access through the reduction of tariffs, elimination of export subsidies and substantial reduction in trade distorting domestic support.
- Develop a specific tariff reduction formula with comprehensive coverage for non-agricultural market access

(NAMA), which should fully respect the Doha mandate.

- Move quickly to table services offers in advance of the new May 2005 Doha Development Agenda deadline to bring balance to the negotiations, focusing on priority areas within the services negotiations including financial services, movement of natural persons, and recognition and regulation of professional standards.
- Support revisions to the WTO Anti-Dumping Agreement to clarify and improve the rules and disciplines on anti-dumping.
- Leverage APEC's trade facilitation agenda to bring definition to the WTO negotiations on trade facilitation with a view to concluding a comprehensive and binding agreement and ensuring capacity building assistance continues to be provided to WTO developing members. Support of initiatives, like the Trade Facilitation Alliance, is important to encourage the participation of businesses within the region.

2. The Bogor Goals are the cornerstone of APEC's trade and investment liberalization and facilitation agenda. This commitment has been constantly reaffirmed by the APEC Leaders. Yet it appears increasingly unlikely that the 2010 deadline set for developed economies to achieve the Bogor Goals of free and open trade and investment will be met. This is a major concern to ABAC since it goes to the heart of APEC's credibility as a regional economic cooperation forum. ABAC recommends that economies:

- Ensure that regional trading arrangements (RTAs)/free trade agreements (FTAs) serve as 'building blocks' toward the achievement of the Bogor Goals by developing and adopting Best Practices for RTAs/FTAs in the APEC region with key principles, including consistency with WTO rules and procedures, with the Bogor Goals, and with other APEC principles such as those that apply to competition, regulatory reform, investment, government procurement and trade facilitation. To this end, establish public/private sectoral advisory groups to help develop best practices approach to RTAs/FTAs, beginning with the financial services sector.
 - Expand on the proposal for an integrated regional market by undertaking a joint scoping study with a view to launching, by the 2005 APEC Leaders Summit, an ambitious new Trans-Pacific Business Agenda.
 - Agree in Santiago in 2004 to further examine the feasibility and potential scope and features of a Free Trade Area of the Asia-Pacific (FTAAP). This process could be conducted by a high-level task force, which should be fully representative of APEC economies, and include government representatives as well as business and academic experts. Its task would be to examine the FTAAP concept in more detail with a view to presenting a report to APEC Leaders in 2005, taking into account the results of APEC's mid-term review and on-going progress in the WTO negotiations.
3. The new security environment has complicated progress on the trade facilitation action plan and brought additional costs to businesses in the APEC region. Security compliance costs risk jeopardizing APEC's commitment to reduce trade transaction costs by five percent by 2006. ABAC recommends that economies:
- Adopt a range of specific measures aimed at reaching the target of a five percent reduction in transaction costs, including streamlining of customs procedures, strengthening standards and conformance infrastructure, and expanding the APEC Business Travel Card scheme.
 - Balance trade and security requirements through consultation and information sharing with the business community on the application of new security requirements. Cooperate to provide technical assistance to assist developing economies with security compliance.
 - Facilitate investment by strengthening cooperation among enforcement agencies in protecting intellectual property rights, developing a robust economic legal infrastructure, adopting a common accounting framework, and enhancing transparency in investment regulations.
 - Support the development of the APEC Privacy Framework and encourage its adoption and implementation by all member economies.
4. The improved global economic outlook presents an excellent opportunity to strengthen the financial systems that support economic growth by accelerating reforms; helping vulnerable economies in APEC deal with potential adverse implications of volatile

capital movements; securing a better understanding of what each economy needs to do to deepen capital markets; developing effective public/private partnerships to improve financial system security, governance and combat corruption; and, given the recent breakthrough in the WTO, taking major initiatives to promote financial services liberalization. While significant progress has been made in capacity building to improve financial standards and to address capital market issues, more work is needed. ABAC recommends that economies:


- Strengthen financial systems by increasing the capacities and resources of regulatory agencies to support the implementation of Basel 2 standards on capital adequacy in banking; endorsing the conclusions and recommendations of the report of the ABAC/PECC bond market conference and assisting economies to make self-assessments on progress; endorsing new international financial reporting standards and measures for the orderly convergence to those standards in member economies; implementing recommendations by the International Institute of Finance (IIF), Bank for International Settlements (BIS) and Financial Stability Forum (FSF) on policies to mitigate against adverse consequences arising from volatile capital flows and the activities of hedge funds and highly leveraged institutions; and endorsing IIF recommendations on corporate governance.
- Improve financial system security by deepening the consultative processes between public agencies and regional and international bodies with private sector finance groups to build

awareness and develop policies, laws and regulations to combat terrorist funding, corruption, and money laundering arrangements.

- Support the role and objectives of the Advisory Group on APEC Financial System Capacity Building, and provide funding for the training of relevant officials to participate in APEC sponsored financial sector capacity building initiatives.
- Establish a new APEC Ministerial Committee on Regional Technical Cooperation as recommended in ABAC's mid-term assessment of APEC.

5. Capacity building in the APEC region is essential to fulfilling the Bogor Goals, and must be conducted at the institutional, organizational and human level in order to succeed. As such, APEC economies must work together to address critical capacity building needs at all of these levels. ABAC recommends that economies:

- Enhance collaboration between health and trade negotiation delegations within APEC and encourage interaction between the APEC Trade Ministerial and Health Ministerial processes. Encourage APEC economies' health authorities to take a more proactive and strategic approach to ensure early consideration of public health issues as they relate to trade.
- Enhance capacity building efforts in the area of standards and conformance, including undertaking independent assessments of standards and conformance infrastructure in each APEC economy to identify weaknesses and plan actions to rectify them and develop



APEC-wide seminars to promote the business case for the establishment of a standards and conformance regime across the region. Provide other capacity building programs to ensure greater participation in international standards setting organizations.

- Identify bottlenecks in regional supply chains associated with gaps in cross-border logistics infrastructure. Enhance the capability of logistics infrastructure to resist, respond, and recover from acts of terrorism and piracy; such efforts could include development of coordinated vessel and cargo monitoring systems in the APEC region.
- Promote cooperation among enforcement agencies to protect intellectual property rights, including developing practical measures to share information, helping economies address new and emerging forms of intellectual property (IP)-related crimes, and increasing cross-border collaboration.
- Strengthen capacity building efforts to support SMEs in the services sector, including providing technical assistance to APEC developing economies on services exporting, building regional

best practices networks to support SME services trade, and addressing barriers to SME services exporters within WTO and APEC.

- Support the development of an APEC Business Schools Network (ABSN), which would aim to build partnerships among these institutions and promote English as the regional medium of business.

6. Given the changing landscape in the region, APEC must strengthen its efforts and strategies to remain relevant and effective. Above all, APEC must commit to the notion fundamental to and enshrined in the Bogor Goals, of “concerted” implementation of the trade and investment reform agenda.

APEC must strengthen its mechanism to ensure a higher level of implementation of APEC initiatives. ABAC offers a number of specific proposals for intensified implementation of APEC commitments set out in detail in the report. These include action with respect to Anti-Corruption in Government Procurement, the APEC Non-Binding Investment Principles, liberalization of air transportation cargo, the Digital Economy Statement, energy security, and environmental protection.

The APEC Business Advisory Council

Founding and Structure

The APEC Business Advisory Council (ABAC) was created by the APEC Economic Leaders in November 1995 to provide advice on the implementation of the Osaka Action Agenda and on other specific business sector priorities, and to respond when the various APEC fora request information about business-related issues or to provide the business perspective on specific areas of cooperation. It is the sole non-governmental entity that has an official role in the APEC Economic Leaders' Meeting through a formal dialogue.

ABAC comprises of 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. 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, the 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 2004

In 2004, Chile assumed the chairmanship of the Council, with Thailand and Korea serving as co-chairs, following the APEC order. Co-chairs represent immediate past and future chairs.

ABAC adopted the theme "Bridging the Pacific: Coping with the Challenges of Globalization," which addressed the following issues:

- achieving concrete results for the WTO Doha Development Agenda;
- reinvigorating APEC's trade and investment liberalization and facilitation agenda;
- coping with new challenges for trade and investment;
- strengthening financial systems in the APEC region;
- capacity building to face the challenges of globalization; and
- enhancing the effectiveness of APEC.

ABAC established three working groups and a committee to carry forward its work during the year. These were:

- Action Plan Monitoring Committee (APMC);
- Capacity Building Working Group (CBWG);
- Finance and Services Working Group (FSWG); and
- Trade and Investment Liberalization and Facilitation Working Group (TILFWG).

In addition, ABAC maintained the Core Group on Communications Outreach established in 2003 to advance its communications outreach program.

Four meetings were held in 2004: Miami, Florida, USA (3-6 February); Taipei, Chinese Taipei (11-14 May); Auckland, New Zealand (18-20 August); and Santiago, Chile (16-18 November). A meeting of the Advisory Group on APEC Financial System Capacity Building was convened in Auckland, New Zealand on 19 August and a special meeting on financial system capacity building was held in Taipei, Chinese Taipei on 10 May.

Recognizing the value of working closely with relevant APEC fora, ABAC actively participated

in various APEC meetings: SOM I and related meetings (Santiago, Chile: 23 February – 3 March); SOM II and related meetings (Pucon, Chile: 24 May – 2 June); SOM III and related meetings (Santiago, Chile: 22 September – 4 October); Meeting of APEC Ministers Responsible for Trade (Pucon, Chile: 4-5 June); APEC Finance Ministers' Meeting (Santiago, Chile: 2-3 September); and APEC SME Ministerial Meeting (Santiago, Chile: 6-7 October). ABAC also took part in the IAP peer reviews of Chile, China, Peru, Singapore, Chinese Taipei and the United States held at the margins of SOM II and SOM III. ABAC chaired the Expanded Dialogue on Trade Facilitation held in Santiago, Chile on 1 October.

Other events organized by ABAC members included: Business Symposium on "APEC 2004: Consensus, Cooperation and Commitment" (Miami, Florida, USA: 4 February); and ABAC/ PECC Bond Market Conference (Taipei, Chinese Taipei: 10-11 May).

In line with the precedent set during the past two years, ABAC developed and submitted an Interim Report to APEC Economic Leaders through the Meeting of APEC Ministers Responsible for Trade held in Pucon, Chile in June. The Interim Report elaborated on, and outlined recommendations on, trade and investment issues covered under the 2004 work program. In addition, ABAC submitted separate reports and recommendations to the

APEC Finance and SME Ministerial Meetings held in Santiago, Chile in September and October, respectively.

Studies and Related Work

To support its work and deliberations, ABAC undertook a number of research studies and initiatives, to wit:

- Capacity Building in the Services Sector for SME Development;
- Project to Build Confidence in and Support for Financial Services Liberalization; and
- Issues Paper on Canada's Proposal for a Free Trade Area of the Asia-Pacific.

ABAC also continued to pursue an active communications outreach program aimed at increasing the level of awareness and appreciation of ABAC issues and activities within the business community in the region.

Future Work

ABAC remains fully committed to providing advice to APEC Leaders on business sector priorities and in pushing forward the APEC agenda on trade and investment liberalization and facilitation. Future work will focus on capacity building, strengthening financial systems, trade facilitation, the monitoring of APEC commitments and the assessment of progress towards the Bogor Goals.

