

PASCN Discussion Paper No. 99-11

**The Changing Expectations
of the Private Sector in the APEC Process:
APEC Business Advisory Council**

Juan Miguel Luz



The *PASCN Discussion Paper Series* constitutes studies that are preliminary and subject to further revisions and review. They are being circulated in a limited number of copies only for purposes of soliciting comments and suggestions for further refinements.

The views and opinions expressed are those of the author(s) and do not necessarily reflect those of the Network.

Not for quotation without permission from the author(s).

PASCN Discussion Paper No. 99-11

**The Changing Expectations
of the Private Sector in the APEC Process:
APEC Business Advisory Council**

Juan Miguel Luz

March 1999

The *PASCN Discussion Paper Series* constitutes studies that are preliminary and subject to further revisions and review. They are being circulated in a limited number of copies only for purposes of soliciting comments and suggestions for further refinements.

The views and opinions expressed are those of the author(s) and do not necessarily reflect those of the Network.

Not for quotation without permission from the author(s) and the Network.

For comments, suggestions or further inquiries please contact:

The PASCN Secretariat
Philippine Institute for Development Studies
NEDA sa Makati Building, 106 Amorsolo Street
Legaspi Village, Makati City, Philippines
Tel Nos: 893-9588 and 892-5817

The Changing Expectations of the Private Sector in the APEC Process: APEC Business Advisory Council

Juan Miguel Luz*

Introduction

The voice of the private sector was institutionalized with the creation of the APEC Business Advisory Council or ABAC by the APEC Leaders at the Osaka meeting in November 1995. This was in response to the business community's call for a private sector body to advise the Leaders made by the forerunner of ABAC, the Pacific Business Forum (PBF). The intent of the PBF was to create such a body "to act as an independent voice of the business community with direct input to the Economic Leaders; review progress with regional trade and investment liberalization; and recommend future work to improve the business environment in the region."¹

The Council was established in 1996 with each of the member economies appointing three private sector leaders (at most), with at least one delegate representing or speaking out for the interests of small and medium enterprises in their respective economy. Since 1996, ABAC has met quarterly and presented three reports to Leaders in Manila (1996), Vancouver (1997) and Kuala Lumpur (1998).

The Council's membership is comprised of business leaders from the highest level per economy and as such the level of discussion has been more of strategic directions rather than operating details. This has been reflected in the ever-evolving agenda of the Council and the manner by which the work of the first two years through standing committees has been radically restructured in the third (and fourth and upcoming year) to work carried out by task forces appointed to address key result areas and then promptly disbanded upon the completion of the task or upon reaching a certain critical stage of the task at hand.

The expectations of private sector leaders might therefore be characterized into two: (a) An agenda which is strategic in nature, and (b) Implementation of the agenda through programs within the APEC process as carried out by bureaucrats. The latter reflects the recommendations made in the former and is monitored by both the APEC Secretariat and the Action Plan Monitoring Committee within ABAC.²

The agenda which is the at the heart of ABAC and its strategic concerns has also evolved dramatically with the unfolding of the Asian financial/economic crisis

* Programs Manager, Washington Sycip Policy Forum, Asian Institute of Management and Director of Operations, ABAC International Secretariat, Manila, Philippines. The views expressed in this paper are the author's and do not represent any ABAC position. The paper was presented during the *Third Annual PASCN Symposium-Meeting*, 10-11 December 1998.

¹ ABAC Report to the APEC Economic Leaders 1996, "APEC Means Business: Building Prosperity for Our Community", Manila, Philippines, November 1996.

² The Action Plan Monitoring Committee was set up to monitor the individual action plans that arose out of the Manila Action Plan Agenda (MAPA) agreed at the Manila Summit in November 1996.

which has revealed deeper structural concerns than earlier anticipated or ever imagined. While APEC was created with trade and investment liberalization and facilitation (TILF) as its end objective and supported by a strong economic/technical cooperation agenda and a desire to build the corresponding community around such an agenda, the crisis has revealed the importance of finance and, in the current jargon, the need for “new financial/economic architecture” if APEC is to see its way through these difficult times. This has shaped the discussion within ABAC and it is not an exaggeration to point out that the financial crisis is at the heart of ABAC discussions as this has had an effect on everything within the private sector. (The absence of finance ministers at the Economic Leaders meeting has been pointed out by ABAC at the last two dialogues in Vancouver and Kuala Lumpur, a point it continues to raise pertaining to the relevance of the APEC process in addressing the current financial and economic crisis.)

Changing Agenda

In the short three year existence of ABAC, the region has moved from being the fastest-growing regional economy of the world to one in which a number of high growth countries are now in recession, including the second largest, Japan. The impact of the currency meltdown leading to an economic recession in the real sector of member economies has not been lost on the priorities of ABAC.

In 1996, at the height of the high growth period, the agenda of the private sector as reflected in ABAC was for trade and investment liberalization and facilitation. Impediments to flows of people, goods, services, information and capital across borders that directly affect business was of highest priority to the Council. The flagship recommendations reflected these priorities:

- Endorsement of the creation of an APEC Business Visa
- Establishment of APEC Business Immigration Lanes in ports of entry to facilitate business-related travel
- Establishment of an APEC Central Registry for Trademarks and Patents to promote investment and technology flows
- Commitment to adopt a set of common professional standards for business-related service providers in the region
- Adherence to 100% implementation of the Bogor trade and investment liberalization goals

Likewise, in finance and investment, business pushed for the accelerated implementation of member economies’ commitments under the General Agreement on Trade in Services and the Agreement on Trade-Related Investment Measures, as well as pushed for efforts to develop multilateral understanding on the avoidance of double taxation. As an interim measure, ABAC proposed the establishment of the APEC Voluntary Investment Project (AVIP), under which economies could voluntarily apply a specific set of principles to enhance investment protection to selected projects, above and beyond the protection provided under the Non-Binding Investment Principles.

To facilitate investments in infrastructure and small and medium enterprise development, ABAC proposed and organized a series of roundtables in these areas. In 1996, the first Joint Public-Private Sector Infrastructure Roundtable was held in Manila, Philippines in November 1996 as a back-to-back event with the APEC Business Forum. Earlier that year in September, the Philippine Chamber of Commerce and Industry organized the APEC Business Network for SMEs (APB-Net III) to discuss areas of concern to SMEs.³

Lastly, in economic and technical cooperation, ABAC moved slowly with no flagship proposals. Instead, it recommended that the Economic Leaders “launch APEC’s new model of economic and technical cooperation based on strategic focus in line with the ‘essential elements’ agreed to in the Osaka Action Agenda.” This would be a partnership between government and the private sector with the establishment of a regional network for economic and technical cooperation.⁴ Beyond, such a broad stroke recommendation, ABAC was not prepared to present a proposal nor would it be able to do so until the 1998 meeting when the *Partnership for Equitable Growth* was presented to Leaders.

In 1997, the standing committees within the Council on the following areas were continued with the introduction of a new standing committee that would monitor the Manila Action Plan from which individual action plans (IAPs) were to be generated. These committees were:

- Cross-Border Flows
- Finance and Investment
- Infrastructure
- SME/Human Resource Development
- Economic and Technical Cooperation

Overall, analysis of the ABAC agenda in the second year shows a greater focus on implementation concerns recognizing that the initial round of issue identification and recommendations were intended to broaden the APEC agenda to areas of critical concern to the private sector. In the second year, a greater amount of time was spent discussing the ability of APEC processes to focus on implementation.

On cross border flows, ABAC proposals were more action-oriented recommending that economies achieve flexibility in visa arrangements but asking that they now commit to one of the three options proposed by 1998.⁵ Specific recommendations on intellectual property rights and standards and conformance were likewise made with provision for private sector participation in such discussions. (Later, this would be problematic within ABAC as the Council did not have the resources, especially CEO time, to attend working group meetings to thresh out

³ The first APB-Net I was held in Bogor, Indonesia in August 1994. This was followed by an interim event for SMEs organized by the Australian Chamber of Commerce in Adelaide, Australia in September 1995. APB-Net II was held in Osaka, Japan in October 1995 and organized by the Japanese business community.

⁴ ABAC Report to the APEC Economic Leaders 1996, “APEC Means Business: Building Prosperity for Our Community”, Manila, Philippines, November 1996. Page 3, 36-39.

⁵ The three options proposed were visa-free entry, the APEC business travel card, and a 5-year multiple entry visa.

details. As an interim response, certain delegates tasked with attending such meetings assigned staff to participate and report back to plenary on the discussions.)

A major set of recommendations made by ABAC in 1997 included the prioritization of certain sectors, the list of which has become institutionalized as the EVSL sectors. Among those recommended for inclusion are: chemicals, environmental product and services, food, oilseeds, pharmaceuticals, pulp and wood products, toys, transport and automotive products.⁶ The initiative, adopted at the Vancouver Summit in 1997 and expanded to fifteen sectors, was particularly important to business not only for the potential substantial gains in trade in the identified sectors. Equally important, EVSL was envisioned and supported as a confidence-building measure to show that APEC processes and APEC, as a group, could in fact produce concrete results.

The proposals to enhance private investment in infrastructure and access to capital built on the recommendations from year one. To encourage the AVIP scheme as a project-based approach to liberalization, ABAC recommended a sectoral approach through an Infrastructure Investment Initiative (III). For the first time, too, the Council merged the interests of finance with those of SMEs calling for the holding of Finance Roundtables for SMEs. Unfortunately, with the exception of the United States, no other economy pushed through with such roundtables before the onset of the crisis.

On the financial crisis, in Vancouver in November 1997, APEC finally woke up to the realization that the financial turmoil was greater than the Southeast Asian region with the collapse of the Korean Won and the move of Korea to seek IMF assistance, a development which finally brought home the realization that APEC needed to take some measures to address such a crisis. Earlier, ABAC had sent a letter of concern following its Santiago (Chile) meeting in September 1997 highlighting the need to deal squarely with the problem and to adopt much of the Manila Framework worked out earlier by the finance ministers. Again, however, the absence of the finance ministers in the Economic Leaders Summit revealed an inadequacy in the current APEC process to deal with the financial crisis which was beginning to consume most, if not all, of the attention and energies of business leaders.

In its report to the Leaders in 1997, ABAC raised concerns about currency instability as a threat to the progress towards APEC goals of liberalization. The work originally undertaken on capital market development in emerging economies quickly expanded beyond the original concerns of market efficiency and liquidity to those of stability and concerns with regulation. ABAC recommended expanding the initial set of recommendations to include prudent regulation and transparency of domestic finance sectors, establishment of modern clearing and settlement systems, development of understandable and harmonized accounting standards and disclosure, the broadening of the local investor base, and the liberalization of rules for foreign financial services firms. The initial work on asset-backed securitization to finance large infrastructure projects and the needs of SMEs, however, did not move beyond

⁶ Ibid, pp. 9-10

the proposal stage as the economies took a downturn and infrastructure and SME projects literally stopped.

The work on ecotech did expand and with it the first concept on the *Partnership for Equitable Growth* as a framework for driving ecotech initiatives in the region. Such a framework proposed the establishment of a structure that would carry forward ecotech proposals that were neither ready for market commercialization or were beyond the purview of government alone. The PEG structure was finally worked out in 1998 and presented to the Leaders in Kuala Lumpur. The incorporation of PEG will be completed by end-January 1999 and it will then begin functioning as an independent nucleus corporation based in Malaysia but with projects developed throughout the APEC region. The APEC Information Technology Education Initiative, first raised by ABAC in 1997, is on the PEG agenda as is the Asian Gas Grid Initiative. The two will be among the list of possible projects to be developed further by PEG.

By 1998, the environment for trade and investment facilitation had changed dramatically. While groundwork on IPR and standards and conformance continue to be developed by the APEC process, ABAC's reading of the region has led it to focus a lot of its attention on the financial crisis, on ecotech (through the work to establish PEG) and SMEs as well as other priority sectors handled by task forces. The other priority sectors included electronic commerce, EVSL, and food systems.

The mood of ABAC has changed with the deepening of the crisis. From the initial rounds of issue identification and recommendation, the emphasis has shifted to concerns on implementation.

In the 1998 Report portion on the financial crisis, the final set of proposals looks at (a) regional initiatives to attract the flow of much-needed capital back into the region, (b) economy-level initiatives that would allow member-economies to build up their internal capability to withstand further impacts of the crisis, and (c) a global proposal to assess the "adequacy of current governance structures and management of the global financial system, in particular."⁷ Contentious as it was, there is unanimity that the crisis will not be resolved in the near future and the discussion of solutions must now turn to seeking not only mechanisms to enhance the flow of capital back into the region, but also on the new architecture required to ensure that structurally the same problems do not surface again or at least can be identified early and dealt with substantially before such problems escalate into a crisis.

The concern with the financial crisis thus continues and the task force has been expanded in 1999 to address the issues. As in 1998, when the task force chair presented the proposals to the finance ministers in Canada in July 1998, ABAC intends to interact directly in all planned finance ministerial meetings in 1999.

In EVSL, the desire to ensure that liberalization is not held back is a major concern of the Council notwithstanding certain member-economies' governmental reservations. A recommendation to include financial services among the EVSL priority sectors has been proposed for the second straight year but not picked up by

⁷ ABAC Report to the Economic Leaders 1998, "APEC Means Business: Restoring Confidence, Regenerating Growth", Kuala Lumpur, Malaysia, November 1998. Page 47.

the Leaders. On the whole, however, there has been disappointment that the APEC process has shown itself unable to resolve impasses posed by the position of certain economies. The inability of APEC to resolve the differences on EVSL and its decision to pass on the issues to the World Trade Organization for resolution has shown another deficiency in the process which can be viewed as a major shortcoming of what one ABAC member remarked as "the lack of logic of a process that is voluntary and non-binding."

On SMEs, ABAC put forward a position paper to the SME Ministerial held in September 1998 in Kuala Lumpur that mapped out initiatives for SMEs in two major categories: (a) Initiatives to create a favorable financial environment, and (b) Initiatives to stimulate business and employment opportunities. The interest in SMEs has become more pronounced given the economic crisis and the large hit the vast number of SMEs in the region have taken. On the other hand, it has been recognized that SMEs at the lower end of the spectrum (those that approach the informal or underground economy) have demonstrated a marked resiliency in the face of many of the difficulties. As such, an SME role as a safety net of sorts providing continued employment and income for many including those hard hit in the formal sector has been recognized and the discussion has now shifted to how to help protect and even expand this role further.

On electronic commerce, an interest of the APEC Chair for 1998, the recommendations has focused on developing a framework for governance around legal and regulatory concerns as well as the Year 2000 problem.

On an APEC food system, an interest of the APEC Chair for 1999, a concept paper on food security was adopted and will serve as a discussion item for the coming year. In terms of monitoring the action plans, five broad areas have been analyzed with corresponding recommendations, namely, tariffs, non-tariff measures, services, investment and SMEs.

Agenda for the Future

In reviewing how the ABAC agenda has reacted to changes in the environment, one sees the importance of trade and investment liberalization and facilitation in the first two years replaced as the priority by concerns for action on the deepening financial crisis and by a recognition of the importance of ecotech as a solution especially for small and medium enterprises. This is reflected by the structure of ABAC task forces for 1999:⁸

- The Finance Task Force will continue to study and seek solutions to the financial crisis in the region
- A Capacity-Building Task Force (new) will look at a number of social issues affecting the region including housing, unemployment and social security, education, health
- An Implementation Task Force (new) will look at ecotech (through the *Partnership for Equitable Growth* corporation), early voluntary sectoral liberalization, food and SMEs

⁸ ABAC Proposed Agenda and Structure for 1999, ABAC Chair, November 1998

The shift in structure from committees to task force is being matched by a shift from area of business concern to area of process concern. While the financial crisis will continue to be of primary interest to ABAC, it provides a context for the two other task forces that will focus on (i) implementation and (ii) capacity-building. A single standing committee (Action Plan Monitoring) is tasked with monitoring action plans as well as ABAC recommendations. A principal agenda item for the committee includes a new study to update a previous one on impediments to trade with focus on non-tariff measures.⁹

A good deal of discussion in 1998 concerned the perceived and actual problems caused by social dislocation. The problem of exorbitant price inflation and distribution problems leading to scarcity of food and medicines in an economy such as Indonesia was discussed at great length. There is a growing perception among the business leaders within the Council that social problems and social dislocation have as much an effect on business as the need to facilitate trade and investment. Hence, the concern of the Chair for 1999 to focus on process areas as much as areas of business concern.

⁹The study has been contracted out to the research group on Trade of the Pacific Economic Cooperation Council (PECC) and will be presented to ABAC in full in mid-1999. ABAC is to present the final report to the Leaders at the New Zealand Summit in September 1999.