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Introducing the APEC Economic Leaders' Meetings

Chen-Sheng Ho

The active participation of APEC Economic Leaders in the APEC process through the annual APEC Economic Leaders' Meeting (AELM) has been considered as one of the most important step in strengthening APEC organizationally. It has also raised the status of APEC. The purpose of this article is to introduce the AELM. Specifically, major issues of concern to APEC Economic Leaders discussed in the various meetings will be described.

The first APEC AELM was held around the end of November in 1993. The location was in Blake Island, Seattle, USA. President Clinton was instrumental in realizing the AELM. The rationale was to show that the issues being discussed in APEC were truly significant and deserved the undivided attention of APEC members. In order to know the important issues at that time, it will be necessary to examine the 1993 Leaders' Declaration. According to the Declaration called "APEC Leaders Economic Vision Statement," APEC Economic Leaders stated that they had an opportunity to construct a new economic foundation for the Asia-Pacific region after the Cold War era. Furthermore, the meeting was a reflection of the rising influence of the Asia-Pacific region in global affairs and the major role it will play in the world economy. Additionally, the Declaration provided direction for the work of APEC. For example, APEC Economic Leaders asked APEC to work on deepening and broadening the results of the Uruguay Round. They also called on APEC to enhance trade and investment liberalization in the Asia-Pacific region (APEC 1993). Thus it can be inferred that the holding of the first AELM was to emphasize the value of APEC and to provide the course for APEC to take.

The next significant AELM occurred around November 1994 in Bogor, Indonesia. APEC Economic Leaders announced the Bogor Goals which stated that developed economies will achieve free and open trade and investment by 2010 while developing economies will do so by 2020. As a result of the 1994 AELM, APEC Economic Leaders had provided a clear and specific direction for APEC. According to the 1994 Leaders' Declaration, the approaching twenty-first century necessitated the need to enhance economic cooperation in the Asia-Pacific region. APEC served as a vehicle for strengthening the multilateral trading system, accelerating trade and investment liberalization and improving development cooperation in the APEC area (APEC 1994). We can see that APEC Economic Leaders have set ambitious objectives for APEC. Since the development of the Bogor Goals, APEC has been striving to achieve them.

Another important AELM was held in November 1997 with the occurrence of the 1997 Asian financial crisis. The 1997 AELM took place in Vancouver, Canada. According to the 1997 Leaders' Declaration, APEC Economic Leaders placed the highest priority in restoring financial stability. In order to tackle the financial crisis, Leaders stated that the IMF should play the major role at the global level. APEC will work closely with the World Bank, IMF and Asian Development Bank to enhance economic and technical cooperation. The priority was to upgrade financial systems. They also called for boosting cooperation among market regulators and supervisors. In addition, APEC Economic Leaders sought ways to ensure the achievement of the Bogor Goals. They mentioned that the three mutually supportive pillars of APEC were trade and investment liberalization, business facilitation, and economic and technical cooperation (APEC 1997). Thus even with the appearance of the 1997 Asian financial crisis, APEC Leaders' not only tried to mitigate new challenges but also sought to work on previous issues. In summary, the AELM had become an integral part of the APEC process by 1997.

In 2002, the AELM reached another important milestone when it was held for the first time in Latin America at Los Cabos, Mexico. The three Latin American members of APEC were Chile, Mexico and Peru. As stated in the 2002 Leaders' Declaration, Leaders agreed on the importance of fighting terrorism. Terrorist organizations had become the new challenge to the security and prosperity of the Asia-Pacific region. They called for the need to enhance security and to ensure the smooth flow of goods, capital and people. Leaders also adopted the "Los Cabos Statement on Fighting Terrorism and Promoting Growth." The objective was to protect the flows of trade, finance, and information. Additionally, APEC Leaders welcomed the new Doha Round of WTO trade negotiations. At the same time, Leaders continued to call for strengthening the financial systems through enhancing banking supervision (APEC 2002).

After 2002, the AELM continued to be held annually among various APEC hosts. Finally, Australia hosted the AELM in September of 2007. This was an important occasion for Australia and APEC, because APEC was established in Australia in 1989. Australia had played an important role in launching APEC. Therefore, APEC members had expected Australia to play a dominant role. For 2007, Australia had emphasized the issue of climate change. Thus APEC Leaders announced the "Sydney APEC Leaders' Declaration on Climate Change, Energy Security and Clean Development." They stated that economic growth, energy security and climate change are major challenges for the Asia-Pacific region.

They reaffirmed their support for the UNFCCC. Leaders also called for stabilizing greenhouse gas concentrations in the atmosphere (APEC 2007). In addition, the 2007 Leaders' Declaration mentioned that APEC's work to strengthen regional economic integration, free and open markets, and security had increased the welfare and prosperity of their people. Specifically, Leaders said that they will analyze the prospects for a Free Trade Area of the Asia-Pacific (FTAAP). Additionally, Leaders called for greater cooperation in APEC to mitigate challenges to human security (APEC 2007a).

Finally, in 2008, Peru became the final Latin American member of APEC to serve as APEC host. Therefore, the 2008 AELM was held in Lima, Peru. The 2008 Leaders' Declaration stated that the 2008 global financial crisis was one of most severe economic challenges. They welcomed the monetary and fiscal stimulus that APEC members had implemented and also called for a successful conclusion of the WTO Doha Round. Leaders are also concerned about the effect of volatile global food prices. In addition, Leaders called for greater promotion of corporate social responsibility (CSR) in the APEC region (APEC 2008).

Singapore is the APEC host in 2009. Therefore, the 2009 AELM will be held in Singapore. In order to provide a glimpse of possible important issues to be discussed this year, Singapore hosted the APEC Singapore 2009 Symposium. The three major issues were regional economic integration, business environment, and physical connectivity (APEC 2008a). Thus there is great possibility that the 2009 AELM will partly focus on the aforementioned issues.

In summary, we can infer that the annual AELM has greatly contributed to the APEC process. As a result, APEC has become more prominent. Furthermore, the work of APEC is now more focused and effective. APEC Leaders are cognizant of the importance of AELM to APEC, so that they have continued to meet every year.

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2008 APEC Summit Watch

Johnny C. Chiang

2008 has been the 10th anniversary of Peru joining APEC and also the first time for being an APEC host. Under the theme of "A New Commitment to the Asia-Pacific Development," the 16th APEC Economic Leaders' Meeting was held in Lima the capital on November 22-23, 2008. In the face of the financial tsunami that has not been seen for a hundred years, this year's APEC Summit cannot detach itself from the challenges arising from the financial crisis. Therefore, in addition to the discussion on regional economic cooperation, APEC Leaders also address the current economic situation with the "Lima APEC Leaders' Statement on the Global Economy," so as to express fortitude to mitigate the present economic challenge.

For the purpose of tackling the global financial crisis, APEC Leaders strongly believe that rebuilding confidence in the financial system is the key to economic development. They call on APEC member economies to utilize monetary and fiscal policies to invigorate the economy. Additionally, APEC Leaders welcome the G20's Washington Declaration announced at the Summit on Financial Markets and the World Economy for developing the action plan for financial markets reform. At the same time, they support the WTO for being the key to sustain economic development. In the present global economic condition, there is the need to prevent the rise of protectionism. Thus APEC Leaders will not raise new barriers to investment or to trade in goods and services within the next 12 months, will not impose new export restrictions, and will not implement WTO inconsistent measures.

As a response to the economic crisis, APEC Leaders call for accelerating the implementation of Regional Economic Integration Agenda and the development of the Free Trade Area of the Asia-Pacific (FTAAP) as a future goal. They believe that the realization of the FTAAP would bring opportunities to the APEC region, stimulate trade and investment, and enhance economic development. APEC Trade Ministers are instructed to examine FTAAP's effect on the economy and to study the opportunities and challenges. The results of the analyses will be reported to APEC Leaders next year.

APEC Leaders strongly stress that the current financial crisis will not affect their desire to promote regional economic integration and dampen their enthusiasm. APEC will seek to fight against poverty, hunger, disease and terrorism. In addition, APEC will closely pay attention to climate change, energy security and clean development. APEC will also seek to realize UN's Millennium Development Goals. Therefore, aside from the financial crisis, this year's APEC Summit also discusses corporate social responsibility (CSR), regional anti-corruption, anti-terrorism, emergency preparedness, climate change, energy security and clean development.

Generally, in addition to the focus on regional cooperation for addressing global financial crisis, this year's meeting concentrates on regional economic development, trade and investment liberalization and facilitation, human resources development, human security, climate change, and APEC reform, which are major APEC issues in recent years. However, there are certain issues from this year's APEC Summit that are worthy of further elaboration.

First, the APEC Leaders' Declaration contains references regarding arrangements between the APEC region and international multilateral organizations. For example, it calls for the International Monetary Fund (IMF), Work Bank, and other multilateral development banks to play major roles in the financial crisis. The notion that regional trading arrangements and the WTO complement each other is also stated. With regard to food security, APEC Leaders support the UN's Task Force on the Global Food Security Crisis. They also state the similarity between APEC's anti-corruption work and the UN's Convention against Corruption (UNCAC). Furthermore, APEC Leaders stress the importance of the UN in the global fight against terrorism. The UN Framework Convention on Climate Change (UNFCCC) and the Kyoto Protocol will serve as the main platform for international cooperation on climate change. Thus the development of APEC issues and international multilateral organizations, such as the UN, is closely linked.

This is the first time that the influence of China on the global economy is clearly being felt. It can be said that in this global financial crisis, China receives the highest standing and expectation in the international financial system. Therefore, during the APEC Summit after the G20, China is the focus of attention. Furthermore, China has signed a free trade agreement (FTA) with Peru. In the Leaders' Declaration, there is substantial reference to China's contributions to APEC. Peru has extended great degree of goodwill and respect to China.

Additionally, during the meeting, Australia and Peru have announced together their intention to join the Trans-Pacific Strategic Economic Partnership Agreement (P4 or Trans Pac). In addition to the United States' announcement in September of this year, P4 could becom P7. P4 is currently the only FTA that covers both sides of the Pacific Ocean by linking Asia and the Americas. P4 includes New Zealand, Singapore, Chile and Brunei and has been in existence since 2006. The important point is that the founding members of P4 are made up of APEC members and its membership is open to other APEC members. Members of P4 have expressed their intention to allow APEC members to join P4 and have requested APEC members to make known their plans by March next year. In the face of Taiwan's past difficulties in signing FTAs, P4 could be the FTA that opens new possibilities.

Finally, an event that has occurred at this Leaders' Summit that is of particular interest to both sides of the Taiwan Strait is the "Lien-Hu Meeting" in APEC. An important result is that Mr. Lien Chan successfully represents President Ma in the APEC Leaders' Summit, as Mr. Lien is the highest ranking representative from Taiwan. This is also the first time that Lien Chan and Hu Jintao have met during the APEC meetings. For the first time since both sides become APEC members, the highest ranking representatives of both sides have conducted bilateral meeting in APEC. Even though there have been diverse opinions regarding the format and name of the meeting, and the lack of concrete results, the meeting can be considered a good start because both sides did not talk in APEC before. Most importantly, we hope to see that from this first step, both sides could seek normalization under the APEC umbrella. APEC could become the platform for advancing interactions between both sides of the Taiwan Strait.

Anatomy of a Crisis: The Global Financial Meltdown of 2008 and its Implications for the reform of Financial Systems

Julius Caesar Parreñas

Just as historians tend to cite "Black Tuesday," the 29th of October 1929 as the beginning of the Great Depression, many of today's market commentators speak of September 2008 as the starting point of the current crisis. It was in that month when the world's financial markets reacted in panic to a series of unprecedented events: the placing of Fannie Mae and Freddie Mac into conservatorship, the bankruptcy of Lehman Brothers (the largest bankruptcy in US history as of this writing), the takeover of Merrill Lynch by Bank of America, the US$85 billion rescue of AIG and the collapse of Washington Mutual (so far the biggest bank failure in history).

Signs of impending disaster were already there for all to see in the months that led to these events. The housing market correction, the subprime mortgage crisis, the decline of the US dollar, the loss of over 600,000 jobs in the US throughout the first three quarters of 2008 and rapidly deteriorating conditions in Europe and Japan should have alerted investors, financial institutions, the public and regulators to the precarious state of the global financial system. However, only a few who fully understood the consequences of recent financial innovations could have anticipated the severity of the financial storm, and many remained in denial until the markets eventually crashed.

Looking back, the financial crisis resulted from a "perfect storm." At its core was the last stage of a typical credit cycle, when the relaxation of lending standards that normally happens during an economic expansion and the resulting deterioration of credit quality cause increasing loan losses in banks and lead lenders to begin restricting the availability of credit. What differentiated this downturn from the milder ones of previous decades was the presence of several factors that greatly magnified the impact of the shift from one stage of the cycle (expansion of lending with a consequent decline of credit quality) to the next (credit contraction owing to growing losses of financial institutions).

The first of these two final stages of the credit cycle was accompanied by a number of important developments. The first was the unprecedented injection of liquidity into global financial markets arising from an extended period of extraordinarily loose monetary policy among the world's major central banks, with narrow money as a percentage of GDP in the

G-5 countries climbing from 18% in 1990 to 30% in 2006. This fueled unsustainable equity, property and credit bubbles, the greatest 14-year consumption binge in US history and rapid export-led growth in emerging markets that created huge global imbalances. The second was the accelerated pace of financial innovation and the rapid growth of new financial instruments such as collateralized debt obligations (CDOs) and derivatives (whose notional value has reached ten times the size of global GDP by the middle of 2007).

Regulatory systems and industry practices failed to cope with the consequences of these developments. As consumers taking advantage of easy credit purchased more expensive homes, lenders were able to transfer the risks to other financial institutions that packaged loans into complex financial instruments eventually sold to investors all over the world. High levels of debt and leverage created an illusion of abundant liquidity that further fed this unsustainable process. Regulatory regimes, such as that in the US where a multitude of regulators at federal and state levels have the responsibility for overseeing financial institutions, were increasingly unable to effectively monitor developments that led to growing systemic risk.

The lack of comprehensive approaches to firm-wide risk management, compensation policies that encouraged excessive risk-taking for short-term gains, and inadequate oversight of day-to-day liquidity risk management and its failure to fully capture exposure to structured finance vehicles rendered financial institutions vulnerable to the growing risks. As the volume of deals increased, institutions failed to maintain high standards for credit underwriting, ratings and investor due diligence. Credit rating agencies were not prepared to provide sufficient information on the risks of structured products, on the assumptions behind their models, and on the sensitivity of results to minor changes in these assumptions. Many investors continued to rely exclusively on credit ratings of structured products as they had been doing with much less complex securities.

The second of the two final stages of the cycle, wherein financial contraction set in as loan losses mounted in financial institutions, was magnified by a serious loss of confidence in the financial system by market participants and the general public, triggered by unanticipated failures of financial institutions in September 2008. In the case of Washington Mutual, over US$15 billion of deposits were withdrawn within the span of one week; in the case of Wachovia, US$5 billion in the course of a single day. The collapse of Lehman Brothers caused the spread of the three-month London Inter-Bank Offer Rate (LIBOR) over three-month Treasuries to rise to historical levels.

Growing doubts about the quality of available financial information led to these rapid withdrawals of funds from financial institutions by investors and depositors and the freezing of credit markets. In addition to the inadequacy of transparency and disclosure regimes, the untimely introduction of fair value accounting made matters worse, as valuation of instruments became problematic when assets became illiquid under conditions of market stress. These developments in credit markets had devastating effects on the real economy, as enterprises were suddenly forced to borrow funds at much higher rates for their continued operation, adding to the growing distress arising from the collapse of asset prices, particularly residential property values.

The foregoing analysis of the current financial crisis carries a number of implications for ongoing efforts to strengthen financial systems. First, there is a clear need to update regulatory regimes to take into account changes brought about by financial innovations and globalization of financial markets. This would include the development of an international financial architecture to ensure appropriate oversight of financial institutions operating globally and the growing volume of cross-border financial transactions.

Second, improved regulatory oversight should go hand in hand with and be supportive of improved industry standards. The Institute of International Finance (IIF) has identified a number of areas where such improvements are needed: risk management, compensation policies, valuation issues, securitization markets, and transparency and disclosure issues. Progress in this undertaking would be best served by enhanced collaboration between the public and private sectors.

Third, the role played by monetary policy in magnifying the impact of credit cycles by fueling asset price and credit bubbles and enabling unprecedented levels of debt and leverage points to the important role that central banks will need to play in the future, and the need for greater international coordination to prevent the recurrence of unsustainable imbalances.

It is important to remember that the ongoing evolution of financial markets will require continued adjustment of regulatory regimes and the financial architecture, and that looking at the past may not be enough to prepare us to confront the crises of the future. Ironically, the responses to the current crisis could pave the way for the next one: as governments indulge in excessive monetary creation and incur huge budget deficits, and once these policies begin translating into inflationary pressures down the road, the bond markets could become the epicenter of tomorrow's financial crisis.

The Features of the East Asian Economic Integration

By Hong Tsai-Lung (Honigmann)

The regional identity in East Asia seems to constitute a great challenge to the FTAAP initiative that has been identified as the "long term prospects" by APEC since 2006. This article analyzes the two dimensions of economic integration in East Asia, including de facto and de jure. The former refers to market integration (i.e. goods and service trade, and the movement of capital and labor), which can be called "regionalization." The later involves institutional cooperation and policy coordination of governments as well as conclusion of accords, which we can call "regionalism."

The regionalization of East Asia

The competitive pressure from the globalization is the main reason of East Asian regionalization, at the same time it is accelerated by technology progress, and expressed in two aspects: increasing intermediate goods in the region, components trading, and foreign direct investment (FDI), especially in the information and communication technologies (ICT) and automobile parts etc. East Asia is like a factory (Factory Asia) whose degree of "vertical integration" is very high. However, northern America and western Europe absorb most of the final goods of East Asia. It means that America in particular has a "check and balance" advantage to East Asian regionalism.

Both Japan (since 1980s) and China (since 1990s) play important roles in the process of East Asian regionalization. It implies the development of East Asian Regionalism has to accommodate or reflect this basic structure. After the "Plaza Accord"(1985), the dramatic appreciation of yen pushed Japanese enterprise to relocate into Southeast Asia, and established a basic pattern of "triangle trading" in eastern Asia. In 1990's, the regional effect of China's rise gradually appears. China profits from its rich human resources and enjoys the comparative advantage in the end phrase of product supply chain which focuses on assembling. It deepens the economic interdependence in the region to which both China and Taiwan contribute.

East Asian Regionalism

The regionalization of East Asia has been celebrating since the end of 1980s, yet its development falls far behind Europe (EU) and northern America (NAFTA). As a matter of fact, both "The East Asian Economic Grouping" and "East Asian Economic Caucus," initiated by former Malaysia's Prime Minister, Mahathir bin Mohamad, failed because of the opposition of the US. However, the economic and trade structures of this region should also account for the sluggish development of regionalism.

1. The spirit of regionalism lies in the preferentiality among members, which practically means discrimination to non-members. The lag of East Asian Regionalism is highly connected with the countries in this region, which are export-oriented and take the global market as their economic hinterland. On the one hand, the incentives for regional cooperation are weak; on the other hand, the principle of "non-discrimination" through reforms and openness of respective countries (Unilateralism) and participation in global trade negotiations, such as GATT/WTO (Multilateralism), conforms to their interests.
2. esides, before the economic rise of China, Japan, the only economic power in East Asia that could take the role as regional leader, was distrusted by surrounding countries because of its militarism during WW II. According to "Hegemonic Stability Theory", regional leadership is similar to regional public good; thus, the undersupply of public goods may be the root cause for limited achievements in regional institutional cooperation.
3. As to "ASEAN plus one Dialogue, 1997", developed into either bilateral FTA or Framework Agreement, mainly includes ASEAN and China (Framework Agreement, 2002), ASEAN (except Thailand for rice) and South Korea (Framework Agreement, 2006) and ASEAN and Japan (2008). Those are completed. The "Framework Agreement" according to "Enabling Clause, 1979" deals with "goods" trade, and applies exclusively to the developing countries.
4. "ASEAN plus 3 Dialogue, 1997" (with Japan, China and Korea), It is still uncertain if "ASEAN plus 3" will become a regional free trade area, even though China pushes earnestly to establish one. Actually, Japan is still anxious about China's increasing regional influence. Besides, Japan's primary trade partners are Australia and India, while Korean focuses on U.S. and EU. As for China, to secure the supply of energy and raw materials is the main concern. Thus, in the near future, the chance is slim for "ASEAN plus 3" to become FTA. However, "ASEAN plus 3" is quite effective in the functional cooperation area, such as financial stability and energy security, etc. the "Chiang Mai Initiative" (CMI, 2000) is a good example. This agreement is set for cooperation for foreign reserves that could be function as regional emergency rescue when currency crisis occurs in these countries. It can also help to prevent the financial crisis like the one in 1997. More importantly, through the building of the regional financial cooperation system, it is possible

to complement the current international financial system (primarily IMF). CMI II is getting finalized the "ASEAN plus 3" financial ministers conference declared this year that a crisis fund will be establish to no less than 80 billion USD and expected to get into force next year. It can also make the original bilateral currency swap system more multilateral and centralized If it works well, it might pave the way to "Asian Monetary Fund" (AMF).

5. "East Asian Summit, 2005" comprises of the member countries of "ASEAN plus 3" plus India, New Zealand and Australia. The Economic Research Institute for ASEAN and East Asia (ERIA) which is based in Jakarta and established last May is sponsored by Japan. The ERIA whose members mainly are think tanks of "ASEAN plus 6" will adopt the functioning way like OECD.

Until now, except for China, the most favorite FTA-signing strategy in East Asia is "regionally negotiating, bilaterally signing". About two thirds of FTA is signed with the countries outside of the region. Some people even take this as the reason why the East Asian regionalism has not yet emerged.

Most of the trade deals of "ASEAN plus 1" belong to "framework agreement", except for the Economic Partnership Agreement (EPA) by Japan and ASEAN. It implies that most of trade deals in East Asia are easier to achieve and their economic impacts are also limited. However, the political effects and security implications are quite significant including the role of USA and the competition for regional leadership between Japan and China.

Action Plans to Address the Global Financial Crisis

Darson Chiu

It has surprised almost all economists and financial specialists in the world that the sub-prime financial crisis happened in March 2007 would actually cause a major global economic slowdown. The world economic downturn is affecting the 2008 growths all the way and will be impacting the 2009 economic performance as well.

To address the unprecedented financial crisis, international entities have been striving to help stabilize financial markets and ensure the smooth running of the real economy. It is believed that building confidence and invigorating the economic demand side would be the key to relieve the impacts of financial crisis. In addition, optimizing the supply side might also be essential. After all, we have been experiencing numerous crises triggered by the simple fact of supply exceeding demand.

Like all other economies in the world, Taiwan has also been trying hard to cope with her economic slowdown caused by the global financial crisis. For example, the Republic of China Central Bank's monetary operations adjusted the rediscount rate from 3.625% in June to 3% in October 2008. After that, the Central Bank further lowered the rate from 3% to 2.75% on November 10th this year. Regarding fiscal policies, Taiwan government is also planning to reduce the securities transaction tax from 0.3% to 0.15%, and lower the estate and gift tax from as high as 50% to 10%. Furthermore, the Executive Yuan announced to issue shopping coupons on November 18th to stimulate consumption with a budget layout of at least US $ 2.5 billion. The purposes are to encourage investment and attract the capital back to markets.

In addition to individually adjusting monetary operations and fiscal policies, it is believed that world economies can work together on improving multilateral monitoring systems embedded in financial structures, strengthening capital markets, promoting sound corporate governance, and enhancing transparency with adequate risk management. Frankly speaking, those are not even new concepts; however, at this time of difficulty, we need to revisit those essential issues.

Taiwan is an official member economy of APEC, therefore utilizing APEC as a platform to conduct joint actions to address the financial crisis could benefit not only Taiwan but also APEC economies as a whole. APEC has experienced a number of crises since its formation, and those crises not only tested APEC's capacity but also helped strengthen APEC's resilience. Because the financial crisis has gone beyond the region and become a global disaster, we may need to place greater emphasis on feasible means initiated by other international entities at the same time. For that reason, Taiwan ought to echo the endorsement of the APEC Finance Ministers and G7 Ministers and Central Bank Governors. That is we should support the recommendations put forward in the "Report of the Financial Stability Forum (FSF) on enhancing Market and Institutional Resilience" in April of 2008.

The "Report of the Financial Stability Forum (FSF) on enhancing Market and Institutional Resilience" has provided several feasible paradigms. First, the report recommended strengthening capital markets with adequate risk management. Second, it focused on enhancing transparency and valuation. Third, it stressed the importance of the role and uses of crediting ratings so as to provide investors accurate information. Fourth, it intended to help strengthen the authorities' responsiveness to risks and further help deal with stress in the financial system. In my view, those paradigms are exactly what we need to resolve the current anomaly caused by the financial crisis.

The 15th APEC Finance Ministers' meeting was successfully concluded on November 6th with many valuable findings and suggestions. Economies in the region of Asia-Pacific note the importance of financial market stability and economic sustainability. The meeting conclusions simply suggest that APEC economies need to work together on empowering existing regulatory and supervisory frameworks by paying extra attention to transparency, risk management as well as the role of credit ratings. For the time being, we need to enhance the quality of financial regulations instead of creating more regulations. The financial regulations ought to be activity-based instead of entity-based as identified by the APEC Business Advisory Council (ABAC). In addition, APEC economies can also work together to create a set of guidelines as a reference for individual economies to regulate borderless, high leveraged, and high risk financial commodities. Promoting transparency and improving financial regulatory structure might be the key to prevent the financial crisis from becoming a financial disaster.

While we are all working on stabilizing the financial markets and trying to boost economic growths, we should not ignore the fluctuation of commodity prices and conditions of job markets. Potential inflation and unemployment could certainly hinder the process of confidence building. Therefore, having the "index of misery" under control would be our next objective.

The most important lesson we have learned from this crisis is that the financial instability might seriously imperil economic sustainability.

To strengthen our financial systems and ensure economic growths, we can improve and optimize relevant financial regulations through APEC's cooperating mechanisms. We have to balance the supply and demand associated with all markets among all economies. After all, it is about time to locate economic equilibriums that are currently missing. As a dedicated member economy of APEC, Taiwan has always been willing to take active part in any collective activities that help resolve problems.

Regional scholars further suggest that adopting sound corporate governance is a feasible means to prevent the financial crisis from happening over and over again. Corporate governance is about equal-basis operations, transparency in information sharing and creditable accounting instruments. APEC, ABAC, and the Pacific Economic Cooperation Council (PECC) have all been doing a lot to promote good corporate governance. It is a good time now to transform relevant concepts into concrete actions. Regarding promoting sound corporate governance to address the financial crisis, we can reach an APEC consensus on regulatory architecture to make sure that all institutions that access lenders are on the same page. In the mean time, we might also want to review our current approaches to ratings agencies and market accounting. Obviously, investors deserve sufficient, reliable, and adequate information. We ought to review and evaluate whether our currently practices would be a plus or minus to the financial system.

What ABAC Wants from APEC during Current Turbulent Times

Grace Chung

The APEC Business Advisory Council (ABAC) has chosen the theme "Mind the Gap: making globalization an opportunity for all" to give the direction in setting up the work agenda for 2008. The Council, which is made up of senior business leaders, meets 4 times a year, to discuss and provide to the Asia-Pacific Economic Cooperation (APEC) leaders, the business perspective and recommendations, on business-related issues and business sector priorities or specific areas of cooperation. There was in mind specific direction to trade and investment liberalization, facilitating business growth, and promotion of capacity building, which captures ABAC's traditional areas of focus.

Nevertheless, as the ABAC meetings wound up in 2008, ABAC members were clearly aware that their advice to APEC Leaders in 2008 was being complied against the background of a regional economy less buoyant than it had been the previous year, or for that matter, any other years since APEC was established in 1989. Indeed, APEC's response to the global financial crisis had dominated discussions during its fourth and final meeting of 2008, in conjunction with the Leaders' Summit, from November 18-20, in Lima. ABAC called on the region's leaders to resist the potential reactionary measures of protectionism and draconian regulation. More specifically, in a stand-alone statement on the issue of responding to the current crisis, besides encouraging APEC leaders to endorse the statement from the G20 Summit, with a specific emphasis on the agreement to renounce the establishment of protectionist trade measures for the coming 12 months, ABAC also called for the following actions:

- Coordinating fiscal stimulus efforts through spending on public works and tax incentives;
- Adopting measures to ensure smooth and orderly readjustment in financial markets;
- Taking measures to alleviate the difficulties faced by small and medium-sized enterprises (SMEs), and to sustain and promote employment and stability in this vital sector of the region;
- Ensuring trade liberalization in the global and regional markets.

To this end, ABAC believes that progressing towards the Bogor Goals of free and open trade and investment in the Asia-Pacific region is the key to injecting new confidence into the global economy and help provide a more stable environment for governments and business to work together in addressing the difficult times. Hence, ABAC had also said that specific action was needed, in the form of a monitoring system that detects protectionist measures ranging from outright tariffs to non-tariff barriers on investment and trade.

The stark reality is that regardless of sector, size or location very few regional private enterprises have escaped the impacts of this debilitating trend, and many are struggling to cope with the dampening effects of market stability, constraining liquidity and declining consumer demands. Particularly, firms with the weakest financial structure and lower credit rating, such as SMEs, suffer most. In such a context, there was widespread concern of the downside effects of the current financial pressures on SMEs. SMEs are particularly vulnerable to the credit crunch due to their heavy dependence on bank credit, and limited recourse to financial markets. As confidence is restored on the financial markets, resources available for SMEs to grow out of the credit crisis are likely to remain scarce as economies enter a recessionary phase.

In this regards, ABAC stressed the need SME and Entrepreneurship policymakers in taking measures and call for a coordinated international initiative to support SMEs in this time of crisis and facilitate their access to finance and new technology in response to the financial and economic turmoil.

It is also in the interest of the business leaders to reaffirm their concern for the ease of credit and to bring down the costs of doing business. Among the recommendations in the report to the APEC leaders which were developed during the meetings this year, ABAC welcomed the opportunity to work with APEC in seeking a further 5% reduction costs to business as envisaged in the Trade Facilitation Action Plan II. At the same time, they believe that the ease and speed with which goods are moved across borders are critical. To that end, ABAC deem that a single-entry point for all regulatory requirements and data-sharing would help reduce compliance costs and supports the "Single Window" approach across the region. ABAC further urge that APEC economies should move ahead in implementing Authorized Economic Operators (AEOs) programs and work together to develop mutual recognition of AEOs to avoid inconsistent, redundant or duplicative requirements for AEOs. Along the same lines was support and recognition of the APEC Business Travel Card (ABTC) program, which gives businessmen faster clearance through immigration. Hence, it is ABAC's hope that eventually both the US and Canada will become full-fledged members of ABTC and for Russia to announce joining the program in any forms.

From the perspectives of business leaders, APEC could seize the opportunity in responding to the global economic crisis to chart an agenda that will set all APEC economies on a path of recovery and sustainable growth and development. This would be viewed also as keeping in the right track relevant to the APEC goals of free and open trade and investment. While acknowledging the importance of APEC leaders in demonstrating strong political will to resolve the outstanding issues in the WTO Doha Round, ABAC also considers that accelerated measures to deepen regional economic integration and to put the possibility of an Asia Pacific wide free trade area on the table, a practical means to advance trade and investment liberalization, and achieve the Bogor Goals.

In all respects, ABAC's business centric agenda is often seen as running ahead of the APEC agenda since it does not need to factor in political concerns and it is expected to move faster as the next three ABAC hosting economies-Singapore, Japan and the US, have decided they will develop the 2009 work plan in collaborative efforts, with the objective of establishing continuity in pushing the business agenda within the APEC region over the next three years. Initial areas of work for 2009 are expected to include a strong focus on the global financial crisis and ways in which economies could mitigate its effects. Other priorities will cover regional economic integration, business sustainability, ease of doing business, climate change, energy security, trade facilitation, food security, development of SMEs, and measures to further liberalize the flow of goods and services within the region. All of these are issues of relevant concerns to the business community in the Asia Pacific region.

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[iii] *Stephen S. Roach,* ***Pitfalls in a Post-Bubble World****. Morgan Stanley (August 1, 2008).*

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[v] *Nayantara D. Hensel, "Twin Crises: In Public Confidence and in the Housing Market,"* ***Economists Ink: A Brief Analysis of Policy and Litigation*** *(November 2008), pp.5-6.*

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