

APEC Currents is a quarterly publication of the Australian APEC Study Centre. It is published in February, May, August and November each year

## Regulators call for higher standards

AT A RECENT symposium in Singapore senior representatives of life insurance and pension regulators endorsed an approach aimed at improving corporate governance standards in a key area of financial services. Recent experiences of corporate collapses associated with inappropriate corporate behaviour and poor regulatory practices underlined the importance and urgency of work in this area.

The regulators from Fiji, Hong Kong SAR, India, Indonesia, Malaysia, Papua New Guinea, People's Republic of China, Philippines, Singapore, Thailand, Vietnam and Australia, together with senior group and regional industry representatives from AXA Asia Pacific Holdings and the Commonwealth Bank of Australia, participated in this symposium, organised by the Australian APEC Study Centre, and convened in Singapore on 7-8 November 2002.

This program has been *endorsed as a major capacity building initiative by APEC Finance Ministers and Leaders* and responds to their views that governments, industry and multilateral agencies should work together in efforts to support institutional and human resource development in the region. The program is sponsored by the Australian Government, the Asian Development Bank, AXA Asia Pacific Holdings, the Commonwealth Bank of Australia and the Australian APEC Study Centre. Representatives from sponsoring groups participated in the Symposium.

Regulators released a communiqué containing the following key agreed observations:

- *A Framework for Assessing Regulatory Change*: should include the regulatory mandate objectives, legal powers, methodology, adequate resources, leadership and an action plan, and importantly, performance measures.



Regulators and industry representatives at the MRC Symposium in Singapore, November 2002

- *Corporate Governance*: the importance of improved corporate governance and practices reflecting the highest standards of ethical behaviour by both regulators and industry;
- *Risk Based Regulatory Management*: development of procedures for the transition to, and implementation of, risk based management processes as crucial to robust and responsive regulatory regimes;
- *Regulator/Industry Capacity Building*: the need to continue to enhance regulatory capacity and relevant performance measures in regulatory agencies and recognition of the needs of some industry players in developing skills to respond to emerging regulatory needs;
- *Life Insurance*: the importance of the IAIS standards and regional and international co-operation in developing standards and practices and the need to develop dynamic capital and pricing management and regulatory codes for the reinsurance sector;

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### INSIDE APEC CURRENTS

APEC Study Centres to meet in Thailand in 2003	2
Analysis on the terrorist attack in Bali	3
Analysis of APEC's role in regional security	4
New publications from the APEC Secretariat and the Australian Department of Foreign Affairs and Trade	5
APEC Calendar 2003	6

continued from page 1

- **Pensions:** the need to develop sound financial principles (based on OECD principles and those developed at the Beijing MRC symposium in 2001) and measures relating to the supervision of the pensions industry, including solvency of defined benefit funds, and disclosure standards, and to improve understanding of the role and responsibilities of trustees and the effective management of functions when they are out-sourced;
- **Consumer issues:** given the central responsibility of regulators to policy holders and depositors, regulators and industry should co-operate in raising public awareness of financial markets and the implications of policy and investment choices; policy holder and deposit protection plans are being given increasing prominence in a number of jurisdictions;
- **MRC 'Model':** endorsement of the MRC approach of a joint regulatory/industry/multilateral approach to regulatory capacity building.

Regulators endorsed the valuable contribution the program is making to regulatory enhancement and in advancing regional co-operation. Notwithstanding the success of the program, major challenges lie ahead

and regulators expressed the strong hope that the program could be continued beyond 2003. Participants agreed to encourage support in the APEC Ministerial processes for the program to be extended and to consider ways in which new funds might be sourced through the public and private sectors, including contributions by participating agencies.

The Chairman of the Insurance Regulatory Development Authority of India noted that while India was not a member of APEC it had been benefited greatly from participation in the program. Regulators from Fiji expressed similar appreciation for their involvement. Participants warmly welcomed an offer by India to support an extension of the MRC program.

### Background to MRC Program

The program was designed in response to concerns arising from the Asian financial crisis and to assist in the strengthening of regulatory arrangements in the life insurance and pensions sectors of economies in the region. The essential character of the program is to establish dialogue between regulators and industry, as well as between regulators, aimed at bringing a holistic approach to regulatory reforms – taking into account the need for enhanced financial system

stability, competition and innovation in the sectors, volatile capital markets, and changing consumer interests. The program consists of three annual cycles each comprising of a Symposium for chief regulators, followed by two 2-week intensive training programs for senior/middle level regulatory agency officials. The MRC program is in its third year and follows a successful forerunner program held in Melbourne in 1999.

There is increasing focus on reforms (importantly those developed by IAIS for life insurance) to improve industry solvency and to enhance firms' capacity to assess and manage risk, enhance corporate governance, and to make appropriate capital provisions. Reforms also provide for the strengthening the role of an independent professional infrastructure via actuarial assessments and improved accounting and auditing standards, investment diversification and improved disclosure arrangements for consumers.

In the areas of pensions the MRC Program focuses only on pensions involving private sector financial management. Standards are evolving, including importantly, standards emanating from work being undertaken in the Organisation for Economic Co-operation and Development (OECD), International Network of Pension Regulators and Supervisors (INPRS), the World Bank and other agencies. A full text of the OECD guidelines can be found in the documentation pages of the OECD website at <http://www.oecd.org>.

### Acknowledgement

Participants thanked the Monetary Authority of

Singapore for supporting the symposium in Singapore, the sponsors of the MRC Program, the Australian APEC Study Centre and its associates in Singapore for organising the symposium, and the Australian High Commission in Singapore for its support.

### Further Information

The full text of the Symposium communiqué, and the papers referred to above, amongst others, can be accessed via the MRC Website: <http://www.apec-finsec.org>

## Thailand to host ASC Meeting in May 2003

THE THAI APEC Study Center (TASC) will host the ASC Consortium Conference in Phuket, Thailand in May 2003. The themes for the conference will be decided after a workshop to be held in December.

The annual meeting of the Study Centres continues to grow in importance as a major input into APEC processes. Details of the conference will be circulated to those on the Australian APEC Study Centre's mailing list, or you can register your interest by contacting Dr Suphat Suphachalasai at [suphat@econ.tu.ac.th](mailto:suphat@econ.tu.ac.th)

The APEC Study Centre at the China Business Centre of the Polytechnic University and the Hong Kong America Center are jointly hosting a conference on the subject: IT and Regional Economic Integration in Asia. The conference will be held in Hong Kong on 7-8 December 2002 and the outcomes reported in the next issue of *APEC Currents*.

### THE AUSTRALIAN APEC STUDY CENTRE

Chairman: Mr Alan Oxley	The Australian APEC Study Centre is located at:
Director: Professor John McKay	Monash City Offices Level 12, 30 Collins Street Melbourne 3000
Deputy Director: Mr Darby Higgs	Telephone: 61 3 9903 8757 Facsimile: 61 3 9903 8813
Executive Officer Mrs Shayne Walsh	Email: <a href="mailto:apec@adm.monash.edu.au">apec@adm.monash.edu.au</a>
Admin Officer: Ms Claire Tingey	Web site: <a href="http://www.apec.org.au">www.apec.org.au</a>

*In this edition analysis looks at the effect of the new importance of security on international relations. While APEC's original role has been confined to the economic arena the organisation has gradually evolved into a broader forum. Events over the past year or so have accelerated that process.*

## A terrible way for Australia to come of age

By ALAN OXLEY, Chairman, APEC Centre

AFTER AL QAEDA attacked the World Trade Centre in New York, some argued that the United States had brought it upon itself because of US policy in the Middle East. Expect a companion argument that Australia contributed to the weekend attack on Australians in Bali by following the US into Afghanistan, supporting the US over Iraq, and incarcerating illegal refugees from the Middle East.

But the truth is that Australians were attacked in Bali not because of what we have done, but because of what we are.

It is a new experience for Australians to be held to account for what we are. We had better get used to it. It is the result of our success as a nation and the influence we exercise. Until we understand the implications of this, we will not be able to manage our relations with countries in the region.

Was the attack in Bali against Australians or Westerners? We don't know yet. Maybe this doesn't matter. Everybody knows that the most numerous tourists in Bali are Australian.

Who would want to attack Westerners? The most obvious candidate is al Qaeda or extremist Islamic groups associated with or sympathetic to it. There are candidates in Indonesia and the Philippines.

Is the attack in retaliation for involvement in Afghanistan, or another step in the campaign against the US. Does it matter?

If it is retaliation for involvement in Afghanistan, does that make a difference? Some might want to argue that had Australia not been involved, Australians might not have been attacked in Bali. But if that were the case, then one means for avoiding such attacks in future is to not take actions like that in Afghanistan.

No nation of any consequence can adopt this as a guiding principle in its foreign policy. The action in Afghanistan was essential if radical terrorism, like that perpetrated by al Qaeda and fostered by the Taliban, the then government in Afghanistan, is to be countered.

Suppose the retaliation were because Australia is an ally of the US? Given how fundamental that relationship is to Australia's national security – we enjoy the protection of its nuclear umbrella, just in case you need to be reminded of it – we cannot allow anyone to assume they have the right to blackmail Australia about what arrangements it makes to protect its national security. If we were to concede this principle to groups of international terrorists, we would be conceding it to every country in the world.

Suppose Australia were singled out for attack because it is seen as a surrogate for the US in the South-East Asian/Western

Pacific area. To Islamic extremists, that is a fact. Australia is not just a surrogate for the US, it is a surrogate for Western culture. In fact, Australia is more than a surrogate, it is the most prominent example of Western culture and civilisation in that region. This represents something of a coming of age for Australia.

We should not forget that the US has not been the exclusive target of Middle Eastern terrorists; but this is the first attack on Australians. No Australian aircraft or ship has yet been bombed; but in the past, British, French, German and Dutch civilians have been subjected to terrorist attacks.

The wave of international terrorism from the Middle East has now moved to South-East Asia. If Western civilians are to be targets, then this makes Australians natural targets. Should Australia be apologetic about that? Certainly not. We are, and always have been, a successful example of Western culture – a democratic, civilised and prosperous society – and we should be proud of that.

There is a possibility the attack is retaliation by some elements in Indonesia for Australia's involvement in East Timor. If that is the case, does that mean Australia should not have intervened in East Timor for fear of this type of retaliation? Who would go along with that reasoning?

We need to be confident in this respect that the Indonesian Government in no way condoned the Bali attack. This is extremely unlikely. This attack profoundly damages Indonesia's tourist industry.

We have entered a new era of instability in South-East Asia. This attack will not be the last. We face new uncertainties. We will be targets in future for radical Islamic terrorists, not because of our relationship with the US or other actions in international affairs, but because of what we are.

We have no option but to be involved. This will mean a stronger military role, closer cooperation with military forces in the region, more aid to strengthen governments in the region, higher taxes and, above all, clear choices. The one option we do not have is to believe we can be neutral.

A war of terror is now being waged against Australia. In every war in which we have been involved we have made our mark. This one should be no different.

*This essay first appeared as an opinion piece the Melbourne Age on 15 October 2002*

### Website Updated

The Australian APEC Study Centre's website now has a APEC News Page which will help to keep our readers informed of relevant breaking news and the latest publications. It is hoped that stories will be posted on a frequent basis. Readers wish to contribute material should email [apec@adm.monash.edu.au](mailto:apec@adm.monash.edu.au)

# APEC's role in regional security

By JOHN MCKAY

Security questions have again dominated the APEC Leaders' meeting. As in Shanghai in the previous year, much of the discussion in Mexico was about how to respond to the threat of terrorism in the region, but this time the Bali bombings gave much greater local focus to the deliberations. The recent disclosures by North Korea that it has in fact been continuing its program of nuclear weapons development, in spite of a number of earlier undertakings, also provided an important topic for discussion.

All of this has reopened the question of what role (if any) APEC should play in these broader political and security issues. The organisation has been seen as primarily concerned with trade and investment issues, but it may be that APEC is now being forced to accept a much broader regional brief.

In fact, APEC leaders have always recognised the importance of making more general contributions to the development of the region, beyond narrow economic and trade questions. The first APEC meeting at which leaders were involved, in Seattle in 1993, stated in its final declaration that APEC was committed to building a strong community in the region "based on a shared vision of achieving stability, security and prosperity for our peoples".

However, a number of arguments have been put forward in favour of APEC concentrating on a much narrower economic agenda. APEC's expertise, it was said, was primarily in trade-related matters, and any attempt to become involved in political issues would divert efforts away from some urgently needed trade reforms. In any case, regional security issues were much more appropriately dealt with by the ASEAN Regional Forum, which was set up precisely for this reason. This argument was used by a number of governments, including Australia. China was a particularly strong supporter of this position, partly because the membership of Chinese Taipei in APEC made it impossible for China to discuss security matters in this forum.

What then has changed to bring security to the top of the agenda at recent APEC meetings? In part this may be a simple admission of what APEC's role has been all along. Some commentators have always argued that APEC has always played a major role in attempting to resolve regional political issues, but until recently there has been a general unwillingness to make this explicit for fear that the frankness and effectiveness of the discussions might be compromised. What has happened is that the Leaders' Meeting has now had time to develop its own dynamic. When leaders meet they are bound to concentrate on whatever issues are most pressing, and these are usually questions of politics and security rather than more technical trade matters.

At these meetings there has been a growing tendency for smaller dialogues to be held as well, either at the bilateral level or slightly larger. It has become normal, for example, for the leaders of South Korea, Japan and the United States to meet every year to consider developments on the Korean Peninsula, and this was important in Los Cabos in developing a response

to North Korea's recent admissions. Hence, the role of the forum now extends well beyond the formal plenary sessions, and this extends the scope and usefulness of the dialogues.

But it is also clear that the entire nature of what constitutes security issues is also changing. During the Cold War security was clearly about weapons, military forces and threats to peace emanating from actions by governments – issues that we now tend to call "hard security". But since the fall of the Soviet empire it has been recognised that threats to regional stability are most likely to come from a much wider range of causes, many of them beyond the actions of the state. Environmental degradation, the AIDS pandemic, organised crime, and a range of other cross-border threats are now accepted as part of the security situation.

Environmental security and economic security, along with other components of "soft security", are increasingly being brought together into a *human security* agenda, which is being seen as just as important as more traditional concerns for the stability of the region and for the safety and welfare of its citizens. The old division between economic and "security" issues is becoming blurred. Economic growth can be a very destabilising process, and economic competition can be a significant source of friction between nations. In the aftermath of the September 11 attacks in the United States, the President of the World Bank emphasised that severe economic inequalities can act as a source of severe anger and resentment that may eventually fuel acts of terrorism. Such thinking underpins, for example, the title of the ABAC report to the Leaders' meeting in Mexico – *Sharing Development to Reinforce Global Security*.

Thus, in this new environment APEC's role is bound to have an important security dimension. This does not mean that the old trade and investment issues have become any less important. Rather, the prosperity of the region must first be assured through the guarantee of peace and security, and APEC's well-established economic concerns will inevitably become part of the process by which the stability of the region can be guaranteed from a new and much broader set of threats.

## APEC's response to terrorism: three key documents

These are available from [www.apecsec.org.sg](http://www.apecsec.org.sg)

- **APEC Secretariat Final Report on Implementation of the Leaders' 2001 Statement on Counter-terrorism**

In response to the terrorist attacks of 11 September 2001 on the United States, Leaders attending the Shanghai APEC Economic Leaders' Meeting in October 2001 asked the APEC Secretariat to report on the implementation of counter-terrorism measures during 2002 by all APEC members. The Report on Implementation of the Leaders' Statement on Counter-terrorism details efforts made by all 21 APEC member economies to achieve the objectives laid out by APEC Leaders during their 2001 meeting.

- **APEC Leaders' Statement on Fighting Terrorism and Promoting Growth**

This statement outlines the actions already achieved and the concrete steps to be taken individually and collectively by APEC economies to counter terrorism.

- **APEC Leaders' Statement on Recent Acts of Terrorism in APEC Member Economies**

This statement refers to terrorism in Indonesia, the Philippines and Russia and expresses condolences to those affected.

The annual cycle of APEC's work agenda cumulates in the Leaders Summit, this year held in Los Cabos, Mexico. Many APEC bodies coordinate their publishing activities to coincide with time. The APEC Secretariat publications are available from [www.apecsec.org.sg](http://www.apecsec.org.sg)

## APEC Leaders' Declaration

APEC MINISTERS met on 23-24 October in Los Cabos, Mexico. Ministers expressed their commitment to a sound macroeconomic and financial environment, the promotion of good corporate governance, and the common goal of free and open trade and investment in order to increase growth and improve living standards. The theme for APEC 2002 was Expanding the Benefits of Economic Cooperation for Growth and Development. Implementing the Vision, with sub-themes of Policies for Sustained Growth and the New Economy; Building Capacities to Reap the Benefits of Globalization; and Making APEC more Relevant to Our Communities. The discussion of Ministers focused on the theme and sub-themes for APEC 2002, including the issue of counter-terrorism and economic growth.

## 2002 APEC Economic Outlook

THIS ANNUAL PUBLICATION by the APEC Economic Committee provides an accessible summary of economic indicators and short term forecasts for the twenty one APEC economies. The 2002 APEC economic outlook contains an appendix containing Indicators of a knowledge based economy for seventeen APEC economies.

As usual the economic outlook contains a chapter

devoted to a structural issue of relevance to APEC. The 2002 edition includes a chapter titled Microbanking Development, Regulation and Supervision in the Asia Pacific Region which examines experiences in a cross section of sixteen APEC economies, developed and developing. APEC's heterogeneity is reflected in the variety of experiences and regulatory approaches in the region. Access to credit can provide a route out of poverty for millions in the developed as well as the developing world. This survey reveals that all countries can benefit from development in this sector and proposes tools for strengthening the sector.

## 2002 CTI Annual Report to Ministers

THE COMMITTEE on Trade and Investment has an extensive work program covering a broad range of issues subsumed under APEC's Trade and Investment Liberalisation and Facilitation (TILF) Agenda. This report summarises the outcomes from this agenda and outlines the activities carried out by its numerous subcommittees and expert groups.

## 2002 Report on Economic and Technical Cooperation

THIS REPORT is prepared annually by the APEC Senior Officials for the APEC

Leaders. It details activities in various APEC fora in pursuing APEC's Ecotech Agenda. This year there is also a review of the role and mandate of the Ecotech Subcommittee of SOM.

## The New Economy in APEC: Innovations, Digital Divide and Policy

THIS REPORT is the third of a series of publications commissioned by the APEC Economic Committee. It brings together research contributions from Australia, Canada, Japan, and Chinese Taipei. This report focuses on four areas of the knowledge economy: the role of services; the contribution of ITC to productivity growth; the importance of entrepreneurship and policies to promote it; and the implications of the digital divide within and between economies. A key conclusion of the report is that the role of ITC in transforming economies and driving productivity growth is more important than for economic development than ITC sales or production.

## The Benefits of Trade and Investment Liberalisation and Facilitation in APEC

APEC HAS had a Trade and Investment Liberalisation and Facilitation (TILF) agenda since the adoption of the

Bogor Goals in 1994. Two recent studies are reported here that use modelling to explore the magnitude and incidence of benefits which would occur if the goals were reached. Trade facilitation is found to be capable of delivering more benefits than tariff reductions, and less developed economies stand to gain more than more developed economies from investment liberalisation.

## 2002 ABAC Report to Economic Leaders

ABAC's 2002 report *Sharing development to reinforce global security* emphasises the need to rebuild trust in the global economy that has been eroded by poor corporate governance, the perceived inequality in access to the benefits of globalisation and concerns about security. Key messages include the need to achieve progress towards the Bogor goals and a positive outcome from the Doha Round, renewed efforts in trade facilitation, collective action against terrorism and the need to improve corporate governance.

## APEC Response to Terrorism

APEC has published three documents in response to recent terrorist events. They appear on page 4 of this issue.

The following publications of the Australian Department of Foreign Affairs and Trade are available for download from [www.dfat.gov.au](http://www.dfat.gov.au)

## Strengthening economic legal infrastructure in APEC: supporting trade: investment and economic development

THIS REPORT highlights the importance of strengthening economic legal infrastructure, as part of a good mix of open market policies, in order to achieve social objectives and sustained economic growth. Strengthening economic legal infrastructure, including establishing good governance practices, involves improving laws and building the capacity of institutions and individuals to implement, apply and enforce those laws.

The report is designed to provide a platform for future deliberations on strengthening economic legal infrastructure within APEC, including through the APEC Finance Ministers' Process and other international forums. This report was commissioned by the Australian Department of Foreign Affairs and Trade (DFAT) for presentation at the APEC Ministerial Meeting in Los Cabos, Mexico on 23-24 October 2002.

## APEC economies: Realising the benefits of trade facilitation

THIS REPORT, *APEC Economies: Realising the Benefits of Trade Facilitation*, extends an earlier study, *APEC Economies: Breaking Down the Barriers*. This report provides additional

case studies of trade facilitation. It also presents quantified estimates of the gains from a selection of reforms undertaken in a number of APEC economies – Singapore, Thailand, the Philippines, Mexico, China and Australia. The case studies deal with two types of reform - "at the border" and "behind the border". All of the at-the-border reforms involve improving the efficiency of customs procedures through the use of information technology. The behind-the-border

reforms focus on physical and market infrastructure and cover road transport in Mexico, the insurance sector in China and port services in Australia.

## Australia's Individual Action Plan: 2002

APEC ECONOMIES each maintain an individual action plan (IAP) to monitor progress towards the Bogor goals of free and open trade. IAPs are

presented annually at the APEC Summit. Australia's IAP reports on improvements made and further improvements planned in tariffs; non-tariff measures; services, investment; standards and conformance; customs procedures; intellectual property rights; competition policy; government procurement; deregulation/regulatory review; implementation of WTO obligations; dispute mediation; mobility of business people; information gathering and analysis.

### APEC MEETINGS FOR 2003

12-21 Feb	Chiang Rai, Thailand	APEC SOM I and Related Meetings
24-26 March	Mexico City	Mexico Trade Promotion Working Group
24-28 March	Kuala Lumpur, Malaysia	Telecommunications WG Meeting
8-9 April	Pattaya, Thailand	Tourism WG Meeting
11 April	Pattaya, Thailand	APEC Tourism Forum
24-28 April	Shandong, China	APEC E-commerce Fair
May (tba)	Kuala Lumpur, Malaysia	Human Resources Development WG Meeting
21-30 May	Khon Kaen, Thailand,	APEC SOM II and Related Meetings
26-28 May	Phuket, Thailand	APEC Study Center Consortium Meeting
Jun (tba)	Thailand	APEC Automotive Steering Committee Meeting
2-3 Jun	Khon Kaen, Thailand	APEC Meeting of Ministers Responsible for Trade
6-16 July	Chantaburi (tbc), Thailand	APEC International Youth Camp
10-12 July	Hua Hin, Thailand	APEC Finance Ministers' Technical Working Group
30 July - 3 Aug	Chiang Mai, Thailand	Women Leaders' Network
4-6 Aug	Chiang Mai, Thailand	Business Forum
5-6 Aug	Chiang Mai, Thailand	Small and Medium Enterprises (SME)WG Meeting
7-8 Aug	Chiang Mai, Thailand	APEC SME Ministerial Meeting
14-23 Aug	Phuket, Thailand	APEC SOM III and related meetings
Sept (tba)	(tba) Thailand	APEC Financiers Group Meeting
2-3 Sept	Phuket, Thailand	APEC Finance and Central Bank Deputies
4-5 Sept	Phuket, Thailand	10th APEC Finance Ministers Meeting
14-15 Oct	Bangkok, Thailand	Informal SOM
16-21 Oct	Bangkok, Thailand	APEC Investment Mart
17-18 Oct	Bangkok, Thailand	15th APEC Ministerial Meeting
18-21 Oct	Bangkok, Thailand	ABAC Meeting
18-22 Oct	Bangkok, Thailand	CEO Summit
20 - 21 Oct	Bangkok, Thailand	11th APEC Leaders Meeting

A full listing of APEC events can be found at the APEC Secretariat website at [www.apecsec.org.sg](http://www.apecsec.org.sg)

The Australian APEC Study Centre: Monash City Offices, Level 12, 30 Collins Street, Melbourne 3000

Email: [apec@adm.monash.edu.au](mailto:apec@adm.monash.edu.au) Web site: [www.apec.org.au](http://www.apec.org.au)

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