



Juan F. Raffo
ABAC Chair 2008

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His Excellency Dr. Alan Garcia

Chair, Asia-Pacific Economic Cooperation
President of the Republic of Peru
Lima, Peru

Your Excellency:

The APEC Business Advisory Council (ABAC) recognizes that the global credit contraction has now moved forcefully to the real economy, and will result in a deep and possibly protracted global recession. Restoring consumer confidence and economic demand will take significant time and effort. As the financial crisis begins to affect the real economy, APEC economies must resist reactionary measures of protectionism and draconian regulation. Such policy responses will have very detrimental effects on the global economy and will deter the prospects for eventual recovery.

ABAC supports recent commitments made by G20 Leaders to stand firm against protectionism and recommends that APEC Leaders endorse those commitments. As an immediate priority, ABAC believes that APEC Leaders should further use their influence within the G20 and in the wider global economy to reach a conclusion of the WTO Doha Development Agenda.

The immediate response to the crisis to expand the monetary base has prevented systemic collapse of the financial system, but continuation of the process of significant de-leveraging is expected. ABAC believes that Leaders should now ensure a smooth, orderly unwinding of excessive leverage over time which will reduce the risk of systemic strain and a steeper economic decline.

As a next step, ABAC calls upon Leaders to invigorate demand through significant forward-looking, stimulative spending on appropriate measures such as public works to augment the eventual consumer recovery, while avoiding subsidizing uneconomic industries. This should be accompanied by tax incentives in a balanced and responsible fiscal response.

The foregoing monetary and fiscal responses address the immediate challenges. In the longer term, ABAC also strongly recommends that Leaders use their influence with G20 countries to create a global architecture that ensures efficient operations of capital markets. As with any adverse financial event, the consequential problems will be best mitigated through a process of smoothing or amortization. The developed architecture should employ structural mechanisms that create time intermediation; examples of which are as follows:

1. Clearing mechanisms should be established for credit derivatives, especially credit default swaps and collateralized debt obligations, to increase transparency and reduce counterparty risk;

2. With respect to the residential mortgage area, governments should guarantee the cash flow in underlying reference securities pools;
3. Multilateral counterparty insurance should be established to restore trust in capital markets and trade finance. The insurers should be public-private partnerships with the ultimate guarantee provided by governments and central banks;
4. Direct intermediation by government entities between counterparties should be considered to provide a trusted clearing mechanism.

The leadership demonstrated in APEC this year and in 2009 by embracing these recommendations will do much to minimize the economic stress brought on by the financial crisis. Thank you for your consideration.

Sincerely,



Juan Raffo
Chair, ABAC 2008