

## I. Introduction

The International Monetary Fund forecasts global growth to be uneven, with growth in advanced economies stronger in 2015 relative to 2014, but weaker in emerging markets. Medium-term prospects have become less optimistic for advanced economies, and especially for emerging markets, in which activity has been slowing since 2010. At the same time, the distribution of risks to global growth is now more balanced but remains tilted to the downside. A greater boost to demand from oil prices is an important upside risk, while on the downside, the most salient risks are those related to geopolitical tensions, disruptive asset price shifts in financial markets, and in advanced economies, stagnation and low inflation.

Yet while growth in the region has become more balanced, it has also become slower. This highlights the need to identify alternative sources of growth if economies in the region are to achieve sustainable and high-quality growth. At the same time, there is a need to address the rising inequality in order not to weaken the foundation of growth itself.

Against this background, ABAC adopted the theme ‘Resilient, Inclusive Growth: A Fair Deal for All.’ Our work program for 2015 focused on the following priorities:

- Advancing regional economic integration and services agenda
- Strengthening and facilitating micro, small and medium enterprises (MSMEs) entry into global markets
- Maximizing innovation and human capital potential
- Promoting livable, sustainable cities and resilient communities

In this report, we outline a set of practical actions which APEC economies can take to advance regional economic integration and to promote sustained and inclusive economic growth and prosperity in the region. Our recommendations are organized according to the five working groups set up to carry forward the work this year.

## II. Regional Economic Integration

Regional economic integration remains a key driver for promoting sustainable and inclusive growth. As such, this year, ABAC continued to advance work on this core APEC agenda by focusing on the following key themes: supporting the World Trade Organization (WTO) and preventing protectionism; enabling a Free Trade Area of the Asia-Pacific (FTAAP); accelerating trade and investment liberalization and facilitation; advancing the new services agenda; and building effective global value chains.

### A. Supporting the multilateral trading system

ABAC reaffirms its commitment to the WTO, acknowledging the primacy of the multilateral trading system and its fundamental role in promoting economic growth, job creation and sustainable development. A rules-based, transparent and non-discriminatory global trading system remains the best option to counter protectionism in all its guises. The APEC business community is frustrated at the slow progress that has been made on the range of WTO issues. ABAC urges APEC economies to step up their efforts on all aspects of the WTO agenda.

In particular, while welcoming the progress that has been made towards the implementation of the Bali Package agreed at the WTO’s 9th Ministerial Conference in December 2013, ABAC is disappointed that the Trade Facilitation Agreement (TFA) has not yet entered into force. This agreement will reduce costs and increase efficiency of trade in goods and the provision of services and will foster the worldwide expansion of trade. ABAC believes that every effort should be made to bring the agreement fully into force at the earliest opportunity. We encourage APEC economies to take the necessary steps to allow the TFA to enter into force by the time of the 10th WTO Ministerial Conference at the end of this year.

Recalling also the significant challenges posed by ensuring food security in our own region, ABAC urges APEC economies to work constructively with other WTO members to resolve the issue of public stockholding for food security purposes by 31 December 2015.

ABAC looks forward to the 10th WTO Ministerial Conference in Nairobi on 15-18 December 2015 and calls on APEC economies to make every effort to achieve concrete and meaningful outcomes at that meeting. Above all, ABAC recognizes the huge opportunities that revived multilateral trade negotiations offer for business, for global prosperity, for food security and for sustainable development, and to that end, encourages APEC economies to work creatively and constructively with other WTO Members to reinvigorate the Doha Round.

The Information Technology Agreement (ITA) has already made a major contribution in our region, promoting innovation and integrating high-value information and communication technology products (ICT) into global value chains (GVCs). It is one of the most commercially successful trade agreements in the WTO, driving growth, innovation, and creating jobs in both developed and developing economies. Consumers in the APEC region have been the biggest beneficiaries of this agreement by accessing more innovative and more affordable ICT products. Additionally, the ITA has provided access to necessary components of high-value ICT products, encouraging greater integration in global value chains for manufacturing of these devices. Tremendous technology innovation has changed the ICT sector's product landscape since 1996, and thousands of new ICT products have appeared on the market, yet not a single new tariff line has been added to the ITA in the past 18 years.

ABAC acknowledges the tremendous efforts made since last year's APEC Leaders' declaration to conclude a commercially significant, credible, and mutually balanced agreement. ABAC welcomes the consensus reached by 54 WTO members on the final list of 201 product lines. ABAC further welcomes the agreement to engage in periodical review of the product coverage of the ITA.

Recognizing the growing importance of services trade to economic activity including global value chains and networks, economic growth and job creation, ABAC urges relevant APEC economies to seek meaningful progress on the Trade in Services Agreement (TiSA) and its ambitious and timely conclusion.

Finally, while recalling the centrality of the WTO, ABAC acknowledges that bilateral, regional and plurilateral trade agreements such as the Trans Pacific Partnership (TPP), the Regional Comprehensive Economic Partnership (RCEP) and the Pacific Alliance (PA) can complement and support efforts towards global liberalization. Care must be taken to ensure that such agreements genuinely complement and support efforts towards global liberalization under the WTO.

#### **Recommendations:**

- Push for the early implementation of the TFA, including through the submission by all APEC economies of instruments of acceptance well ahead of the 10th Ministerial Conference in Nairobi in December and, in turn, the entry into force of the TFA at that meeting.
- Demonstrate leadership in seeking to reinvigorate the Doha Round of multilateral trade negotiations and to bring those negotiations to an expeditious conclusion.
- Push participating economies to wrap up the ITA negotiations as soon as possible and with absolute certainty. Encourage participating economies to keep the list of products covered under review to reflect future technological developments.
- Support plurilateral efforts including through the TiSA negotiations for the further liberalization of trade in services to promote the global expansion of trade in this sector and the strengthening of global value chains, in a way that complements and supports efforts towards global liberalization under the WTO.

#### **B. Addressing non-tariff barriers**

While tariffs and other barriers at the border have been progressively lowered in many economies, and encouraging progress has been made in various settings on trade facilitation, new protectionist measures are nevertheless on the rise behind the borders. Such non-tariff measures become non-tariff barriers (NTBs) when they have negative effects on international trade and are of real concern to business. NTBs such as local content requirements, onerous import licensing regimes or unjustified technical standards can

diminish efficiency, distort trade patterns and inhibit investment flows, even where cross-border activity is not the target.

The increasing fragmentation of production across borders and rise of global value chains and networks require the establishment of new parameters for global trade. Recognizing this new dynamics, APEC economies should seek to foster the most open, predictable and transparent conditions possible for trade while still meeting legitimate objectives in the domestic regulatory sphere. A lack of transparency in regulatory and administrative practice is one of the most serious challenges to doing business in the Asia-Pacific region. By contrast, enhanced regulatory coherence across the APEC region would lower costs for business and help achieve a seamless commercial environment.

The effect of NTBs can be subtle and difficult to measure. APEC economies should seek to examine, and where necessary, establish disciplines governing significant NTBs so that they have the least-possible and least trade-distorting impact on both foreign suppliers and domestic producers. APEC economies should also seek to address NTBs where possible in trade agreements such as FTAAP.

#### **Recommendations:**

- Seek to identify and assess measures behind the border that have a significant impact on trade and the efficient functioning of global value chains.
- Provide opportunities, including through the establishment of a consultative mechanism, within APEC for government and private sector representatives to discuss ways in which the impact of behind the border measures on trade (and potentially private standards that have a similar effect) can be mitigated or minimized as far as possible while still allowing economies to achieve legitimate domestic objectives.
- Find practical ways to engage and empower business to take the lead in identifying and addressing significant NTBs that make accessing markets more difficult.
- Strengthen implementation of good regulatory practice as agreed by APEC Leaders in the Honolulu and Bali Declarations.

- Provide leadership and support for high-standard multilateral, bilateral and regional trade agreements, including FTAAP that seek to minimize the range of potential barriers behind the border, as well as at the border, increase the level utilization of those agreements by businesses and ensure coherence and complementarity of multilateral and regional initiatives.

#### **C. Concluding pathways towards an FTAAP**

Negotiation of the TPP, RCEP and the PA agreements has enormous impact on regional growth and integration, and while each represents a different membership, style, coverage and level of ambition, all are important for business in the region and as pathways towards FTAAP.

As the prospects for successful completion of the TPP negotiations have strengthened in recent months, ABAC encourages all participating economies to grasp the opportunities afforded by this significant agreement and settle outstanding issues expeditiously, so that its benefits might be realized around the region. ABAC notes that in addition to important traditional market access issues, the TPP attempts to address new issues, such as access by small and medium-sized enterprises, strengthening regulatory coherence, promoting economic development and regulatory transparency.

Similarly, ABAC would welcome further progress towards completion of RCEP, which upon completion will represent three billion people, a combined GDP of about \$17 trillion and approximately 40 per cent of world trade. Although coverage of trade issues by RCEP is not as extensive as those attempted by the TPP, economies could develop an ambitious, high-quality agreement by sharing their experiences. As the market reach is so large and significant for the region, successful conclusion of RCEP is critically important to business and as a key pathway towards FTAAP.

ABAC recognizes the significant achievement of completion of the PA, its focus upon connecting its members with the Asia-Pacific region, and as a living agreement, continually updating, responding and adapting to the needs of its member economies and as a FTAAP pathway.

ABAC also acknowledges other integration processes in which APEC economies are involved (such as the Eurasian Economic Union) as efforts to further liberalize trade and investment, open markets and encourage business activities in the region and beyond.

#### **Recommendations:**

- The parties to the TPP negotiations resolve all outstanding issues expeditiously to enable conclusion of the Agreement as soon as possible.
- The parties to the RCEP negotiations proceed as quickly as possible with a high level of ambition to complete negotiations and bring RCEP into effect at the earliest opportunity.
- Encourage other economic integration and trade liberalization processes in which APEC economies are involved.

#### **D. Enabling an FTAAP**

ABAC strongly supports the process underway following the Leaders' 2014 Declaration in Beijing, directing officials to undertake a Collective Strategic Study on Issues Related to the Realization of FTAAP, and intends to make substantive contributions to that process from a business perspective throughout the 2015 and 2016 work program. ABAC will endeavor to identify and outline the requirements of future business in the region, to assist the design of FTAAP to be relevant and accessible for business needs, and ensure that it be able to deliver on its promise of comprehensive regional economic integration and connectivity. ABAC will analyze issues relating to the under-utilization of existing Free Trade Agreements (FTAs) and Regional Trade Agreements (RTAs) to ensure that potential significant gains are not lost and to avoid these from recurring in the FTAAP and to increase access to its benefits and the opportunities it offers.

ABAC is concerned that FTAAP be a comprehensive, high-quality agreement that is drafted to acknowledge the way that business is actually conducted, and addresses the nature and needs of all sizes of business in the region. ABAC recognizes that not only is a significant component of business now conducted through regional and global value

chains, but as a result internal business models have changed, and what business requires of trade agreements has also changed. This is why it is essential to consider next generation trade issues businesses are currently facing. ABAC strongly believes FTAAP should remain forward looking and relevant to businesses over the long term.

The design of FTAAP offers a unique opportunity to influence the direction of development in the region and build the trade architecture of the future. ABAC encourages officials to seize the opportunity to be ambitious and visionary in approaching the Collective Strategic Study on FTAAP, and to ensure that FTAAP will be relevant to forging economic growth and prosperity for all in the region.

ABAC notes that although TPP, RCEP and PA all provide pathways towards FTAAP, the significant differences between them in membership and coverage raise issues for FTAAP, and in particular the question of inclusiveness. ABAC encourages the participants in these agreements to see their potential as building blocks towards a greater goal, and remain open to wider membership in the longer term.

#### **Recommendations:**

- Create a realistic vision of a seamless Asia-Pacific economy, emphasize the social benefits of the vision, note that regionalism provides practical ways to achieve them, and make a vigorous public case for FTAAP. Keep the vision ambitious; compromise on timing and tactics.
- Focus on the future of business: GVCs, the digital economy, the middle class, and the regional business community.
- Build on existing, high-quality FTAs and map pragmatic paths. Create a living agreement with early harvests.
- Recognize adjustment implications and help economies manage them. Help members develop negotiating capacity.

#### **E. Advancing the new services agenda**

ABAC has long highlighted the critical need for services liberalization and facilitation as key

factors in regional economic integration and connectivity, development and inclusive growth that result in improvement in the lives of the people.

Trade and investment in services is an important and fast growing part of the regional economy and plays a crucial role in the competitiveness of global supply chains and value chains, yet many barriers remain to be addressed. ABAC calls on APEC to pursue the new services agenda, as a reflection of the importance of the sector and key driver for growth in the region. Services account for 70% of global GDP but only 7% of global exports. APEC should continue to encourage competition in the services sector by embarking on behind the border regulatory reform and liberalizing cross-border trade in services. In addition, identifying the impediments to the growth of services industries in the region requires access to reliable and comprehensive data.

In 2015, ABAC participated in and supported three Public-Private Services Dialogues in the Philippines, and an inaugural Regional Meeting of Services Coalitions. To that end, ABAC proposes the establishment of an APEC Coalition of Services Organizations to further promote the new services agenda. We strongly urge APEC economies to step up their actions on the further development of the services sector through the APEC Services Cooperation Framework (ASCF). ABAC continues to monitor services negotiations, including those in TiSA and regional trade negotiations such as the TPP and RCEP. We also looked at the regulatory frameworks behind the border that support services sectors in APEC economies and determine ways in which those frameworks might be strengthened around the region, including developing an APEC investment readiness index.

#### **Recommendations:**

- Endorse the establishment of the APEC Coalition of Services Organizations to serve as a platform from which to drive future services-related initiatives. In cooperation with the International Trade Center, the aim is to foster the strengthening of major business organizations focused on services and their roles to achieve greater advocacy for services industries and greater regional cooperation.

- Expand the APEC Services Trade Access Requirements (STAR) Database to cover all 21 APEC economies and more services sectors and provide more comprehensive information on market access and behind the border requirements for market entry in the various services sectors.

- Support the development work of the ASCF, an APEC-wide strategy for dialogue and guiding priorities for regional collaboration to ensure that services remain dynamic and responsive to economic, market and technological developments.

#### **F. Building and strengthening global value chains**

ABAC has focused on the importance of strengthening GVCs and the integral role that services play in advancing economic integration and connectivity in the region through GVCs. ABAC is collaborating with the APEC Policy Support Unit study on “Manufacturing Related Services in Supply Chains/Value Chains,” and note that the services component of manufacturing supply chains contributes greater value than the manufacturing itself.

ABAC believes that the conclusion of comprehensive agreements such as the TPP and RCEP as well as the realization of the FTAAP will be enormously instrumental in deepening the role of GVCs in the region. The enhancement of trade and investment liberalization from the mega FTAs will lead to the advancement of GVCs. To ensure inclusiveness and enlarge the economic benefits of these agreements, ABAC urges APEC economies to accelerate completion of these agreements.

ABAC welcomes further cooperation to advance APEC’s Strategic Blueprint on Global Value Chains and the measurement of Trade in Value Added (TiVA) data, including assessing the impact of localization policies on GVCs.

ABAC urges APEC to examine mechanisms, such as global data standards, to strengthen the resiliency of GVCs to enable business to navigate the challenges of natural disasters and economic crises, and in particular, to give focus to the greater impact on MSMEs. In addition, capacity building for MSMEs is essential to assist with

their integration into GVCs and to enhance their resilience.

#### **Recommendations:**

- Emphasize the importance of the reduction or elimination of import/export restrictions in order to facilitate broader APEC economy engagement in GVCs. APEC officials should also provide leadership and support for high-quality trade agreements that cover as many dimensions of GVCs as possible.
- Promote policies that minimize the adverse impact of localization on GVCs.
- Develop capacity building programs for MSMEs that seek to advance their integration into GVCs and to enhance their resilience.

#### **G. Enhancing trade facilitation through Authorized Economic Operator and Single Window system**

Enhancement of supply chain efficiency and predictability across borders plays a vital role for private enterprises to be competitive. Competitiveness is derived from reducing supply chain costs related to the time it takes for customs clearance, inspections, and satisfying each economy's unique import/export formalities.

ABAC reiterates the importance of adopting Single Window systems and widening Authorized Economic Operators (AEO) programs or Trusted Trader Programs. ABAC welcomes APEC's efforts to make progress in the areas of Single Window systems and AEOs. However, with the increasing need for security enforcement around the globe, traders face new and additional security measures. Finding the balance between security measures and the ever-increasing needs for trade facilitation is a pressing issue.

Incoherent AEO operations among economies, tighter security controls, and stricter management make AEOs believe there are insufficient benefits as compared to non-AEOs. This discourages potential applicants from becoming AEOs as the benefits do not seem worth the money and effort. Since AEOs are in compliance with customs requirements

and classified as low-risk actors, they feel that they should not only be eligible for expedited processing, but also for other benefits.

We welcome the Boracay Action Agenda widening the base of AEO and Trusted Traders Programs to include MSMEs, and believe that separate application requirements for MSMEs to become qualified AEOs may be sought. However, customs should maintain high and harmonized standards with transparency, predictability, and stability.

#### **Recommendations:**

- Encourage APEC to develop an AEO certification system which is inclusive of MSMEs and maintains high and harmonized standards with transparency, predictability, and stability.
- Consider positive waivers to AEOs to maintain higher security standards and trade facilitation, such as relaxing the reporting deadline of 24-hour rules.

#### **H. Accelerating investment liberalization and facilitation**

##### 1. Regional Investment Analytical Group

Established in late 2014 by APEC, the Regional Investment Analytical Group (RIAG) presented a report of its first phase of work to ABAC. Quantitative indicators are a useful tool to measure and enhance investment performance. However, gaps exist in data on sectoral investment flows and in the absence of specific sector indicators, economies lack the evidence and are limited in reviewing the effectiveness of policy settings and ways to adjust them so as to better attract long-term investment. RIAG proposes that economies be encouraged to collect disaggregated investment sector data inflows to contribute to better analysis and policy relevance. RIAG also provided a partial analysis on greenfield foreign direct investment (FDI) flows and is developing an investment concentration index. ABAC commends RIAG's work, and welcomes its further efforts contributing to APEC's Investment Facilitation Action Plan.

## 2. Capacity Building – measures to attract long-term investment

ABAC received a valuable report of a capacity building training program on measures to attract long-term investment. The program focused on building the capacities of regional investment officials to monitor, review and implement best practice investment policies to improve stability and transparency in national investment decision-making. The report noted that incentives to attract FDI appear to play a relatively small role in investment decision-making and that more emphasis be placed on policies that reflect the motives of investors – resource, market or efficiency seeking investment, and emphasized the reasons why investment in services is a major driving force for investors and in generating efficiencies in global value chains. ABAC commends the report and continued support for capacity building initiatives.

### **Recommendations:**

- Encourage use of the work of RIAG in reviewing the effectiveness of investment policy settings to contribute to the further development of the APEC Investment Facilitation Action Plan and enhance long-term investment in the region.
- Recognize the important role played by capacity building initiatives in the introduction of measures designed to attract long-term investment and continue to support those programs.

### **III. Sustainable Development**

The Asia-Pacific region has enjoyed rapid growth and prosperity in the last two decades. The sustainability of this prosperity is however threatened by constraints to resources like food, energy and other natural resources and by the impact of disasters, both natural and otherwise. Improving both inclusiveness and resilience must be high priority in the APEC and ABAC agenda. ABAC's work in this area has focused this year on the following key areas: achieving food security and promoting the blue economy; promoting

sustainable energy and increasing energy security; accelerating green growth; promoting a healthy and productive workforce; and fostering livable cities and sustainable communities.

#### **A. Achieving food security**

Food security is a key component of an inclusive, healthy and integrated regional economy. ABAC has long championed the role played by open trade and investment in linking food supply with growing food demand in the region. ABAC has also highlighted the important role that the private sector has to play, in partnership with governments, in finding practical, market-based solutions to the challenges of feeding growing populations with adequate supplies of safe, nutritious and sustainably produced food.

Having strongly advocated for a new mechanism to bring together the public and private sectors around a set of concrete and achievable outcomes to achieve long-term, durable food security, ABAC welcomed the establishment in 2011 of the APEC Policy Partnership on Food Security (PPFS). ABAC has supported the work of the PPFS in the interim period through the role of Co-Chair and as nominating body for PPFS members. ABAC welcomes the progress that has been made, including the adoption of a "Roadmap Towards 2020" as an articulation of the PPFS strategy and work programs.

ABAC has, however, been concerned at an apparent loss of confidence in PPFS as a forum for public-private partnership reflected in declining attendance at PPFS meetings, especially on the part of the private sector. For this reason, ABAC has developed the establishment of a parallel Asia-Pacific Food Industry Forum (AP-FIF) as a means for the private sector to gather and coordinate its views for advocacy both to PPFS and to APEC Economic Leaders via ABAC. A successful inaugural meeting of AP-FIF was held in Singapore in May 2015 prior to the PPFS meeting in Boracay.

Industry participants in AP-FIF are conscious that recent developments in food trade and markets pose risks for achieving durable food security in the region. Growing aggregation in food value chains is leading to intense competition between global and regional supply chains as a smaller number of

large players consolidate their position and as a number of chokepoints begin to develop in critical areas. Food supply chains across the region remain frustrated by poor infrastructure, ongoing self-sufficiency programs and the prevalence of non-tariff barriers in many economies. There is a need also to incentivize the participation of small and medium-sized businesses in supply chains and to develop predictable, evidence-based food safety standards. Industry recognizes that it has work to do to present to governments and consumers the benefits of more open trade and the importance of ensuring food and nutritional security. These developments require a deeper level of strategic dialogue and exchange than has been achieved to date in PPFS.

#### **Recommendations:**

- Continue APEC's focus on food issues and the importance of inclusive and equitable access to safe, nutritious and sustainably produced food.
- Deepen the level of strategic engagement and dialogue with the private sector to improve the understanding of the economic and commercial context for food, to address supply chain connectivity and integrity and promote the participation of MSMEs.
- Continue to reform PPFS to make it more accessible to the private sector drawing on advice of ABAC and AP-FIF.
- Support industry initiatives to articulate the benefits of open trade and food and nutritional security.
- Resist protectionism in all its forms and eliminate trade-distorting policies.

#### **B. Promoting a healthy and productive workforce**

Rapidly aging populations and the rising burden of non-communicable diseases pose a substantial challenge to sustainable economic growth. This trend has important implications for the well-being of communities, long-term care costs, as well as the productivity and availability of labor. Health-related absenteeism, disability, productivity losses and early retirement caused by poor health are a substantial concern for both the

public and private sector. A 2014 study jointly commissioned by ABAC and the APEC Life Sciences Innovation Forum (LSIF) found that productivity losses within the six economies measured ranged from 3.5% to 5.3% of GDP in 2010. The same study projects that losses will increase to as much as 6.1% of GDP by 2030.

Building on the interest last year's report generated, ABAC is continuing its partnership with the LSIF to pursue additional research and examine the intersection between pensions and early retirement caused by ill health. The study found that ill-health is having a significant effect on the workforce. The rising incidence of chronic disease is depleting the workforce due to early retirements. This also is putting pressure on public sector and corporate pension and health schemes. The study further shows different but equally serious effects on developed and developing economies. Developed economies with sizable pension and disability schemes will find a huge and early drain on these schemes. Developing economies without social safety nets will see sizable sections of the population thrown back into poverty, undoing the tremendous efforts over the last 20 years to address income distribution and economic growth.

The issue of the health and well-being of the citizens of APEC is indelibly linked to economic growth and empowerment. ABAC is encouraged that health has gained increased prominence on APEC's agenda. Continued industry engagement coupled with robust participation from officials responsible for trade, finance, and healthcare policy, will ensure its continued success and further promote economic cooperation and inclusive growth in the region.

#### **Recommendations:**

- Hold a policy dialogue in 2016 between ABAC, the Senior Finance Officials, senior health officials and academic and private sector experts to arrive at innovative solutions to this pressing economic, social and increasingly political issue.
- Approve the Roadmap to achieve implementation of the Healthy Asia-Pacific 2020 initiative.



### C. Accelerating green growth

Sustainable economic growth cannot happen without environmental protection. ABAC commends the many initiatives endorsed by APEC to reduce the region's environmental footprint. ABAC welcomes the APEC Leaders' ambitious commitment to double the share of renewables in the APEC energy mix including in power generation, from 2010 levels by 2030. Many APEC economies will continue to generate power using fossil fuels and it is imperative that the environmental impact is addressed. We therefore encourage APEC to take decisive actions on environmental services, including further identification and elimination of non-tariff barriers to environmental goods and services (EGS) and support for the development of renewable energy and low-carbon technologies such as clean coal technology and carbon capture.

#### Recommendations:

- Fulfill the commitment to reduce applied tariff rates for the 54 environmental good (EG) items to 5% or less by the end of 2015.
- Take decisive actions on environmental services.
- Identify and eliminate non-tariff barriers to EGS.
- Promote energy conservation, use of energy-saving equipment, and support technical innovation in the field.
- Promote greater use of renewables and support technical innovation.
- Where infrastructure utilizing the latest Clean Coal Technology is planned, provide the necessary assistance including capacity building and financing in association with international bodies and accelerate support for technical development and facilitate empirical research for Carbon Capture Utilization and Storage to make it commercially viable.

### D. Increasing energy security

Energy security is vital to economic growth and continues to be a regional challenge. It is important that APEC continue to accelerate efforts

to remove barriers and promote energy trade and investment. APEC's trade and investment climate is becoming more complex as governments become increasingly involved in the energy sector. More than ever before, business decisions to invest or trade are influenced more by government policy measures than by economic signals from competitive markets.

Energy drives economic growth. For business to thrive in rapidly changing times, it is imperative to establish rules and regulations that are predictable. ABAC recommends the key elements noted below to promote energy trade and investment.

#### Recommendations:

- Create policy certainty ensuring sanctity of contracts.
- Establish open and fair competition on a level playing field devoid of local content rules, quotas, tariffs, restrictions on foreign ownership and investment.
- Ensure market-based pricing undistorted by subsidies.
- Relax liquefied natural gas (LNG) destination clauses to create favorable conditions for trade and investment.
- Create diversified and flexible LNG trading mechanisms.
- Establish independent government regulation.
- Promote effective inter-governmental coordination that is transparent, rules-based, predictable, and allows stakeholder consultation.
- Establish viable legal systems that resolve commercial disputes on a timely basis and protect intellectual property.
- Promote banking systems which allow free transfer of capital.

### E. Fostering sustainable and livable cities

A critical part of a successful urban development planning in the face of massive change is the

continuous stock-taking of how a city is faring across many aspects of city development. With this in mind, an ABAC research initiative was developed to begin the groundwork in measuring both challenges and successes of urban development. The study assesses select APEC cities through the various lenses that reflect civic basic needs, key compromising factors, and the differentiators which “set the pace” to attract people and investment in a city.

ABAC stresses the importance of having a thorough data collection system at the city level in order to clearly track existing and emerging urbanization needs and challenges. Additionally, if data collection is streamlined across APEC, it could become a useful benchmarking tool across economies and regions, opening a wider perspective on how livable, sustainable and competitive a city is compared to its peers.

#### **Recommendations:**

- Develop a streamlined data collection framework to better measure the stages of development of APEC cities.
- Draw on regional comparisons to learn from best practice and influence policy analysis and decisions.
- Encourage closer collaboration and solutions-sharing among APEC cities and private and public stakeholders to enable the development of more livable, sustainable, and competitive cities in APEC.
- Encourage the APEC Senior Officials’ Friends of the Chair on Urbanization to adopt this initiative as a joint effort between APEC and ABAC.

#### **F. Facilitating the development of the mining sector in APEC**

The mining sector plays a vital role in the economic success of all of APEC member economies by generating investment and driving regional trade. As ABAC’s 2014 mining sector study noted that APEC economies collectively produce more than half of the world’s iron ore, more than 70% of its copper, nickel, silver, lead, zinc, bauxite and tin, and more than 90% of its coal and molybdenum.

These mined commodities are used to produce a wide variety of materials which impact on every aspect of everyday life, from buildings to cars to electronic equipment; from dentistry and cooking utensils to batteries and power generation. The study highlighted that government policies are important in attracting and sustaining investment in the mining industry, whereas they can also be a deterrent, which may cause gaps between potential and realized investment. Close cooperation between governments, industry associations and the private sector will be needed to promote the business-friendly regulatory environments and best practices in sustainable mining that create positive outcomes for investors, economies and communities. In this regard, ABAC applauds APEC’s decision to renew the Mining Task Force (MTF)’s mandate and strongly supports the establishment of a sub-fund devoted to mining-related capacity building projects.

#### **Recommendations:**

- Maintain strong MTF engagement with private sector stakeholders through public-private dialogues and collaboration in capacity building projects.
- Adhere to APEC’s 10 Mining Principles in the development and regulation of the mining sector.
- Implement policies that promote open, predictable and stable investment environments based on an understanding and recognition of the inherent challenges for mining companies.

#### 10 APEC Mining Principles

Recognizing the importance of mining and metals to the growing integration of APEC economies, Ministers agreed to the 10 APEC Mining Policy Principles. Our agreement to the APEC Mining Policy Principles recognizes that application of these principles will be dependent on the specific circumstances of each member economy.

- i. Pursue policies that enhance the sustainable production, trade and consumption of minerals and metals thereby improving the economic and social well-being of our people.

- ii. Foster regular exchange between member economies about experiences with regulations, policies and practices and about significant developments in each economy's minerals and metals sector.
- iii. Promote the best possible functioning of global markets for minerals and metals, through support for market transparency and facilitation of trade. Export restrictions should be employed only in exceptional cases, and in accordance with WTO rules.
- iv. Foster investment certainty in the APEC minerals sector through the pursuit of open minerals and metals markets and the articulation of clear and predictable investment policies.
- v. Promote cost-effective, evidence-based, transparent and objective-based measures which improve the efficiency in the regulation of the minerals industry to contribute to economic, environment and social development outcomes.
- vi. Encourage, support and promote initiatives by the minerals and metals industry and stakeholders that contribute to national and international sustainable development goals.
- vii. Encourage research to develop and apply new minerals exploration, extraction, and pollution control technologies that are more cost-effective, efficient, economically sound, environmentally responsible and socially acceptable. Promote information exchange and cooperation on such technologies.
- viii. In partnership with all life cycle participants, ensure that materials and products made from minerals and metals are produced, consumed, recycled or disposed of in a responsible manner.
- ix. Encourage all participants in the life cycle of a material or product to take direct responsibility for their area of action, and a shared concern over other stages of the life cycle.
- x. Support capacity building activities for sustainable development so that all APEC economies are able to maximize the benefits and minimize the impacts from minerals resource development.

**G. Developing ICT infrastructure resilience against natural disaster**

The Asia-Pacific region faces over 70% of the world's natural disasters. A striking fact is that one disaster not only incurs casualties and disrupts the economies of those directly affected, but it also disrupts the region's entire value chain and the global supply chain as well. Accordingly, cooperation among APEC economies on disaster preparedness, mitigation, response, and recovery is essential.

In times of disaster, utilization of ICT infrastructure is crucial. As ABAC pointed out last year, it is vital to have collective action plans for disaster-resilient ICT infrastructure throughout the Asia-Pacific region, and that these plans draw on the wide experiences and lessons learned in different APEC economies.

ABAC warmly welcomes APEC Ministers Responsible for Trade (MRT)'s acknowledgement of the importance of ICT infrastructure development for natural disaster mitigation and recovery. ABAC also supports the objectives of the 9th Senior Disaster Management Officials Forum which recommend strategic policy and approach and recognize the frequency of natural disasters in the region is becoming the "New Normal." ABAC believes this "New Normal" needs to be managed accordingly.

**Recommendation:**

- Instruct Ministers and Senior Officials to establish a framework for the development of collective plans and actions for disaster resilient ICT infrastructure to strengthen APEC-wide cooperation in addressing the "New Normal."

## H. Building momentum for work on remanufacturing

Remanufacturing is a process that enables the sustainable production of goods that meet the standards of newly manufactured goods for a fraction of the energy and resources required to manufacture an equivalent new product, lowers costs for producers and consumers, and creates jobs. ABAC strongly supports the continued advancement of APEC's Pathfinder on Facilitating Trade in Remanufactured Goods through workshops and capacity building events with the business community, and encourages all APEC economies to formally join the Pathfinder.

### Recommendations:

- Continue to organize and take part in workshops and capacity building activities focused on remanufacturing to educate stakeholders.
- Encourage all APEC economies to join APEC's Pathfinder on Facilitating Trade in Remanufactured Goods.

## IV. Connectivity

To support APEC's vision of 'a seamlessly and comprehensively connected and integrated Asia-Pacific,' and help encourage balanced, secure and inclusive growth, ABAC continued to pursue work geared towards: accelerating infrastructure development; maximizing human capital potential; advancing the APEC Blueprint on Connectivity; promoting good regulatory practices; and strengthening the rule of law.

### A. Accelerating infrastructure development

ABAC applauds APEC member economies' joint efforts to address impediments to cross-border investment in the region to meet rising infrastructure demand and ensure the flow of goods and people that drive growth.

ABAC's work on connectivity this year has included integrating identified infrastructure capacity building needs with the Asia-Pacific Financial Forum (APFF)'s focus on infrastructure financing and the Asia-Pacific Infrastructure Partnership

(APIP)'s emphasis on facilitating public-private infrastructure development initiatives.

ABAC initiated the formation of the Asia-Pacific Urban Infrastructure Network (UIN) in 2014 at the first biennial forum on the UIN. The network comprises of specialists drawn from business, think tanks and official agencies from across the region. The specialists are grouped into three workstreams on urban planning and policy, project preparation and development, and infrastructure financing. Each workstream has been tasked with developing recommendations for a holistic policy framework on sustainable urban infrastructure development, including action plans that can be adopted by regional economies. ABAC endorsed the first report of the three workstreams of UIN at its third meeting in Melbourne in August 2015 which informs the various levels of government about holistic policy frameworks needed to address the challenges of sustainable urban infrastructure planning, project development and financing. Action plans to be developed by the workstreams will be considered at a second biennial forum of the UIN to be held in the first half of 2016.

The Asian Development Bank estimates the demand for infrastructure investment in the Asia-Pacific to be about \$8 trillion for the coming decade. According to the World Economic Forum, the estimated shortfall in global infrastructure debt and equity investment is at least US\$ 1 trillion per year. The private sector is an important source of the foreign direct investment that is required to address the infrastructure development needs of the region. ABAC applauds APEC's efforts to address this gap by examining barriers to physical connectivity as part of its effort to implement the APEC Connectivity Blueprint for 2015-2025 and is keen to support your efforts by utilizing the Enablers of Infrastructure Investment Checklist to gather data on best practices and help economies benchmark performance.

One of critical components of infrastructure development has been building financing capacity and public-private partnerships (PPPs) as a vehicle to promote much needed infrastructure investments. The progress made by APFF and APIP has been substantial and we have endeavored to integrate their work with the outcomes of the Checklist.

ABAC thanks the twelve governments which completed the Checklist's self-assessment process and for sharing outcomes with ABAC. These responses provided valuable insights into the infrastructure capacity building needs in the region.

ABAC welcomes the development of the Investment Experts Group's recently published Guidebook on Public-Private Partnerships Frameworks in the APEC Region. The Guidebook is complimentary to the Checklist and, used together, provide valuable tools to advance robust infrastructure investment in the APEC region.

#### **Recommendations:**

- Facilitate the development of PPP Centers through measures that address best practices related to transparency in project design, contracting, division of responsibilities, performance measures, risk apportionment and neutral and objective mechanisms to prevent and resolve disputes.
- Create stable, non-discriminatory and transparent legal, regulatory and investment environments required to give businesses the certainty and predictability required for long-term, capital intensive investments.
- Welcome the first UIN report as contributing to sustainable urban planning, project development and financing in the region, and noting that proposals for APEC economy action plans on urban infrastructure delivery, as proposed by the UIN, will be considered at the second biennial UIN Forum in the first half of 2016.

#### **B. Strengthening supply chain connectivity**

ABAC applauds APEC's continued efforts to enhance competitiveness in the region by making it easier, cheaper and faster to conduct trade in goods and services across borders. A 2013 report by the World Economic Forum estimates that raising all economies' supply chain performance halfway to global best practices on border administration, as well as transport and communications infrastructure, would increase global GDP by approximately US \$2.6 trillion and exports by US \$1.6 trillion.

ABAC calls on APEC economies to meet the 2010 Leaders' objective of a 10% APEC-wide improvement in supply chain performance in terms of reduction of time, cost and uncertainty of moving goods through the region by the end of 2015. ABAC welcomes the progress made in areas such as the Model E-Port Network along with its operational center in Shanghai, and supports APEC's innovative capacity building initiative to help developing economies improve supply chain performance and implement the WTO Trade Facilitation Agreement. To support the projects in this initiative, ABAC calls for additional resources for the Supply Chain Connectivity Sub-Fund. ABAC also seeks greater private sector participation in the APEC Alliance for Supply Chain Connectivity (A2C2), a public-private forum that works with economies to advance the capacity building initiative and its projects. Furthermore, ABAC encourages APEC economies to utilize the A2C2 as a tool to expedite their commitment to the WTO TFA.

ABAC is delighted to see the progress made by member economies in developing pilot projects in relation to global data standards (GDS) focused on food, beverages and pharmaceutical products. Such standards provide a practical means to address supply chain connectivity, traceability and integrity, thereby improving the operation of regional supply chains and advancing APEC's trade facilitation goals. To contribute to this work, ABAC is actively collaborating with the Life Sciences Innovation Forum on an ambitious pilot project in relation to global data standards focused on pharmaceutical products. This pilot project is designed to promote patient safety by measuring the benefits and efficiency gains that can be achieved through a common data standard for the serialization and verification of pharmaceutical products. Such standards provide a practical means to address supply chain connectivity, traceability and integrity, thereby improving the operation of regional supply chains and advancing APEC's trade facilitation and medical supply safety goals.

#### **Recommendations:**

- Continue to support existing GDS pilot project initiatives and identify further GDS pilot projects to build capacity and overcome supply chain chokepoints, as identified in APEC's "Supply Chain Connectivity Framework."

- Continue to work towards a region-wide framework to facilitate a coherent deployment of global data standards.
- Utilize A2C2 as a tool to expedite implementation of the WTO Trade Facilitation Agreement's commitments and leverage the knowledge of companies that have valuable experience in moving goods and services seamlessly, quickly, and inexpensively throughout the region.
- Continue contributing funding to the APEC Trade and Investment Liberalization and Facilitation Sub-Fund for Supply Chain Connectivity.
- Adopt policies that facilitate innovation and increased and more efficient flows of trade and investment, such as measures to promote regulatory coherence.

#### Enhancing quality of transport

Rapid infrastructure developments and improvements are expected to promote trade connectivity in the Asia-Pacific region. Advances in transportation should shrink time and distance barriers, allowing goods and people to move quickly and efficiently.

ABAC welcomes and supports the aspirational targets introduced by APEC's Connectivity Blueprint. While both APEC and ABAC acknowledge the importance of developing quality transport, ABAC believes it is essential that all three pillars of connectivity (physical, institutional and people-to-people) be taken into account. Without coherent regulations, well-coordinated administration, and efficient labor mobility within the region, physically connected infrastructure will not be enough to realize high-quality, seamless transport. Incoherent regulations on vehicular lanes and traffic signs can cause confusion and endanger truck drivers when they cross borders. Furthermore, differences in licenses and visas make it difficult for foreigners to work in neighboring economies and hinder labor mobility.

Budget limitation for infrastructure development is another serious issue. A lack of upfront funding often results in low-quality,

cheaply built infrastructure that ends up costing more in the end. ABAC appreciates that APEC is considering not only the initial cost of procuring the infrastructure, but also the maintenance and operation costs, along with long-term durability, safety, and environmental factors. ABAC believes convenience, efficiency, security, durability, safety, and sustainability are all fundamental to determining the quality of transport.

In addition, ABAC urges APEC to strengthen public-private dialogues to help promote capacity building and knowledge growth in regard to transportation-related supply chains to improve information technology capabilities, transport tracking systems, and warehouse management skills to elevate economies' capabilities to meet current business requirements. APEC should also encourage a dialogue between economies to share advanced logistics operational experience.

#### **Recommendation:**

- Develop high-quality transport that takes into account all three pillars of connectivity.

#### **C. Promoting the digital and internet economy**

Today, digital and internet-based technologies provide the underpinning for the global economy, acting as a platform and catalyst for new innovations, and enabling new businesses and markets. At the end of 2014, there were nearly three billion internet users, and the Asia-Pacific took over North America as the largest regional e-commerce market. The digital and internet economy is growing at a rapid pace all around us, and it offers enormous opportunities to advance APEC's regional economic integration and connectivity objectives, integrate MSMEs into global supply/value chains and markets, foster more inclusive and sustainable economic growth, advance human capital development, and address other critical societal goals.

The digital and internet economy have been active points of discussion in APEC throughout the years. ABAC supports the creation of the SOM-level group on the Internet Economy, and looks forward to strong private sector engagement within this group. In 2014, ABAC established a digital

economy workstream in the Connectivity Working Group, which aims to provide a unique, private sector perspective to APEC's work on the digital and internet economy. ABAC also encourages APEC to promote MSME inclusion in the digital and internet economy and plans to focus on policies that enable a strong, secure and resilient digital and internet economy – including the Internet of Things, big data and data analytics, and on broadband developments – as well as bridging the digital divide.

#### **Recommendations:**

- Ensure the SOM-level group on the Internet Economy closely coordinates with ABAC to incorporate private sector input into the digital and internet economy agenda.
- Promote MSME inclusion in the digital and internet economy.
- Focus on policies that enable a strong digital and internet economy, and policies that work to bridge the digital divide.

#### **D. Developing new approaches to address skills shortages and facilitate cross-border worker flows – the Earn, Learn, Return initiative**

For over a decade ABAC has sought to improve the way in which the movement of the region's 30 million international workers is managed. At last, significant momentum has built around the Earn, Learn Return (ELR) principles developed over the past year, and now being explored jointly with APEC officials. The ELR has been built on the foundations of the Skills mapping initiative championed by APEC Australia over the past three years, intended to provide accurate region-wide knowledge of severe and deepening skills shortages in the region, and will be aided by parallel APEC work on region-wide recognition of specific qualifications. Together these three initiatives can be expected to improve greatly the effective matching across the region of reservoirs of in-demand skills, and the areas of keenest shortage. At the same time, it will help governments to optimize the effectiveness of local vocational training programs. As demographic changes amplify problems across the region of skills shortages and mismatches, this work is critical in all areas of business and ABAC seeks

strong support from APEC Leaders to expedite progress.

#### **Recommendations:**

- Encourage more APEC economies to contribute data into the regional Skills Map to improve its predictive value.
- Collaborate with the APEC Human Resources Development Working Group (HRDWG) to put in place region-wide schemes that enable mutual recognition of key qualifications and new approaches to facilitate cross-border worker flows.
- Create a task force to coordinate the ambitious ELR initiative, tackling corruption and opacity in the logistical arrangements linked with agreeing international work contracts; tackling obstacles to easy return to home economies, perhaps building on experience from existing "templates" based on experience in, for example, the global shipping industry. Initial progress should be sought on a sector by sector basis, perhaps beginning with allied health workers and construction workers.

#### **E. Improving business mobility**

The APEC Business Travel Card (ABTC) scheme has been regarded as one of APEC's most distinctive and tangible achievements in terms of reflecting the business community's needs. ABAC applauds APEC for its decision and efforts to extend the validity of the ABTC from three to five years. ABAC also welcomes the launch of domestic application processes in transitional economies and supports them in those efforts. Despite the progress, however, some issues still need to be resolved.

APEC's Business Mobility Group (BMG) took another important step in conducting an End-to-End Review of the ABTC scheme. The review sought to identify issues encountered by both the government and business sides, including the lengthy pre-clearance processing time, a redundant renewal process, and outdated application procedures.

ABAC believes the implementation of online lodgment could be an efficient solution, as it will reduce manpower, speed up processing, and simplify the renewal process. We support the

BMG's efforts to identify a way for all economies to implement online lodgment, taking technical and budgetary challenges into consideration. We believe that technological improvement is the next logical step towards realizing an efficient ABTC scheme that will facilitate smoother trade throughout the Asia-Pacific region.

#### **Recommendations:**

- Encourage all 21 economies to adopt online lodgment to simplify the ABTC process.
- Support APEC BMG in its assessment of online lodgment.
- Encourage transitional economies to complete domestic processes towards full membership status in the ABTC scheme.

#### **F. Promoting good regulatory practice**

In recent years, there has been an emerging recognition of the need to tackle behind the border issues that create unnecessary non-tariff barriers to free trade and investment. High compliance costs make it difficult for companies, particularly MSMEs, to compete and grow in the global marketplace.

ABAC urges APEC to strengthen implementation of the three good regulatory practices (GRPs) agreed to by APEC Leaders in the Honolulu Declaration as well as the three GRP tools identified in the APEC Bali Declaration. In this regard, ABAC applauds the agreement in Beijing on the APEC actions on public consultations on proposed regulations in the Internet Era and looks forward to assisting economies with implementing these actions through capacity building. Specifically, ABAC supports efforts to more closely align APEC economies' regulations with global best practices, including those that promote regulatory harmonization, utilize performance-based rather than prescriptive-based regulations, and design regulatory institutions that promote trade-friendly regulation. Further, ABAC encourages the strengthening of public-private cooperation through the use of consultation mechanisms to enhance accountability, promote mutual learning, and encourage best practices.

#### **Recommendations:**

- Strengthen implementation of the three good regulatory practices agreed to by APEC Leaders in the Honolulu Declaration as well as the three GRP tools identified in the APEC Bali Declaration.
- Support APEC's initiative on public consultations on proposed regulations in the Internet Era. ABAC looks forward to providing practical perspectives on actions economies can take to strengthen their public consultations through information technology.
- More closely align APEC economies' regulations with global best practices, including those that encourage regulatory coherence, utilize performance based rather than prescriptive-based regulations, design regulatory institutions that promote trade-friendly regulation, and strengthen public-private cooperation through the use of consultation mechanisms to enhance accountability, promote mutual learning, and encourage best practices.

#### **G. Strengthening the rule of law**

ABAC believes that increasing attention needs to be paid to domestic policies and business environments affecting trade and investment within borders. This is why during 2015 ABAC has sought to strengthen the rule of law in APEC economies.

The rule of law includes open and transparent government, absence of corruption, consistent regulatory enforcement, and the recognition and protection of fundamental rights and civil justice. ABAC seeks governments' support to ensure that laws are clear, publicized, stable and fair. Governments must also ensure that laws are administered and enforced through an accessible, fair and efficient process presided over by ethical, competent and independent representatives.

To strengthen the rule of law in all economies, ABAC urges governments to organize meetings between senior officials in the judicial branches of different APEC economies to share best practices, including establishing a benchmark for APEC economies based on the Rule of Law Index.



ABAC urges governments to establish formal channels through which to engage in policy dialogue to improve in areas where legal systems are hindering trade and investment.

Recognizing that corruption undermines the ability of businesses and governments to operate effectively and ethically, ABAC endorses the APEC General Elements of Effective Voluntary Corporate Compliance Programs adopted by APEC Leaders in November 2014. The private sector has an important role to play in tackling corrupt practices. We commit to reach out to our respective business communities to endorse the General Elements, facilitating training workshops to help companies to implement them. ABAC encourages all economies to implement the Beijing Declaration on Fighting Corruption, enforce corruption laws rigorously, participate in the newly created APEC Network of Anti-corruption Authorities and Law Enforcement Agencies (ACT-NET) and work towards implementation of the APEC Codes of Conduct at the local level.

#### **Recommendations:**

- Support a meeting between ABAC and the Ministers of Justice of the APEC economies in 2016 in Peru to discuss the important role that the Judicial System plays in upholding the rule of law and ensuring a better business environment.
- Provide an environment of legal certainty, transparency, and judicial independence.
- Establish a benchmark score in the Rule of Law Index and encourage sharing of best practices between APEC economies as well as lessons learned.
- Enforce anti-corruption laws equally among governments, businesses and citizens, participate in the newly formed APEC Network of Anti-corruption Authorities and Law Enforcement Agencies, and take concrete steps to implement locally the APEC Codes of Conduct.

## **V. MSME and Entrepreneurship**

MSMEs remain the backbone of virtually every economy in the region - they make up more than 90% of businesses and employ over 60% of this region's workforce. They are also frequently the driving force behind innovation and the commercialization of new products and services that are the lifeblood of our global economy. ABAC recognizes that access to international markets offers a host of business opportunities for MSMEs, including new niche markets; possibilities to exploit economies of scale, scope, volume and technological advantages; ways of spreading risks; lowering and sharing costs, and in many cases, affording improved access to finance. Affirming the importance of spreading the benefits of globalization to encompass MSMEs, ABAC is placing strong emphasis this year on the following four pillars: enhancing the internationalization of MSMEs; facilitating MSME access to regional and global finance; building innovation and value-adding activities in MSMEs; and harnessing women participation in the economy.

### **A. Enhancing the internationalization of MSMEs**

MSMEs' participation in regional and global markets is enhanced when they leverage on the benefits provided by e-commerce. Worldwide, governments are realizing that e-Commerce is having a profound transformative effect on both domestic commerce and international trade in all but a few APEC economies, and it is predicted it will fundamentally alter foreign trade flows. Economies are now going through a phase of digitalization that will change the future of business and e-Commerce has created the potential for MSMEs to engage in cross-border trade. ABAC recognizes that APEC economies have made efforts to keep pace with this change but know that there is still more work to be done.

Based on a joint study carried out by ABAC and the USC Marshall School of Business, ABAC identified that existing international trade frameworks and regimes have been designed for traditional forms of trade and investment and are inhibiting growth and MSME participation in cross-border trade. The current systems have been built for big businesses and MSMEs are struggling to deal with complex customs requirements and high trade compliance

costs, high logistics costs, lack of adequate cyber security laws and data protection, and lack of e-commerce infrastructure and e-payment facilities.

#### **Recommendations:**

- Simplify and harmonize domestic policies and processes that enable internet-based business and trade to provide transparency of regulation to MSMEs to encourage compliance and ease of doing business.
- Undertake more capacity building initiatives that promote the adoption of internet-based tools and assist MSMEs to explore cross-border e-Commerce.
- Encourage greater sharing across APEC economies of successful training programs designed to educate MSME firms on cross-border e-Commerce including ABAC's Cross-Border E-Commerce Training (CBET) Program.
- Establish an APEC-wide action plan focused on creating forward-looking e-Commerce policy frameworks:
  - to address issues in cross-border e-payment frameworks and cross-border e-Commerce fraud and consumer protection;
  - to enhance logistics value chains for MSMEs and streamline customs procedures for low-value goods, and import duties and tax issues for e-commerce exports and returns; and
  - to ensure greater awareness of the STAR database which will equip MSMEs with relevant trade information to facilitate e-Commerce exports.
- Include e-Commerce provisions in FTAs and RTAs which is critical in addressing roadblocks that our economies, businesses, and consumers experience when trading products and services across borders.

#### **B. Facilitating MSME access to regional and global finance**

Lack of access to finance is a key issue preventing MSMEs from effectively participating in economic activities and global value chains. At the center

of this problem are a number of factors. One is inadequate legal and institutional infrastructure to support risk-based lending using transactions data and lending against a broader range of collateral. Another is the impact of certain regulations on lending to MSMEs. Others include the lack of enabling environments for equity-based financing and MSMEs' lack of access to risk management tools such as insurance. While innovations can facilitate MSMEs' access to funding, inadequate understanding of their broader implications on financial systems constrain many policymakers from harnessing them. APEC can address these issues through public-private collaboration to promote legal, policy and regulatory reforms, capacity building and awareness-raising.

ABAC endorses the establishment of a public-private Financial Infrastructure Development Network (FIDN) to help build credit information systems and improve policy frameworks for secured transactions and the use of movable assets as collateral. ABAC also recommends initiatives to promote an enabling environment for trade and supply chain finance and alternative financing mechanisms, and to identify best practices for strengthening MSMEs' resilience against unexpected events, disasters and financial crises.

#### **Recommendations:**

- Undertake a pathfinder initiative through FIDN to help interested economies develop credit information systems (private credit bureaus, public credit registries, requisite legal frameworks, capacity building for lenders to effectively use this system).
- Undertake a pathfinder initiative through FIDN to help interested economies develop effective secured transactions regimes (easily searchable collateral registries, reforms to commercial, insolvency, perfection laws to expand types of collateral accepted by lenders and reduce risks).
- Collaborate with the Asia-Pacific Financial Forum in holding public-private dialogues on regulatory issues as they affect trade and supply chain finance and MSME finance in general to help regulators address issues in Basel III implementation and customer due diligence rules across the region and reduce

their significant unintended impact on MSMEs' access to finance.

- Collaborate with APFF in holding workshops on emerging facilitators of trade and supply chain finance, including electronic supply chain management platforms, the use of innovative working capital management techniques, innovative measures to enhance the liquidity of regional finance for MSMEs operating in foreign markets and facilitating liquidity and use of regional currencies in trade settlement and related working capital management techniques.
- Support the development of alternative funding mechanisms for MSMEs and start-ups, including development of new financial instruments, Islamic finance, addressing regulatory barriers to innovative financing, identifying policy frameworks for alternative finance, policy initiatives to spur equity based financing to invest in small businesses, enabling regulations for crowdfunding, and public-private innovative funding vehicles.
- Collaborate with APFF in developing best practices for strengthening MSMEs' resilience, which will cover, among others, measures to mitigate the impact of financial crises, natural disasters and other unexpected events, based on lessons from responses to previous financial crises and successful experiences in the use of micro-insurance and disaster risk financing, with special focus on vulnerable micro and small businesses, including farmers in remote areas.

### **C. Building innovation and value-adding activities in MSMEs**

ABAC recognizes the vital role of MSMEs in bringing new ideas to the market and in fostering innovation in the 21st century. There is, however, a need to boost innovation by creating an ecosystem that supports enterprise creation and increase innovation capabilities of MSMEs. Partnerships and networking among innovation systems, including those involving large and small businesses and the public sector need to be supported as part of a strategy that promotes innovation in more effective ways.

Global value chains also play an important role in the global economy and offer great prospects in terms of job creation, competitiveness and economic prosperity. ABAC sees the need to further strengthen MSME participation in local supply chains and GVCs through long-term, value-driven partnerships between big businesses and small businesses. The joint study carried out by ABAC and the Asian Institute of Management emphasized that for this to prosper, APEC economies need to identify and address the challenges that hinder the growth of these types of partnerships. Knowledge inputs and policy measures, based on careful analysis of behind the border, at the border and across the border issues pertinent to the internationalization of MSMEs, are key to addressing these. MSME and big business linkages in the global value chain facilitate transfer and upgrading of skills, knowledge, and technology. The study also recognized that enterprises can move up the value chain and become creators of new technologies and high-impact business solutions through innovation.

To boost MSMEs' participation in the regional and global markets and to build innovative and value-adding activities in MSMEs, ABAC hereby endorses a set of principles on the digital economy. These bear key considerations as APEC seeks to advance its work on regional economic integration and in building regional connectivity. These principles are likewise relevant to efforts aimed at integrating MSMEs into global supply/value chains and markets.

#### **Recommendations:**

- Promote the Asia-Pacific Open Innovation Platform (AP-OIP), a voluntary initiative to facilitate cross-border collaboration, technology development and market-driven dissemination, as a model for enhancing the entrepreneurship environment for MSMEs and start-ups throughout the region.
- Institutionalize and incentivize good practices in MSME and big business linkages in GVC to strengthen the role of MSMEs in generating growth that is balanced, inclusive, sustainable, innovative, and secure.
- Adopt a holistic view of the global value chains and international production networks in

designing policies toward strengthening trade and investment linkages among MSMEs and big business.

- Promote an ecosystem that breeds innovation among MSMEs, that expands the network and quality of capacity building institutions, and that fosters innovative drive among entrepreneurs. This will assist enterprises to move up the value chain and become creators of new technologies and high-impact business solutions.

#### **D. Harnessing women's participation in the economy**

Women's economic empowerment is a fundamental element of the inclusive growth that APEC strives to promote and is vital to the future competitiveness of the Asia-Pacific region. ABAC applauds the steps that APEC has taken to enhance women's economic participation and urges continued action to address the social, legal, financial and educational barriers faced by women.

In particular, ABAC notes its support for the following initiatives that will allow economies to build on the gains that have been made. ABAC recognizes the potential of the APEC Women and the Economy Dashboard to allow APEC member economies to track and measure progress in addressing barriers to women's economic participation. ABAC welcomes the creation of the Women's Entrepreneurship in APEC (WE-APEC) which aims to connect women's entrepreneurship networks in each economy with public and private sector support services and global supply chains to ultimately expand economic opportunities and regional trade. ABAC supports the development of the Healthy Women, Healthy Economies (HWHE) initiative and the development of a toolkit of government policies and business practices that are aimed at breaking down health-related barriers preventing women from entering or remaining in the work force. ABAC supports the APEC Women in Transportation initiative and the development of a data framework which benchmarks conditions for women in the sector and will ultimately provide recommendations for enhancing women's participation in transportation throughout the Asia-Pacific region.

In 2015, ABAC is actively engaging the private and public sectors to consolidate best practices for increasing women's representation in the board room, corporate family responsibility, and integration of women-owned businesses into the global supply chain. ABAC looks forward to working with APEC to make continued strides toward a future of full economic inclusion of women.

#### **Recommendations:**

- Address barriers that prevent women from having adequate access to capital, education, health and ownership of land and resources.
- Lead by example by appointing women to serve on the APEC Business Advisory Council.
- Welcome the Healthy Women, Healthy Economies Policy Toolkit and urge APEC economy governments, private sector and other stakeholders to implement its recommendations.

#### **VI. Finance and Economics**

ABAC welcomes the Finance Ministers' decision to launch the Cebu Action Plan (CAP) to provide a unified roadmap for the development of our region's financial markets and services, including their regional integration. ABAC aims to support the CAP, particularly through its three major initiatives in the field of finance – the Asia-Pacific Financial Forum, the Asia-Pacific Infrastructure Partnership and the Asia-Pacific Forum on Financial Inclusion.

This year, ABAC's work on finance and economics has focused on: financing for MSMEs; disaster risk financing; infrastructure investment; insurance and pension industries' development; deep and liquid capital markets; financial regulations; improving the investment environment; and valuation practices.

##### **A. Developing disaster risk financing**

The Asia-Pacific is the world's most natural disaster-prone region, recording the biggest number of natural disaster events, with enormous economic consequences. To complement ongoing efforts to improve disaster response and disaster risk management strategies, the region needs to develop financial instruments to help mitigate the

impact of disasters ex ante. Key requirements for creating such instruments are: development of sound financial and insurance markets to secure public trust in disaster risk financing (DRF) products; improving disaster risk evaluation and facilitating the use of capital markets in sourcing disaster risk financing from pension funds; raising public awareness on disaster risk; and promoting investment in disaster resilient infrastructure.

#### **Recommendations:**

- Establish an APEC-wide DRF expert group within the APFF to develop a gap analysis report in 2016, a disaster risk database starting in 2017 and a baseline DRF framework for APEC economies in 2018.
- Interested economies to convene domestic experts groups in 2017 to design their own DRF blueprints and finalize these blueprints in 2018.

#### **B. Expanding unbanked households' access to finance**

The region is home to more than a billion people who do not have access to a bank account or formal financial services. Much has been achieved in expanding financial inclusion, but significant work remains. To more effectively promote financial inclusion, a clear understanding of the perspectives across disadvantaged communities is required, and efforts should be focused on developing innovative products and services that appropriately address the needs of customers, considering elements such as product range, cost, accessibility, financial capability and regulation to ensure customer protection. In addition, digital technology should be harnessed to promote financial inclusion by addressing key issues to enable the development of business models of digital finance.

#### **Recommendations:**

- Explore a formal definition of financial inclusion to help measure and compare financial inclusion across economies and serve as a useful guide for policymakers and develop an APEC model framework for financial inclusion strategies that can help economies in designing domestic strategies suited to local needs and conditions.

- Establish a working group to address digital finance issues and align with other existing working groups within APEC as well as other knowledge sharing organizations such as the Alliance for Financial Inclusion, the Consultative Group to Assist the Poor and the Global Partnership for Financial Inclusion.

#### **C. Promoting infrastructure investment**

The development of infrastructure has not kept pace with the region's economic growth, resulting in congestion of roads, power shortages and inadequate public services, as well as uneven growth, contributing to regional and social inequalities. With increasing need for funding and greater efficiency in delivering infrastructure projects, economies are turning to expanded private sector investment in infrastructure. A major obstacle is the lack of a pipeline of bankable infrastructure projects in developing economies that can attract private sector capital, due in large part to insufficient capacity for project preparation.

#### **Recommendations:**

- Collaborate with the G20 Global Infrastructure Hub in developing initiatives to enhance public sector project preparation capacity, such as the development of a PPP Knowledge Portal, in collaboration with public sector agencies, international organizations and the private sector through APIP. Member economies should coordinate these efforts with related initiatives being undertaken by multilateral organizations, including the use of such tools to improve project preparation as the International Infrastructure Support System (IISS).
- Continue holding APIP dialogues among interested governments, the private sector and relevant international organizations in 2016. Future dialogues should build on and advance the conclusions of previous dialogues that have been held with Indonesia, Malaysia, Mexico, Peru, the Philippines, Thailand and Viet Nam. APIP welcomes invitations from other economies to initiate dialogues focused on their respective needs and priorities.

#### **D. Enabling insurance and pension industries' full contribution to regional development**

Insurers and pension funds play important roles in financing the needs of individuals and households in the event of unexpected adverse events and after retirement. At the same time, they are important sources of long-term investment in capital markets and infrastructure. However, they face challenges in playing these roles, particularly the lack of appropriate financial instruments and enabling policy frameworks for pension funds and insurance firms to accumulate capital and expand their investment in the region, in addition to the need to further develop capital markets. Policies to widen access to retirement income is a challenge for economies in the region and for industry. The insurance industry also contributes to inclusive growth through micro-insurance, which is an important tool that can help vulnerable low-income households and micro-enterprises become more resilient.

##### **Recommendations:**

- Promote the accumulation of long-term capital in pension funds through retirement income market reforms. This involves promoting demand for retirement savings as well as wider access to and supply of retirement income products. To promote demand for retirement savings, governments should identify and adopt policies related to consumer education, tax measures and product design. To promote retirement income product supply, policymakers and the private sector should collaborate to ensure that this is supported by policy, regulatory and accounting frameworks related to capital markets, long-term investments and risk management.
- Identify and address regulatory and accounting issues that affect insurers' incentives to undertake long-term investment in infrastructure and capital markets. Regulatory issues include bank-centric regulations, short-term oriented economic regimes and one-size-fits-all models that do not fit different business models across the region. Accounting issues include those affecting asset-liability interactions that produce volatility in balance sheets and profit and loss statements, as well as issues related to complexity, consistency,

transition and presentation of traditional long-duration contracts.

- Identify best practices in promoting private funds for equity investment in infrastructure, including those involving public-private collaboration. This involves exploring effective use of non-traditional financing vehicles and collaboration among institutional investors, financial institutions and multilateral development agencies and private equity funds.
- Establish a public-private sector network of micro-insurance experts to hold a series of workshops to support interested APEC economies in developing their own roadmaps for expanding the coverage of micro-insurance.

#### **E. Promoting capital market development**

The importance of capital markets, particularly local currency bond markets, for financial stability, economic growth, and the efficient channeling of long-term savings to investment in long-term assets like infrastructure is well-recognized in the region. A number of regional and domestic initiatives have already resulted in the rapid growth of Asian government bond markets, a key stage in the process of capital market development. The next stage, which is increasing market depth and liquidity, will be critical to the evolution of the region's capital markets. The APFF provides an effective collaborative platform in promoting key objectives toward this end.

##### **Recommendations:**

- Undertake public-private sector workshops regionally and in individual economies to facilitate policy reforms and measures to promote the effective use of hedging instruments and risk management tools and fostering a more diverse investor and issuer base, through the APFF.
- Ensure the successful launch of the Asia Region Funds Passport (ARFP) through the facilitation of its early enlargement to include a critical mass of participating jurisdictions, as well as its interoperability with other regional mutual recognition frameworks, using the APFF as a platform for discussions.

## **F. Improving the financial regulatory environment**

At the APFF Roundtable on Financial Regulations held on 27 January 2015 in Hong Kong, China, regulators from Asian economies agreed that, while recent regulatory reforms have been driven mostly by the need to respond to the Global Financial Crisis, it is becoming increasingly important for financial regulations to be considered in the context of requirements for the region's development. As the banking sector remains a key source of financing in many APEC emerging markets for priority areas such as infrastructure, it is also important to look at regulatory issues in the context of ongoing changes in the banking landscape, especially with respect to their impact on cross-border financing in these priority areas. Addressing these issues will enable commercial banks to increase their contributions to cross-border financing, especially of infrastructure.

### **Recommendations:**

- Convene regular APFF Roundtables to promote more active involvement of APEC financial market regulators in discussions on global rules that affect financial markets and services and their implementation across the region in support of APEC's economic objectives and regional integration, as well as effective mechanisms for industry to contribute to the development of sound and effective financial regulatory frameworks, robust risk management in financial institutions and expanded access to finance.
- Improve transparency of financial regulations and establish a fair regulatory environment that will help expand private investment and banks' participation in financing priority areas such as infrastructure, in addition to fiscal policies that incentivize banks to lend to projects in priority areas, raise the ratio of proprietary funding for these projects to mitigate the repayment pressure and reduce risks associated with bank loans.

## **G. Improving valuation practices in APEC**

Valuations are central to decision-making and the economic growth and development of financial systems are impacted in a multitude of ways

by valuation. ABAC supports ongoing work in collaboration with the International Valuation Standards Council (IVSC) to strengthen the valuation profession and practices in the region, in the form of an audit of the current valuation landscape of member economies and preparation of a template of best practice in key areas (regulation and compliance, organizational infrastructure, access to information and disclosure, education and training, and standards).

### **Recommendation:**

- Support ongoing efforts to develop a roadmap to assist economies in strengthening valuation practices and the valuation profession, including the holding of roundtables to share experiences of how valuation practices can contribute to economic growth and to share and discuss the results of the audit of current valuation landscapes and the template of best practice in key areas.

## **VII. Industry Dialogues**

### **A. Chemical Dialogue**

The Chemical Dialogue's work on regulatory cooperation and coherence is strongly supported by ABAC. ABAC advocates that implementation of the Dialogue's agreed best practice principles for chemicals management should be given top priority. In that regard, particular note is made of the cross-fora collaboration with the Economic Committee on Good Regulatory Practice as it is applied in the chemicals sector. ABAC continues to support collaboration between the Chemical Dialogue and the Oceans and Fisheries Working Group on innovative solutions to mitigate marine debris. ABAC welcomes the recent integration of the joint activity into the Urbanization agenda of APEC in the context of solid waste management.

### **B. APEC Life Sciences Innovation Forum**

The 5th High-Level Meeting on Health and the Economy hosted by the Secretary of Health of the Philippines is especially timely, given the critical importance of health to the economy. As a joint initiative of the APEC Life Sciences Innovation Forum and the APEC Health Working Group, the meeting brings together diverse stakeholders to

discuss whole of government, whole of society and a whole of region approach to health and related economic challenges. ABAC strongly supports the launch of an innovative hub to support best practice partnerships for mental wellness in the community. ABAC values the collaboration with the LSIF on assessing the returns on investment that innovations bring to health systems. This year, ABAC and the LSIF have collaborated on a study assessing the fiscal implications of the rise in chronic disease in terms of early pension drawdowns and other government and corporate liabilities. This assessment has highlighted the need to ensure smart and high-impact investments along the health value chain to help mitigate these effects, and to identify and address barriers in the health supply chain that drive up costs. ABAC welcomes the initiative to lower barriers to SME innovator entry to the health value chain.

ABAC welcomes the establishment of the LSIF training center for the commercialization of biomedical research. ABAC also supports the establishment of training centers of excellence in regulatory sciences. ABAC welcomes the collaboration between the APEC LSIF and the Global Health Security Agenda on platforms and partnerships to address the scourge of healthcare associated infections, and boost antimicrobial stewardship, and the establishment of the APEC blood safety partnership network. These types of government/industry/academic partnerships illustrate well the capacity of APEC to bring significant resources and skills to bear to build the necessary innovative capacity in the region and assure pandemic preparedness.

The business community also strongly supports ongoing work in APEC to implement APEC's Hanoi, Mexico City, and Kuala Lumpur principles for codes of business ethics for the construction, pharmaceutical and medical device sectors. ABAC continues to play a strong role in these initiatives and welcomes the progress made by the biopharmaceutical and medical device sectors to adopt codes of business ethics modeled on the APEC principles.

Finally, ABAC strongly supports the focus on women's health as an indicator of their ability to participate in the economy through the Healthy Women, Healthy Economies initiative. ABAC values its partnership with the LSIF and the Health Working Group on the development of a policy tool kit that would help economies address the health issues faced by women that act as a barrier to their economic participation.

### **VIII. Conclusion**

Over the last two decades, the Asia-Pacific region has enjoyed rapid growth and prosperity. Despite this, there is evidence to suggest that inequality within economies, both developed and developing, has been rising. ABAC shares the 1994 Bogor Declaration's vision of delivering sustainable growth and equitable economic development in the region. ABAC's work this year has therefore rallied around the APEC Chair's overarching theme of inclusive growth. In this report, ABAC set out a number of practical actions that APEC economies could take in the areas of regional economic integration, sustainable development, connectivity, MSMEs and finance to address this important challenge. Over and above ABAC members' contributions in growing their respective economies, ABAC hopes that these recommendations and its continuing engagement with APEC governments at various levels would help create a more resilient and inclusive Asia-Pacific community.