Outline of Recommendations

I. Introduction

II. Accelerating regional economic integration
   A. Promoting trade and investment; removing non-tariff barriers
   B. Enhancing regional investment flows
   C. Progressing pathways towards the realization of FTAAP and the Lima Declaration
      Developing the APEC Vision beyond 2020
   D. Advancing the implementation of the APEC Services Competitiveness Roadmap
   E. Furthering the implementation of the APEC Connectivity Blueprint for 2015-2025

III. Sustaining, developing and deepening inclusive growth opportunities
   A. Enhancing energy security and tackling climate change
   B. Encouraging sustainable development of communities
   C. Promoting sustainable increase in low and middle income growth
   D. Securing assets in the agricultural and fisheries sectors
   E. Promoting sustainable development in the mining and energy sectors
   F. Fostering green growth
   G. Supporting economic development and integration of remote areas

IV. Creating opportunities for MSMEs to prosper
   A. Enhancing the ability of MSMEs to participate successfully across borders and in global value chains
   B. Expanding MSME innovative capabilities and global presence through internet and digital economy and e-commerce platforms
   C. Facilitating MSME access to finance

V. Strengthening financial systems to secure stable growth, investment and inclusiveness
   A. Strengthening financial systems
   B. Encouraging financial technology
   C. Expanding infrastructure finance
   D. Enhancing inclusive finance
   E. Supporting sustainable finance transparency
   F. Promoting capital market development

VI. Breaking barriers to enrich society by advancing technology
   A. Harnessing the internet and digital economy to promote inclusion
   B. Fostering innovation development

VII. Conclusion
I. Introduction

While global economic growth has been on the upswing, the prospects of a return to trend growth witnessed prior to the global financial crisis are seriously jeopardized by rising trade tensions. Trade disputes of the nature now being witnessed between major economies are deeply troubling to the region and globally. Together with the prospect of decline in economic growth, there is also the prospect of sharp contractions in financial markets marked by rising borrowing costs and a tightening of credit conditions. More broadly, there remain questions over weakening support for global economic integration. These are deeply troubling times for APEC businesses, and urgent action is needed on a number of fronts to address them.

Our key recommendations are first, that APEC responds to the concerns of regional businesses arising from trade tensions by persuading those involved to desist from actions that could further deepen the impact of rises in tariff and non-tariff barriers (NTBs) and to seek to redress perceived imbalances in the global trading system through the World Trade Organization (WTO) dispute settlement mechanism, uphold and, if necessary, strengthen the WTO processes for the settlement of disputes. APEC economies must do more to fulfill their trade commitments individually and through the WTO. We further recommend APEC accelerate progress towards the realization of the Free Trade Area of the Asia-Pacific (FTAAP) as a key goal in attaining regional economic integration. Second, APEC economies should more actively engage with civil society in explaining the benefits of trade liberalization and the need for complementary policies to ensure that the benefits are more widely shared by our communities. Third, APEC economies should embrace digital innovation, encourage an open and receptive policy and regulatory environment so that the revolution now emerging can benefit all communities.

Against this background and recognizing the huge potential of the internet and digital economy to contribute to bolstering economic growth and overall prosperity in the region, ABAC adopted the theme “Digitization and Innovation – Advancing Social Harmony.” The 2018 work program focused on the following key priorities:

- strengthening financial systems to secure stable growth, investment and inclusiveness
- breaking barriers to enrich society by advancing technology

In the succeeding sections of this report, we outline ABAC’s recommendations in each of these key areas aimed at promoting sustainable and inclusive economic growth and helping deliver on APEC’s collective vision for a dynamic, harmonious and prosperous Asia-Pacific community.

II. Accelerating regional economic integration

Fostering economic integration in the region, thereby ensuring that goods, services and capital move easily across borders is at the core of APEC’s work. This is key to unleashing the growth potential of the Asia-Pacific region and increasing prosperity. It also offers a means to promote resilience and sustained economic growth even as economies adapt to the new business realities, created in part by the digital revolution. While APEC has made good progress in moving towards its goal of free and open trade and investment in the region, more work needs to be done to address the remaining barriers and new challenges to trade and investment as well as to deepen connectivity and accelerate regional economic integration.

A. Promoting trade and investment; removing non-tariff barriers

More open markets for trade in goods and services and investment will help to deliver sustainable and inclusive growth, enhance food security, assist in unlocking the full potential of the internet and digital economy, and offer opportunities to MSMEs and women in the economy. Resisting protectionism, and reducing and eliminating non-tariff barriers to goods and services trade in accordance with ABAC’s WTO-consistent Cross-Cutting Principles for Non-Tariff Measures (NTMs)/NTBs, would deliver concrete benefits to business, consumers, communities and economies. Likewise, ongoing support for trade liberalization through the WTO and through plurilateral, regional and bilateral agreements assists to create the right enabling environment for trade, business and our communities to flourish.

Trade liberalization contributes to raising living standards and reducing poverty in aggregate. However, it is clear the benefits of trade and of deeper economic integration have not always been widely shared, including with the most vulnerable. Unequal access to...
the opportunities and benefits of trade will remain a source of friction and instability unless it is effectively addressed. While linked to trade, these issues are primarily a matter for domestic policy-setting. Approaches should be carefully designed to ease the process of adjustment to more open and competitive markets, and should seek to enable individuals and communities to seize the new opportunities that are being created, including through enhancing job mobility, education and skills training. ABAC believes that this should be a policy priority for APEC economies.

It is equally important to tell the story of the benefits of trade more compellingly. ABAC recognizes that economies and business have complementary roles to play in better communicating the benefits of trade for our communities, but this has not always been done effectively. ABAC is collaborating with the Pacific Economic Cooperation Council (PECC) this year to gather data and develop robust arguments about the benefits of trade at the level of individual businesses. This research will allow us to better articulate how trade serves to benefit firms and households, and why deeper economic integration remains a core priority for the Asia-Pacific region. This will complement the broader research on globalization that ABAC commissioned last year from the University of Southern California's Marshall School of Business.

**Recommendations:**

- Demonstrate full support for and commitment to the rules-based, non-discriminatory, open and transparent multilateral trading system and its dispute settlement mechanism. This is the critical underpinning of sustained and inclusive prosperity and stability in our region and the world.

- Show support for more open markets for trade and investment, including by resisting protectionism in all its forms; by working to eliminate non-tariff barriers on the basis of ABAC’s WTO-consistent Cross-Cutting Principles for NTMs/NTBs; by championing ongoing efforts to liberalize trade through the WTO and other agreements; and by engaging more actively with civil society on both the benefits of trade liberalization and the need for complementary policies to ensure that those benefits can be more widely shared by our communities.

**B. Enhancing regional investment flows**

The important link between investment and economic growth and prosperity is firmly established. Enhancing investment flows around the region is critical to economic development. ABAC is concerned that investment in APEC economies has substantially decreased in recent years, and urges governments to make efforts to restore confidence in regional investment. Recent reports by the United Nations Conference on Trade and Development (UNCTAD) reveal that global foreign direct investment (FDI) flows have fallen by 23% in 2017 with sharper contractions in developed economies while developing economies remained stable. Mergers and acquisitions (M&A) and greenfield investments have also fallen by 15% to 20%. Due to enhanced screening of foreign investment, over ten cross-border M&A deals were blocked or withdrawn in 2017, amounting to a gross value of $35.3 billion worldwide.

To address the concerning and substantial slowdown in regional investment, and to create a secure investment environment, ABAC urges APEC economies to commit to operate within the rules-based multilateral trading system. The imposition of ad-hoc tariffs threatens to severely disrupt supply chains, affecting jobs, growth and investment.

Surveys of investor confidence highlight concerns over political stability, legal and regulatory environments, geopolitical uncertainties and rising trade tensions. Investors remain concerned over political disruptions to global value chains, which increase risk and reduce efficiency and effectiveness of FDI. Provision by economies of more clarity and guidance on foreign investment screening would assist in addressing these concerns. Greater dialogue between public agencies and the private sector may help find a regulatory balance between the legitimate security interests of economies and investor needs for predictability and transparency.

Creating an investment-friendly environment over the medium to long term will require economies to promote investment attraction, retention and linkages with domestic suppliers as well as broader policies to improve infrastructure, human capital and financial systems. We acknowledge the balance that must be struck between allowing foreign investment and preserving public policy objectives. We also note the role of investment agreements and regional trading arrangements (RTAs)/free trade agreements (FTAs), including investment provisions, as important in providing some of the
certainty that investors seek. To the extent that these agreements encourage parties to establish stable and predictable domestic policy environments and provide rules for determining disputes, they are of significant value.

ABAC urges APEC economies to take concrete steps to restore the confidence required to enhance regional investment flows.

ABAC will contribute to work initiated in the APEC Investment Experts’ Group aimed at further enhancement to APEC’s Investment Facilitation Action Plan and to new generation investment principles.

Recommendation:

- Commit to operate within the rules-based, non-discriminatory, open and transparent multilateral trading system in order to address the concerning and substantial slowdown in regional investment, and to create a secure investment environment, including greater clarity around foreign investment policies. Over the medium term, work towards creating a favorable investment environment by promoting investment attraction, retention and linkages with domestic suppliers as well as broader policies to improve infrastructure, human capital and financial systems.

C. Progressing pathways towards the realization of FTAAP and the Lima Declaration

The achievement of an FTAAP is ABAC’s preeminent priority, and of particular focus as APEC considers its future vision, as the Bogor Goals deadline of 2020 approaches.

We are committed to free and open trade and removal of protectionist measures in the region as the best option to deliver sustainable and inclusive growth and prosperity to all our economies and lift our peoples to higher standards of living. While we recognize that it is a long-term vision, we believe that FTAAP is a central element in achieving those goals, along with other elements that will underpin sustained and inclusive growth.

ABAC notes that the pathway agreements offer different models, have different coverage and contribute in different ways towards achieving FTAAP. We urge parties to these agreements to ensure that they are compatible, that they do not compete with one another and allow the prospect of expanded membership, ultimately furthering the path to convergence. The Comprehensive and Progressive Agreement for Trans Pacific Partnership (CPTPP) provides a template with coverage of many issues prioritized by business. The Regional Comprehensive Economic Partnership (RCEP)’s common framework of rules, which takes into account the different levels of development and variation in ambition and coverage of existing FTAs in the region, provides an inclusive approach. The Pacific Alliance has demonstrated the impact of strong political will and determination to achieve greater economic integration within a short timeframe and an openness to progressive expansion of membership. All of these provide valuable lessons for an eventual FTAAP.

ABAC supports the direction provided by Leaders in the Lima Declaration and asks APEC economies to stay the course in working progressively towards the realization of FTAAP, despite the challenges confronting global trade at present.

ABAC urges continued commitment to work to address issues of divergence and convergence in RTA/FTA practice, to conduct a stocktake of how next generation trade and investment issues are dealt with in existing FTAs and RTAs in the region, and to develop initiatives to close the gap between different treatment of these issues, all to enable a clear pathway to FTAAP. We support work focused on measures affecting the achievement of the Bogor Goals, including but not limited to tariffs, NTMs, services, investment and rules of origin.

ABAC has commissioned the Consultants who assisted in our 2015 study on the opportunities offered by FTAAP, to update their analysis, taking into consideration changes to the trading environment in recent years. The authors have noted that in recent years, populism coupled with nationalism in the members of the Organization for Economic Cooperation and Development (OECD) and elsewhere, underpinned by anti-globalization sentiments, have dampened the enthusiasm for economic integration in general and free trade agreements in particular. They have also recognized that some economies have suggested the need to improve the depth and quality of free trade agreements, and that the benefits of trade must be more fairly spread both within and across economies.

The high expectations of deepening cooperation via pathways towards the FTAAP have been tempered by new political realities. Structural adjustment and a
range of other policies are needed to alleviate negative impacts on individual workers and communities, and to ensure that opportunities to gain access and enjoy a share in the economic benefits that derive from enhanced trade and investment flows, new business models, the internet and digital economy, new services made possible by the information and communications technology (ICT) revolution, and artificial intelligence (AI) are more widely distributed. Moreover, there is the risk that some economies themselves may be left behind and a greater digital divide may emerge between advanced and developing economies.

ABAC applauds member economies of the CPTPP that have reached an important milestone by signing the agreement on 8 March 2018, and encourage them to ratify and implement the agreement as soon as possible. ABAC hopes that additional economies will accede to the CPTPP in the future, given that the agreement represents a comprehensive coverage of trade and investment issues, and is a significant movement towards sharing the benefits of free trade more widely within the APEC region.

ABAC welcomes the commitment of the RCEP member economies to intensify efforts to conclude the negotiations in 2018. ABAC strongly supports the commitment to achieve a modern, comprehensive, high-quality and mutually beneficial economic partnership agreement as soon as possible.

ABAC appreciates the progress of the Pacific Alliance at its new stage of negotiations, with the addition of four APEC economies as Associate States. ABAC supports the prompt conclusion of the negotiations, maintaining a consistent level of ambition. ABAC welcomed the outcomes of the Pacific Alliance Summit in July 2018.

ABAC also acknowledges the contribution that other regional initiatives and arrangements have made towards freeing up trade and investment and creating a trade liberalization-supportive environment, including the ASEAN Economic Community and the Eurasian Economic Union, among others.

ABAC is updating its own positions on substantive FTAAP elements, taking into consideration the increasing importance of the internet and digital economy and the significantly changed trade policy environment since the Lima Declaration. This will be a multi-year effort, not only considering what a 21st century trade agreement should be, but also focusing on new and emerging areas of trade policy, identifying key issues in a bottom up exercise. We acknowledge that while the pathway agreements are critical building blocks towards FTAAP, the process of convergence will likely mean that each will contribute constituent elements to an eventual FTAAP. This approach might assist in advancing the Lima Agenda and moving to consideration of new issues of trade policy, necessary for an agreement equipped to deal with the needs of business in the future. ABAC will shortly commence a research project which will provide analysis from a business perspective, of Next Generation Trade and Investment Issues (NGetI), including those in relevant clauses of pathways agreements, to assist in establishing priorities for inclusion in FTAAP. We intend to report results from such research to the APEC fora early in 2019.

ABAC is committed to playing its part in shaping our collective vision for the region post-2020. We are developing ideas for that vision and will share them through high-level dialogues with the APEC Vision Group on this critical topic. We encourage APEC to discuss in particular how to integrate FTAAP as a core element in the post-2020 Vision. We want to see the realization of a seamless, dynamic, resilient, inclusive and sustainable region post-2020.

Recommendation:

- Prioritize work towards the Free Trade Area of the Asia-Pacific, by developing further our understanding of how FTAAP might provide for a more seamless environment for trade and investment in the region and identifying priorities and concerns for business while considering the elements that will underpin sustained and inclusive growth. We acknowledge the contribution that the timely conclusion, ratification and implementation of comprehensive, high-quality and mutually beneficial pathways including CPTPP, RCEP and the Pacific Alliance will make to this effort. To that end, we encourage CPTPP parties to ratify the agreement at the earliest opportunity and to invite other economies to join the trade agreement. We urge RCEP participating economies within APEC to conclude negotiations, ensuring that the agreement is comprehensive, high-quality, and mutually beneficial.

Developing the APEC Vision beyond 2020

The Bogor deadline is imminent, and while good progress has been made, economies are still some way from full free and open trade and investment in the region by 2020. Efforts to meeting the Bogor Goals should be intensified.
Equally, ABAC recognizes the value in looking ahead to our shared vision for the region in the decades ahead. ABAC is concerned to ensure that growth is sustainable and inclusive, enables business activity within and across borders, and integrates a future Free Trade Area of the Asia-Pacific as a core element of the Vision. ABAC seeks a resilient, dynamic, seamless and market-oriented Asia-Pacific region, in which an individual or firm can connect, do business and find success with equal ease in any part of the region. To achieve this, economies must be capable of and committed to improving equity and inclusion, and supported by structurally-sound, responsive, predictable, business-friendly and innovation-friendly behind-the-border ecosystems.

**Recommendation:**

- Continue to shape a collective vision for a sustained, prosperous and inclusive APEC region post-2020 in line with the Bogor Goals and in particular to discuss how to integrate a future Free Trade Area of the Asia-Pacific as a core element in the Vision.

**D. Advancing the implementation of the APEC Services Competitiveness Roadmap**

The importance of trade in services is highlighted by the fact that it accounts for almost 50 percent of world trade today, therefore, significantly contributing to the global economy. Also, many studies have shown that trade in services plays an increasingly crucial role in an economy’s development, including poverty reduction. Furthermore, services trade is considered as the new frontier for enhancing participation of most economies in international trade, thus, promoting sustainable and inclusive growth. Given the multifaceted contribution of services to the global economy and trade, it is critically important to design and implement a services-driven development strategy within a coherent and comprehensive policy framework, ensuring linkages with other policy areas and overall development objectives.

ABAC welcomes the development of a matrix to keep track of the implementation of the APEC Services Competitiveness Roadmap (ASCR). ABAC reconfirms its commitment to support APEC in ensuring the successful implementation of the Roadmap by providing timely and relevant business inputs, in collaboration with other relevant organizations, such as the Asia-Pacific Services Coalition (APSC), to the ASCR implementation matrix on an ongoing basis.

Moreover, ABAC commits to help APEC identify areas of focus for ASCR implementation that are practical and relevant for businesses, taking into consideration the fast and constantly evolving structure of economic production. ABAC will also continue to organize relevant public-private sector dialogues in order to increase awareness on business needs and put forward policy recommendations in specific services sectors that would support the implementation of the ASCR.

Overall, ABAC calls for APEC to make progress on the implementation of the Roadmap, including the speedy development of the APEC Index to Measure the Regulatory Environment in Services Trade which aims to analyze each APEC economy’s services trade restrictions in order to identify common regulatory barriers to services trade at the sectoral level. We encourage the adoption and implementation of indicators aimed at reducing or eliminating barriers to services trade within the region.

**Recommendation:**

- Make progress on the implementation of the APEC Services Competitiveness Roadmap. In particular, we call for the speedy development of the APEC Index on Measuring the Regulatory Environment in Services Trade.

**E. Furthering the implementation of the APEC Connectivity Blueprint for 2015-2025**

ABAC notes that connectivity is one of the priorities this year, and welcomes the progress achieved by APEC economies in implementing the APEC Connectivity Blueprint for 2015-2025 during the past year, including the report of Case Studies on Addressing Connectivity Challenges in APEC Economies. We reiterate that strengthened connectivity will contribute to opening new sources of growth, fostering inclusive and interconnected development, advancing regional economic integration and bringing APEC economies closer as a community.

ABAC welcomes economies’ initiatives and the work done by various APEC fora and working groups in advancing connectivity in the region. To enhance cooperation in this area, ABAC encourages further collaboration on the initiatives raised by APEC member economies to achieve better regional economic integration and comprehensive connectivity.
Digitization and Innovation: Advancing Social Harmony

Recommendations:

- Further implement the APEC Connectivity Blueprint for 2015-2025.

- Encourage further collaboration on the initiatives raised by APEC economies in order to achieve regional economic integration and comprehensive connectivity.

III. Sustaining, developing and deepening inclusive growth opportunities

Sustained economic growth is necessary for the prosperity of the Asia-Pacific region and needs to be inclusive for the wellbeing of the population. APEC should contribute more to fully implementing the United Nations 2030 Agenda for Sustainable Development. Accordingly, this year, ABAC has focused on developing and deepening inclusive growth opportunities in areas such as energy security and climate change; low and middle income groups; food security, sustainable agriculture and fisheries; urban infrastructure; and mining.

A. Enhancing energy security and tackling climate change

To balance sustainable development and economic competitiveness, ABAC recommends actions towards utilizing low-carbon energy, which diversify energy supplies and increase energy security, in a way that minimizes impact on trade.

ABAC urges APEC economies to deepen the level of engagement on expanding and stimulating renewables and emphasize efforts to shift to more environmentally-friendly fuel sources and adopt high-quality energy infrastructure, so as to improve energy access and connectivity.

ABAC recommends: i) promoting energy management with digitization that allows for the smart adjustment of energy supply and demand, and the reinforcement of the grid infrastructure that enables energy interchange in wide areas to overcome challenges of output fluctuation and maldistribution of suitable sites to expand renewable energy (wind/solar); and ii) optimizing liquefied natural gas (LNG) management and transactions, as natural gas, including LNG, accounts for the smallest amount of CO2 emissions among fossil fuels when combusting.

Furthermore, in order for the APEC region to move steadily towards a low-carbon society, it is necessary to consider introducing policies and institutions that transform not only energy supplies but also society as a whole, including industries, economics, and finance. Climate change is an urgent issue with serious ramifications for many business sectors in APEC economies. Business ventures, regardless of size, are facing weather-related disruptions, as well as operational, regulatory and societal pressures. As economies work to move towards a low-carbon economy, we encourage Leaders to bolster their use of innovative tools, such as carbon pricing mechanisms, to incentivize emission reduction across the region.

Recommendations:

- Expand the use of renewables by: i) promoting energy management that adjusts energy supply and demand; and ii) introducing and enhancing the grid to accommodate energy interchange in wide areas, subject to a proper assessment of the regulatory and technical operating regime and requirements of each electricity system.

- Develop natural gas infrastructure and optimize LNG management, as well as reduce barriers in energy trade and investment to increase investment in the energy sector and enhance its resilience and sustainability.

B. Encouraging sustainable development of communities

Smart Cities empowered by information and communication technology are essential to solve issues of urbanization, such as public safety, unequal distribution of educational and healthcare resources etc. Smart Cities drive new economic potential and sustainable growth. Developing a top-down Smart City agenda with one or more focus areas based on specific economic structure of each APEC economy is key to success.

Recommendations:

- Encourage relevant agencies to explore Smart Cities as a solution to specific sustainability challenges.

- Develop Smart City agenda that starts with top-down design, but with bottom-up involvement from public and private enterprises.
C. Promoting sustainable increase in low and middle income growth

ABAC has commissioned a report from the Royal Melbourne Institute of Technology (RMIT) University to conduct a quantitative assessment of the drivers of low and middle income growth and to identify policies that contribute to sustained real income growth of low and middle income groups within APEC economies. The report finds that improvements in institutional quality is the most significant factor driving average income growth of low, middle and upper middle income groups.

Recommendation:

- Engage further with ABAC on ways to improve institutional quality in order to promote sustained real income growth of low and middle income groups within APEC economies.

D. Securing assets in the agricultural and fisheries sectors

ABAC convened a Food Security Summit in Port Moresby in conjunction with the APEC Food Security Week of meetings. Experts from both the agricultural and fisheries sectors reviewed the expected long-term trends of production and consumption, measures to increase productivity and the application of digital innovation and technology as they will impact on agriculture from “farm to plate”, measures to reduce and eliminate food wastage and to improve processing, and value creation downstream in fisheries. Importantly, the Summit considered opportunities for investment and impediments to investment in the sectors. ABAC recommends the securing of assets in both sectors through sound domestic strategies that promote long-term revenue flows and investment to and in the sectors where this makes good economic sense, their effective management as vital renewable resources through the utilization of technology digitization and innovation, and the promotion of access to markets.

ABAC urges APEC Leaders to address barriers that impede the flow of food and agricultural goods, and in particular to prioritize action on non-tariff barriers that affect food trade, in accordance with our WTO-consistent Cross-Cutting Principles for Non-Tariff Measures/Non-Tariff Barriers. ABAC also urges APEC Leaders to minimize food loss and waste; and to promote the participation of MSMEs and smallholders in food production and trade in a non-trade distorting manner.

Recommendations:

- Prioritize economy-based strategies that promote long-term revenue flows and investment from and into the primary sectors where this makes economic sense and is sustainable to do so, encourage the productive use of land and fisheries, their effective management as vital renewable resources through the utilization of technology digitization and innovation, in a non- or minimally trade-distorting manner.

- Continue to prioritize inclusive and equitable access to safe, nutritious and sustainably-produced food, inter alia, by reducing and eliminating barriers to food trade, including non-tariff barriers, in accordance with our WTO-consistent Cross-Cutting Principles for NTMs/NTBs.

E. Promoting sustainable development in the mining and energy sectors

ABAC convened a Resource Industry Development Summit in Port Moresby involving business leaders, visionaries, financial specialists and officials to develop recommendations on the long-term outlook for the mining and oil and gas sectors, the investment needs into the future, including infrastructure, the application of digitization and technological innovation and strategies for empowering and including MSMEs in pre, current and post mining phases.

Recommendations:

- Promote measures to secure long-term investment flows into mining, oil and gas sectors, recognizing the risks and returns to investors and to economies.

- Develop measures that encourage the best use of technology and innovation in the sectors and in the required infrastructure.

- Facilitate the development of efficient global markets and access to them for mining commodities and oil and gas.

- Promote centers of excellence in the region to encourage and promote policies that ensure MSME inclusiveness in the resources sectors.
F. Fostering green growth

ABAC supports climate-oriented initiatives within the region and urges to create conditions for business involvement and effective dialogue between industry and economies on the issue, e.g. within the framework and the relevant APEC bodies through close cooperation with them.

Recommendation:

- Elaborate green production standards as an important element in the joint effort to tackle climate change.

G. Supporting economic development and integration of remote areas

To attain sustainable industrial growth and connectivity in the region, it is important to strengthen cooperation in the field of economic development and integration of remote areas, that can contribute to an increase in productive capacity and rational use of human and natural resources. ABAC supports the APEC Policy Support Unit Study on remote areas in the APEC region and suggests paying special attention to the improvement of the investment climate, supporting MSMEs and promotion of public-private partnerships, creation of favorable conditions for development of new competitive industries, and development of transport, energy and telecommunications infrastructure in remote areas.

IV. Creating opportunities for MSMEs to prosper

The development of MSMEs and their increased direct participation in regional and global trade is one of the key drivers to making growth more inclusive in the region. This year, ABAC convened an MSME Innovation Summit in Port Moresby to advance MSMEs in the region and has sought to further strengthen MSMEs' participation in global trade by focusing on the following priorities:

A. Enhancing the ability of MSMEs to participate successfully across borders and in global value chains

MSMEs make up a very significant share of the APEC business community and play a substantial role in employment, but they are not sufficiently engaged in cross-border trade and in global value chains. This is sub-optimal for the sustained and inclusive economic growth of the region. Research shows that small firms that export employ more people; pay higher wages; enjoy higher productivity; are more innovative; and expand faster. It is accordingly important for APEC economies to reduce barriers to MSME engagement across borders and in global value chains.

MSMEs face structural challenges around information, capacity and the domestic regulatory and business environment, and are disproportionately affected by barriers to trade such as non-tariff barriers. The areas of focus should include building capacity for both basic business skills and trade readiness including the ability to meet trade requirements and to anticipate challenges related to cross-border trade disputes; enhancing access to information about market opportunities and trade requirements; helping MSMEs to engage better with foreign networks; and seeking to lower barriers to trade including tariffs, non-tariff barriers and barriers to trade in services, including those that support trade; and access to trade-related finance. The Internet and digital economy, and in particular e-commerce and digitally-provided services can help to reduce costs and improve connectivity for MSMEs in trade, but there can be specific barriers for MSMEs in accessing/providing these platforms and services, and this likewise needs to be a focus for APEC economies.

ABAC has commissioned research this year on how to enhance the ability of MSMEs to participate successfully across borders and in global value chains. The results of this research will be shared with Leaders and more broadly in APEC economies later in the year.

Recommendation:

- Prioritize work to help MSMEs participate more successfully in global value chains and across borders, including by assisting them to overcome structural impediments through enhancing access to finance, information and Internet and digital economy channels; by helping to build business skills and trade readiness, including capacity building to meet trade requirements; and by seeking to remove other barriers, such as tariffs and non-tariff barriers to trade and barriers to trade in services, including those that support goods trade.
B. Expanding MSME innovative capabilities and global presence through internet and digital economy and e-commerce platforms

Across the region, MSMEs account for more than 95 percent of all enterprises and generate more than 50 percent of domestic employment. Supporting the integration of MSMEs in internet and digital economy and e-commerce platforms would open opportunities for them to engage in cross-border trade, grow into multinational sellers, and craft their own global supply chains. MSMEs, however, tend to have limited awareness and capability of harnessing these gains which largely depend on an adequate infrastructure and on supportive policies at domestic and international levels. As a result, they are often less productive and competitive than their larger counterparts.

We commend APEC’s adoption of the APEC Internet and Digital Economy Roadmap which we believe is an important living document that will advise APEC economies and related fora, including ABAC, on important areas of contribution to further promote the development and growth of the internet and digital economy and to assist with the development of domestic digital plans among APEC economies.

An important part of the various visionary domestic digital plans is to reduce the costs of doing business and remove frictions in the market, such as excessive red tape, not least for start-ups which are often the most innovative.

Recommendations:

- Continue to develop and expand capacity building programs that improve skills in information and communications technology similar to ABAC’s Cross-Border E-Commerce Training which was launched in 2014 in China and has since been organized in Brunei (2015), Papua New Guinea (2016), Chile (2016), Malaysia (2017), Peru (2017), Brunei (2017) and Thailand (2017) and participated in by more than 10,000 MSMEs.

- Encourage domestic plans to include measures to cut red tape to reduce the costs of doing business, and to promote local start-ups.

- Promote adoption and use by MSMEs of digital technologies, such as e-commerce, online payments and crowd funding, etc. by expanding the APEC MSME Marketplace which is an ideal platform to disseminate particularly important information relating to listings of accredited online marketplaces, innovation centers, incubators and accelerators to encourage business networking and matching among these enterprises.

C. Facilitating MSME access to finance

MSMEs are a major driver of the region’s economic growth and provide four out of five new jobs especially in emerging economies. However, up to 60% of MSMEs do not have access to financing thus hampering their growth. There are several factors contributing to MSMEs’ lack of access to finance, including inadequate legal and institutional infrastructure to support risk-based lending against a broader range of collateral and using non-traditional data, lack of enabling environments for equity-based financing and lack of access of vulnerable MSMEs to risk management tools including insurance.

ABAC calls on APEC economies to consider options including the democratization of financial services by creating new ways to interact with financial service providers, assisting MSMEs in accessing funding and services that were once unavailable, opening up opportunities for the unbanked and underbanked, and facilitating structural change in financial markets.

V. Strengthening financial systems to secure stable growth, investment and inclusiveness

A sound, stable and healthy financial system is fundamental to support the efficient allocation of resources and the distribution of risks across the economy. It reduces transaction, information and monitoring costs, promotes investment and spurs economic growth. ABAC has continued to pursue work in support of strengthening financial systems by putting emphasis on the following areas:
A. Strengthening financial systems

Noting that stable and long-term economic growth is dependent on sound financial system management, ABAC commissioned a report from its Knowledge Partner for 2018 on factors impacting on the business environment. The report noted a number of factors that impact on the business environment – taxation, government expenditure, competition, research and development and that a clear regulatory and R&D framework and competition support private growth, as does stable budget planning, targeted public spending and effective taxation.

Recommendation:

- Consider the impact of fiscal policies on the business environment with a particular focus on policies that encourage private sector innovation and development.

B. Encouraging financial technology

We believe that bringing financial services to the digital age is critical for growth. To promote this, ABAC has provided the following recommendations:

Recommendations:

- Establish domestic regulatory sandboxes and ensure cross-border linkages between them.
- Introduce Open Banking and Application Programming Interfaces (APIs).
- Enable digital authentication via the development of a digital identity system to remove the need for in-person authentication of individuals or documents.
- Ensure payments systems are open and interoperable.
- Promote regional public-private sector platforms, as an example the ASEAN Financial Innovation Network (AFIN), to promote financial innovation.
- Promote the APEC Roadmap for a New Financial Services Data Ecosystem.
- Promote the Strategy for the Digitalization of Trade and Supply Chain Finance.

- Strengthen data security through the development of a regional long-term strategy and review of cyber resilience frameworks and industry best practices in each jurisdiction.

C. Expanding infrastructure investment

The infrastructure needs in APEC economies are as vast as they are critical to advancing economic growth. By some accounts, the primary challenge stems from a lack of bankable projects, and by other accounts, the main issue is a severe shortage of funding as well as extreme imbalanced development of infrastructure among different economies. To address these concerns, ABAC suggests the following recommendations:

Recommendations:

- Facilitate the development of infrastructure projects through a reduction of red tape and delivering greater regulatory certainty.
- Support the work of Multilateral Development Banks (MDBs) – both global and regional – that help facilitate infrastructure investment through financing.
- Encourage private sector co-financing – including institutional investors such as insurance firms, pensions funds, and Islamic financial institutions – as well as providing technical assistance and fostering green finance markets.
- Support investment to domestic telecommunications infrastructure, including efforts suggested in the APEC Connectivity Blueprint for 2015-2025.

D. Enhancing inclusive finance

Sustained and strong economic growth requires a broad consumer base. Lack of access to finance is a major factor preventing large sections of the region’s population and enterprises from contributing to consumption growth. While there have been notable advances, there are several areas where more progress is needed, which are addressed with the following recommendations:

Recommendations:

- Enhance access to finance while balancing the inherent risks of expanding the pool of market participants.
- Encourage more work and progress on the reform of personal insolvency laws using as a tool the *Essential Elements of an Effective Personal Insolvency Regime* and structural reforms to accelerate financial and economic inclusion to enable low-income households and individuals to access a broad range of financial instruments that build inter-generational financial security.

**E. Supporting sustainable finance transparency**

In March 2018, ABAC sent a letter to the secretariat of the Financial Stability Board’s Task Force on Climate-related Financial Disclosure (TCFD) affirming its commitment to support the voluntary recommendations issued by the TCFD by endorsing the following statement of support: “To enable investors to better assess and price climate-related risk, ABAC members recommend APEC economies support and build on the recommendations of the TCFD, in particular through harmonized metrics endorsed by relevant industries and associations in each economy.”

**Recommendation:**

- Support and build upon the voluntary recommendations issued by TCFD by encouraging their use within home economies.

**F. Promoting capital market development**

Development of capital markets is indispensable for achieving the Cebu Action Plan’s goals of promoting financial integration, resilience and infrastructure. Many economies, however, face complex challenges, including the lack of liquidity and depth, lack of market players’ access to hedging instruments, lack of high-quality and timely information and underdeveloped custody, clearing, settlement and payment systems that keep transaction costs and risks at elevated levels and hinder cross-border portfolio capital flows.

**Recommendation:**

- Focus efforts on promoting capital market development, including policy and regulatory reforms and capacity building measures that help create deep and liquid markets, supported by a stable macroeconomic environment. This can be fostered by appropriate economic reforms; the creation of sound legal frameworks and efficient financial market infrastructure; and policy measures that ensure the broad availability of information. We also call on more economies to join the Asia Region Funds Passport, and encourage its interoperability with the Pacific Alliance Funds Passport.

**VI. Breaking barriers to enrich society by advancing technology**

This fourth industrial revolution, digitization and innovation, challenges all sectors of all societies in many ways and in particular business. ABAC formed a Digital and Innovation Working Group in 2018 to advise APEC on responses – particularly in relation to harnessing benefits, driving inclusiveness, mobilizing resources to widen and deepen access to worldwide internet through investment in infrastructure, and in educational systems to prepare societies and businesses in the application of innovations and technology. These issues were the subject of two major forums.

**Digital Innovation Forum (DIF) – Visions and Pathways**

The Digital Innovation Forum was convened by ABAC Papua New Guinea and ABAC Chinese Taipei in Taipei on 19-20 July 2018. The key topics discussed during the forum included AI, future jobs, innovation, technology, and human resource development.

**A. Harnessing the internet and digital economy to promote inclusion**

Our work this year commits to supporting the implementation of the APEC Internet and Digital Economy Roadmap and the APEC Cross-Border E-Commerce Facilitation Framework as well as continuing work to promote the APEC Cross-Border Privacy Rules System (CBPR), a voluntary mechanism whose participants seek to expand participation.

ABAC has welcomed the endorsement by Leaders in 2017 of the APEC Internet and Digital Economy Roadmap. The Roadmap points to the need for decisive action in a range of areas if the inclusive growth benefits of the internet and digital economy are to be realized. ABAC in particular welcomes the fact that the Roadmap is a living document and that new developments can be taken into account as digital technologies progress. At the same time, the challenge now facing APEC is to develop a work program to implement the Roadmap and
a governance mechanism needs to be put in place to allow this to occur. While we are aware that discussions on such a mechanism are taking place, agreement on it is now becoming urgent.

ABAC has provided input into the APEC Economic Committee’s report on “Structural Reform and Infrastructure.” The report presents several key issues for policymakers to consider including the importance of broadband infrastructure, visionary digital plans, e-government services, privacy and data security, regional harmonization and smart city development.

Our overarching recommendations are that APEC economies commit to a policy framework of openness and the exploration of opportunities arising from the digital innovation revolution, foster the implementation of technological advances in all areas of human activity - with a light touch policy and regulatory approach - and facilitating the free and secure flow of data and information across borders while respecting the needs of economies to safeguard privacy of individuals and cybersecurity.

Recommendations:

- Agree to a governance mechanism to implement the APEC Internet and Digital Economy Roadmap and fully implement the 11 focus areas of the Roadmap.

- Promote a regulatory and policy environment that responds to the rapid change in technology through the elimination of barriers that impede the adoption of digital technologies (and protecting resources and parties to digital economy), which includes enabling the free and secure flow of data and information across borders while respecting the needs of economies to safeguard privacy of individuals and cybersecurity.

- Put in place the five pillars identified in the APEC Cross-Border E-Commerce Facilitation Framework and work with the private sector to address cross-cutting issues critical to the sustainability of cross-border e-commerce. ABAC has identified principles and recommendations for six key cross-cutting issues, which are e-payments, border management, taxation, competition, the sharing economy, and data security. Ensure that cross-border e-commerce succeeds in delivering the end-to-end seamlessness, ease and customer experience that is expected from the internet and digital economy.

- Broaden affordable access to all communities to the internet and broadband communications through policies that generate competition and by prioritizing investment in facilitating infrastructure.

- Narrow the digital divide by enhancing human resources adaptation to modern digital technology on inter- and intra-economy basis, through reforms to education systems and skills upgrading through industry, academic and governmental collaboration.

- Encourage economies to highlight to their local business communities the benefits of joining CBPR.

APEC China CEO Forum 2018

The APEC China CEO Forum 2018 was held in Beijing, China on 6-7 July 2018 and attracted over 700 delegates from the region. The development of internet and digital economy and technological innovation were discussed extensively during the forum.

B. Fostering innovation development

ABAC participates in activities aimed at formulating inclusive and impactful science, technology and innovation policy recommendations to meet economic goals in the APEC region. ABAC welcomes the work on developing an APEC Blueprint on International Cluster Cooperation and Program on Achieving Greater Coherence among APEC Economies’ Policies in the Field of Forming New Technology Markets of the Future. ABAC appreciates the opportunities which the APEC Platform for Economies’ Clusters, once it is launched, will present to business via entrepreneurship, investment and employment.

ABAC welcomes the APEC Policy Partnership on Science, Technology and Innovation (PPSTI) projects devoted to high-growth innovative firms’ acceleration, innovative clusters’ cooperation and forming new technology markets of the future.
ABAC Report on Structural Reform and Digital Infrastructure

This report was commissioned by ABAC and developed in consultation with the APEC Economic Committee (EC) to serve as an annex to the EC report on Structural Reform and Infrastructure where it highlights digital issues. The report is primarily concerned with policies that will enable and maximize the opportunities brought about by digital technologies. Using a framework of governance, markets and technologies, each of which interacts with the other, the report identifies structural reforms that are required in a digital age to keep them relevant. The key recommendations are as follows:

- A well-developed broadband infrastructure is key to enhancing the connectivity of digital economies. APEC economies that lack a good broadband infrastructure should assign a high priority to fixed line broadband. A higher fixed broadband penetration rate has been found to drive the uptake of cloud computing, which enables a whole suite of new digital services and technologies including the Internet of Things (IoT).\(^1\)

- Clearly-defined structures of governance are required to produce visionary domestic digital plans, along with policies for their implementation and regulations to make them happen. APEC should do what it can to assist economies that lack a capacity to develop in depth operational planning.

- One driver of digital economy that is in the hands of government is e-government, from online procurement to e-services. APEC could urge member economies to prioritize e-ID as a means of registering populations, widening the scope of digital and financial inclusion, and improving the security of commercial and vital domestic assets. Given the breadth of potential e-government initiatives, priority should be given within government to the establishment of an Office of the Government Chief Information Officer (OGCIO) and the appointment of a CIO to steer cross-department and cross-agency e-government initiatives and to ensure their compliance with related laws, such as personal data privacy laws and cybersecurity and data protection regulations.

- An important part of these visionary statements is to reduce the costs of doing business and remove frictions in the market, such as excessive red tape, not least for start-ups which are often the most innovative. APEC could encourage domestic plans to include measures to cut red tape to reduce the costs of doing business, and to promote local start-ups.\(^2\)

- Among the most compelling digital issues are data privacy, data protection and cybersecurity. APEC cybersecurity guidelines and assistance with expertise would be helpful, not least for the adoption of cloud computing. Several APEC economies already have ‘cloud procurement’ and ‘cloud first’ policies, but for others the sharing of the experience will be necessary, a role APEC can easily play.

- Regional harmonization is a crucial area for the growth of digital economies as cross-border trade in goods and services increasingly depends upon the exchange and transfer of data. APEC should give a strong priority to initiatives on regional harmonization, and examine carefully roadblocks to progress.

- Digital development is closely associated with smart city development, and nothing is smarter than creating a clean environment in terms of the quality of the air we breathe, the water we rely upon, the disposal of waste of all kinds, and creating the jobs and commercial opportunities that can go along with these efforts. APEC has an opportunity to add its voice and support to all its members in developing a green digital economy, probably the most important challenge for the planet.

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VII. Conclusion

ABAC is deeply concerned about recent trade tensions. Those tensions risk seriously damaging growth, exacerbating unemployment and turning back the great social advances achieved in recent decades.

Our concluding message is simple. APEC economies must reinforce the principles agreed to in the founding of the Bogor Goals. By reinforcement, we mean adherence to open markets to facilitate the flow of goods, services and investment across the region. If we fail to achieve these goals by taking shared actions and commitments developed under the APEC agenda, we will see a descent from prosperity to an environment of slowing growth, job losses, rising costs and one of mistrust and unpredictability, the antithesis of what APEC stands for.

Papua New Guinea has the honor to chair ABAC this year. Under Papua New Guinea’s leadership, ABAC has pursued a forward looking agenda with a strong emphasis on the role that digitization and innovation can play in transforming societies and giving effect and meaning to inclusiveness. Our recommendations are aimed at realizing the promise of solid actions that will lead to a shared and prosperous future. Our recommendations are aimed at furthering APEC’s principles and work priorities and we have undertaken work with a special but not exclusive focus for the least developed members of APEC.

We commend this report to Leaders. We look forward to discussing our recommendations with you in November.