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## I. Introduction

The global economy is slowing, following the strong growth recorded in 2017 and early 2018, and the risks are tilted to the downside. The International Monetary Fund (IMF) has twice this year downgraded its 2019 growth forecasts, from 3.5 percent at the start of the year to 3.2 percent by July. In order to avert a protracted slowdown, it is imperative that all economies take action to boost growth, enhance inclusiveness and strengthen resilience. The need to resolve trade disagreements cooperatively, without raising distortionary barriers that would further destabilize the global economy, is a key priority.

This year, ABAC has therefore adopted the theme “Inclusive and collaborative growth in the digital era”, with the following sub-themes:

- Inclusive trade policy to foster growth in the digital era; and
- Advancing regional economic integration.

The 2019 work program is focused on the following priorities:

- Reaffirming regional economic integration;
- Building sustainable communities through social innovation and green growth;
- Facilitating micro, small and medium enterprises’ (MSMEs) market access and success in global value chains;
- Achieving inclusive growth through financial inclusion, innovation and integration; and
- Promoting digitalization and innovation for greater inclusion.

This report outlines ABAC’s views and recommendations aimed at addressing current challenges and boosting regional growth and prosperity while enhancing inclusion.

## II. Accelerating regional economic integration

Regional economic integration remains a key means for promoting trade and sustainable and inclusive economic growth in the region. ABAC has long championed the need for deliberate steps to advance regional economic

integration. Accordingly, this year, ABAC has focused on four priority areas: supporting the multilateral trading system; developing the APEC vision beyond 2020; realizing the Free Trade Area of the Asia-Pacific (FTAAP) and progressing the pathways to FTAAP; and deepening and accelerating efforts on implementing the APEC Services Competitiveness Roadmap (ASCR).

### A. Supporting the multilateral trading system

The World Trade Organization (WTO) and its predecessor, the General Agreement on Tariffs and Trade (GATT), have created and sustained a system of multilateral trade rules which have helped to generate over 70 years of global prosperity, and created dynamic opportunities for businesses, communities and economies, including developing economies. The rules-based multilateral trading system enables businesses to operate with greater confidence and at lower cost in world markets by reducing protectionist barriers and behind-the-border distortions.

Enforcement of trade rules through binding dispute settlement has to a large extent provided crucial certainty for business planning, operations and investment. The multilateral trading system, with the WTO as its core, has also fostered trade and economic growth, been instrumental in the creation of jobs and significantly contributed to the alleviation of poverty around the world.

The benefits that the multilateral trading system offers derive from both its authority and its efficacy. Any weakening of this system is a matter of grave concern. Business and investor confidence are reduced if market access is unpredictable, if WTO commitments are not met, if markets are volatile and if value chains are disrupted. The prospect of a world in which trade disputes are not settled through independent, rules-based arbitration would be deeply troubling. Such actions heighten uncertainty, drive businesses towards less inclusive and resilient models, and lower the propensity for businesses to provide good jobs.

That said, the Asia-Pacific business community recognizes that the WTO is now facing serious challenges, and reform is needed to help it address the current crisis, keep pace with the rapidly-changing global economy, and safeguard the system itself.

ABAC has agreed a formal statement emphasizing our support for the WTO but also our view that it must be reformed. That statement is in the Attachment, and a summary of our recommendations is set out below.

#### **Recommendations:**

- Reaffirm support for the WTO in the strongest terms.
- Immediately address the impasse in the appointment of members of the Appellate Body.
- Support necessary reforms in other aspects of the WTO's judicial, rule-making and administrative functions in order to ensure that the system stays relevant to all, including the following:
  - Unfinished business from the Doha Round should be addressed through resumed negotiations on agriculture, services and rules elements;
  - WTO members should respect obligations related to transparency in policies and practices, and should be promptly held accountable for a sustained pattern of non-compliance;
  - WTO members should develop mechanisms to identify and address non-tariff barriers more promptly and effectively, drawing on ABAC's WTO-consistent Cross-Cutting Principles on Non-Tariff Measures (NTMs)/Non-Tariff Barriers (NTBs);
  - Plurilateral WTO negotiations must be open to all members willing to move ahead to more ambitious or new rules in specific areas, must be consistent with WTO principles, and should be undertaken with a view to serving as building blocks to consensus multilateral outcomes in the future;
  - Business welcomes WTO initiatives that would better reflect 21st-century economic models and business concerns in WTO rules, including the WTO negotiations on trade-related aspects of e-commerce. In this regard, ABAC has undertaken extensive work on supply chain

connectivity and digital economy issues which may offer useful inputs to this process.

#### **B. Resisting protectionism and eliminating non-tariff barriers**

The current trade tensions are damaging to us all and the potential long-term consequences are deeply concerning. The frictions in recent years represent a significant exacerbation of a trend towards protectionism that has emerged since the Global Financial Crisis. G20 economies have introduced nearly 3,000 new trade-restrictive measures since 2008/2009. The adverse effects of this policy shift are already evident in a drop in business confidence, slowdown in global economic growth and a contraction in trade and investment flows, with further loss of momentum forecast for 2020.

#### **Recommendations**

- Resist protectionism in all its forms, including through the immediate removal of new tariffs and other measures that restrict trade and investment.
- Return to constructive engagement to address legitimate concerns, undertaken out of recognition that there can be no winners from policies that close off markets, increase prices for consumers and manufacturers, disrupt global value chains, all of which undermine sustainable and inclusive growth, especially for the most vulnerable groups and economies in our region.
- Continue to engage with business and civil society on both the benefits of trade liberalization and the need for complementary policies to ensure that the benefits can be more broadly shared among our communities.

#### **C. Developing the APEC vision beyond 2020**

The value of deeper regional economic integration, driven by the Bogor Goals of free and open trade and investment, has been compellingly demonstrated in APEC over recent decades. Trade in the region has expanded at an annual average growth rate of over 7 percent, from \$3 trillion in 1969 to \$24 trillion in 2018. Inequality among economies has dropped: in 1990, the

highest Gross Domestic Product (GDP) per capita in the region was 58 times higher than the lowest level of GDP per capita; by 2017, this was down to 22 times. Extreme poverty levels have fallen sharply from over 40 percent to under 2 percent, while the 'poverty' rate fell from 63 percent to 13 percent. 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 meet the Bogor Goals should be intensified.

Equally, ABAC is eager to help shape our shared vision for the region in the decades ahead. ABAC seeks a 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. Such a region could be described as an "Asia-Pacific economic community", expressed most importantly, but not exclusively, by FTAAP, and would be a seamless, dynamic, resilient, sustainable and inclusive region. To achieve this, economies must be capable of and committed to improving equity and inclusion, and supported by structurally-sound, responsive, predictable, non-discriminatory business-friendly and innovation-friendly behind-the-border ecosystems.

### Recommendations

- Intensify efforts to achieve the Bogor Goals.
- Continue to shape a collective vision for an 'Asia-Pacific economic community', comprised of a seamless, dynamic, resilient, inclusive and sustainable region post-2020, expressed most importantly but not exclusively by FTAAP, in which economies are capable of and committed to improving equity and inclusion, and supported by structurally-sound, non-discriminatory, responsive, predictable, business-friendly and innovation-friendly behind-the-border ecosystems.

### D. Realizing FTAAP and progressing the pathways

Achievement of FTAAP remains ABAC's preeminent priority, as regional trade agreements (RTAs) and free trade agreements (FTAs) continue to serve as a major driving force for economic integration of the Asia-Pacific region. ABAC reaffirms strong support for FTAAP and the direction provided by Leaders in the 2014 Beijing

Roadmap for APEC's Contribution to the Realization of FTAAP and in the 2016 Lima Declaration, which provides a workplan to guide the eventual realization of a high-quality and comprehensive FTAAP, capable of addressing next generation trade and investment issues (NGeTIs). ABAC urges APEC to find the necessary consensus to continue to work towards FTAAP, playing a leading role as an incubator of ideas, providing leadership, intellectual inputs and important capacity building. We support the APEC Information Sharing Mechanism on RTAs/FTAs and Action Plan Framework of Capacity Building Needs Initiatives, noting the particular challenges posed by NGeTIs for all economies.

New technological developments, including rapidly advancing digital innovation, and the constantly changing trade policy environment, have substantially affected regional trade and investment. Addressing NGeTIs has taken on greater importance to respond to emerging challenges in business. In our work program in 2019, ABAC presented a report on NGeTIs from a business perspective, examining a range of NGeTIs in each of the pathway agreements, including their individual effectiveness, complementarity and opportunities for convergence. The report covered six potential issues. ABAC will continue to explore NGeTIs, relevant to business development in the region, as part of our 2019/2020 work plan priorities.

ABAC applauds the completion of the Comprehensive and Progressive Agreement for Trans Pacific Partnership (CPTPP) and its ratification by seven member economies. We urge the remaining economies to complete their domestic ratification processes and other interested economies to participate in this agreement, so that its high-quality and comprehensive trade rules provide benefits more widely and expand liberalized trade and investment markets in the Asia-Pacific region.

ABAC encourages member economies to increase efforts to conclude the negotiation of the Regional Comprehensive Economic Partnership (RCEP) by the end of the year, to achieve a high-quality, comprehensive and mutually beneficial agreement, and complete a new pathway towards FTAAP.

The Pacific Alliance (PA) has created a high-quality, and inclusive agreement for regional economic integration, under strong political leadership. It is rapidly

advancing towards an expanded membership, focused in the Asia-Pacific region and is addressing emerging regional business priorities.

ABAC acknowledges the contributions of the ASEAN Economic Community and the Eurasian Economic Union and others.

### **Recommendations**

- Find consensus to continue to work towards FTAAP and implement the 2016 Lima Declaration workplan, recognizing FTAAP's potential to advance regional economic integration and address emerging challenges faced by business, such as digital transformation, and other next generation trade and investment issues.
- Continue work on pathway agreements to deepen regional economic integration with high-quality, comprehensive FTAs and RTAs. ABAC urges the remaining four economies of CPTPP to complete their ratification processes, the member economies of RCEP to achieve a successful conclusion of the negotiations by the end of the year, and to continue deepening the Pacific Alliance integration process.

### **E. Deepening and accelerating efforts to implement the APEC Services Competitiveness Roadmap**

ABAC has consistently advocated for services trade and investment liberalization in view of the potential to grow the sector in the region, with all the benefits that would entail. Services account for about 25% of world trade today, with a far higher share of trade if services embodied in manufactured goods are counted. Many studies have shown that trade in services play an increasingly important role in an economy's development, including encouraging MSME growth and helping to reduce poverty, as well as enhancing productivity and international competitiveness more broadly. With the onset of the digital economy and Industry 4.0, not only is the liberalization and facilitation of the services sector important, but the urgent transformation of the services sector must also occur to ensure that manufacturing in APEC remains competitive.

ABAC remains committed to supporting APEC in its implementation of the ASCR by providing relevant business inputs, in collaboration with the Asia-Pacific Services Coalition (APSC), to ensure that the Roadmap is responsive to changes and the needs of the business community. We will continue to organize public-private sector dialogues, in collaboration with the relevant stakeholders, to increase the awareness of business needs and put forward policy recommendations.

ABAC will work with APEC to push for progress in ASCR in our priority areas of education services, manufacturing-related services (with a focus on transport and logistics), environmental services, tourism services, cross-border mobility of professionals and the digitalization of services.

### **Recommendations**

- Support the "final push" on services for the Bogor Goals. However, APEC should not lose focus on achieving its commitments and targets under the ASCR. We call on APEC economies to deepen and accelerate their efforts in implementing the Roadmap.
- Expedite the development of the APEC Index on Measuring the Regulatory Environment in Services Trade so that each economy can analyze and address its services trade restrictions better, and learn and adapt from good practices of other economies.
- Expand the APEC Trade Repository to also include the services policies and regulations of each economy, starting with the services sectors that will be covered in the pilot program for the development of the APEC Index on Measuring the Regulatory Environment in Services Trade.
- Advance the implementation of the Environmental Services Action Plan (ESAP), and work with ABAC on the relevant regulatory obstacles in education services so that the region's current and future workforce needs for high-quality skills training can be met, to sustain economic growth and prosperity. Our recommended measures include encouraging APEC economies to:

- Advance the liberalization of environmental goods under the Environmental Goods Agreement (EGA) as well as digital-related items under the Information Technology Agreement (ITA) to support the wider adoption of emerging environmental service models in the region;
  - Gather good regulatory practices and enhance capacity building for technological advancement and training of new job skills for environmental services;
  - Streamline and simplify visa processes for students, researchers and educational service providers;
  - Ensure that regulatory, accreditation and quality assurance frameworks support the expansion of quality programs by providing a transparent and predictable environment for innovation by existing providers and entry by new providers, both domestic and international;
  - Minimize restrictions on cross-border online provision of education, whether in the form of accredited online degrees, short courses, micro-credentials or testing services, and ensure that quality and accreditation standards are transparent and non-discriminatory;
  - Ensure that as governments review regulation of education and training systems they take steps to foster greater harmonization across APEC, promoting the alignment of educational standards with international practice and facilitating the flow of knowledge, skills and people across the region; and
  - Ensure that agencies responsible for accreditation of professional education programs and the licensing of professionals align their standards with international professional practice.
- Step up efforts to implement the APEC Connectivity Blueprint and Supply-Chain Connectivity Framework Action Plan (SCFAP), especially by:

- Encouraging APEC economies to adopt paperless and/or digital trade facilitation initiatives; and
- Encouraging APEC economies to adopt the Global Data Standards (GDS) to enable and facilitate supply chain connectivity and integrity.

### **III. Promoting digitalization and innovation for greater inclusion**

The fourth industrial revolution, digitalization and innovation have an impact on all segments of society. In particular, digitalization offers immense opportunities for our communities and businesses, especially MSMEs. The digitalization of the economy with new business models creates new job opportunities and fuels economic growth. The 2018 Marshall School Study “Realizing the Untapped Potential of MSMEs in APEC” identified digitalization as the biggest multiplier for kickstarting virtuous growth cycles for cross-border MSMEs. MSMEs that embraced digital technologies grew at twice the rate of non-digital MSMEs, were able to reduce 82% of their export costs and experienced 86% in market entry costs. However, APEC economies need to act decisively to unlock the benefits digitalization. To fully harness the opportunities, some key issues to consider are: developing and enabling affordable infrastructure, building digital trust, maintaining regulatory agility, enabling digital readiness, and facilitating trade in a digitally-connected world. We encourage economies to work closely with businesses to address the challenges of the digital economy. The business community stands ready to play its part.

#### **A. Harnessing the benefits of digitalization for all**

At the World Economic Forum in January, 76 members of the WTO agreed to start negotiations on a new framework on e-commerce. This was in recognition of the potential high impact of e-commerce on consumers, communities, businesses and the global economy. Within APEC, our leaders welcomed the adoption of the APEC Internet and Digital Economy Roadmap in 2017. Our leaders recognized that digital technologies (and their associated services and platforms) have the potential to continue providing significant gains. We note that while the Chair and the Deputy Chair of

the Digital Economy Steering Group, that will drive the implementation of the APEC Internet and Digital Economy Roadmap, have been identified, the Terms of Reference for the Group are still being worked out.

### **Recommendations**

- Encourage approaches that enable an open, non-discriminatory, interoperable, connected, trusted business environment, including for digital enterprises.
- Accelerate the full implementation of the APEC Internet and Digital Economy Roadmap.
- Support comprehensive and ambitious outcomes for setting rules for e-commerce in the WTO, drawing from ABAC's own work in this regard.
- Encourage the remaining APEC economies to join the WTO negotiations on trade-related aspects of e-commerce.
- Implement the five pillars identified in the APEC Cross-Border E-Commerce Facilitation Framework.
- Support efforts to make permanent the WTO moratorium on customs duties on electronic transmissions.
- Develop the internet and digital infrastructure to improve access to digital economy, especially for MSMEs, in remote areas and for underserved groups including women, indigenous communities and persons with disabilities.
- Ensure that MSMEs can develop the necessary digital capability and readiness, including on cybersecurity.
- Emphasize the development of digital literacy, skills and training, on a lifelong basis, from early education through to in-work upskilling, to enable a future-ready workforce, enhance the capability of communities and workers to adapt and reap the benefits of modern digital technology.

### **B. Promoting smart regulations & security**

Economies need to put in place frameworks that incorporate accountability, transparency, ethics and equity. These frameworks should not stifle innovation. In addition, by allowing businesses to incorporate these principles in the early stage of the design of their digital products and services, stakeholders can have a more meaningful say in how emerging networked technologies are bound by, and in turn affect, longstanding normative social structures. Some examples include cybersecurity and personal data protection approaches.

The governance of personal data has become critical and indispensable to advance our data-utilizing businesses as data-driven products and services are easily rolled out across borders and reaching new overseas markets. ABAC urges APEC to promote the regional interoperability of risk-based security and privacy protection mechanisms across the region to enable the free and secure flow of data and information across borders. One important way to do this is to encourage adoption of the APEC Cross-Border Privacy Rules System (CBPR), a voluntary mechanism based on self- or co-regulation, by interested economies. Businesses must also strengthen their cybersecurity systems. For businesses to participate in the digital economy, they must first trust that the system is safe from cyber-attacks. Individuals must also maintain proper cyber practices and appreciate the importance of keeping their identity safe and secure. While implementing measures to enhance trust and security in cross-border data flows, care must be taken not to restrict trade flows more than is necessary to achieve those important objectives.

### **Recommendations**

- Promote international cooperation on defining common approaches (e.g. CBPR) to cross-border data flows that will include measures that address privacy, cybersecurity and consumer protection. Actively foster the adoption of these approaches.
- Undertake structural reforms in governance, markets and technologies where needed to ensure an efficient digital economy. Priorities include:

- Developing approaches to government regulation that seek to foster digital innovation and reduce the cost of doing business; and
- Developing regulations that are agile and responsive to fast-changing technology trends, and yet coherent within the region.

#### **IV. Facilitating MSMEs' market access and success in global value chains**

Across the region, MSMEs account for more than 95 percent of all enterprises and generate more than 50 percent of domestic employment but they, including women-led MSMEs, are not sufficiently engaged or are underrepresented in cross-border trade and in global value chains. This means that our economies and communities are unable fully to realize inclusive economic growth.

ABAC prioritizes the following recommendations to enhance initiatives and workable guidelines to assist MSMEs in accessing international markets and engaging in cross-border trade:

##### **A. Enhancing the ability of MSMEs to participate in trade and global value chains**

A report commissioned by ABAC in 2018 to the University of Southern California's Marshall School of Business examined how best to foster the successful participation of MSMEs in global value chains and across borders. The research found that MSMEs face structural challenges around business readiness, access to information, financing and networks, and challenges in the domestic regulatory and business environment. It also found that MSMEs are disproportionately affected by barriers to trade such as non-tariff barriers, regulatory compliance requirements and lack of access to effective dispute resolution. The research identified digital platform as a key enabler for MSMEs, and also found that the services sector offered significant opportunities for MSMEs to move up the value chain and engage in trade. However, while the digital economy can help to reduce costs and improve connectivity for MSMEs in trade, there are specific barriers hindering MSMEs from accessing these opportunities.

It was concluded that actions that would help MSMEs to participate more successfully in global value chains and trade included building capacity and business readiness and reducing barriers to trade such as non-tariff barriers and barriers to services trade.

#### **Recommendations**

- Enable MSMEs to overcome structural impediments by enhancing access to finance, information and digital economy channels, and by removing tariff and non-tariff barriers to trade in goods and in services. Keep MSMEs at the table when taking initiatives to liberalize trade; lead the creation of guidelines for digital interoperability; build out the APEC MSME Marketplace; continue to work to find alternative methods of dispute resolution; foster the ability of MSMEs to take part in services trade, including by expanding the APEC Trade Repository to also include the services policies and regulations of each economy; and foster the continued sharing of best practices from around APEC and the world to assist MSMEs.
- Create an interconnected and enabling environment for the development of MSMEs in the Asia-Pacific region through the establishment and operation of an SME Global Value Chain Network (SG Network), an SME growth platform that would allow existing programs to fully leverage on each other's resources and expertise.
- Continue developing and expanding capacity-building programs that improve skills in information and communications technology (ICT) for MSMEs, similar to ABAC's Cross Border E-Commerce Training (CBET), which now has an online e-learning platform, and the APEC Canada Growing Business Partnership Project, a multi-year project combining research, practical toolkits and capacity workshops.

ABAC is committed to advancing projects with the support of economies, including those found on the APEC MSME Marketplace.

## **B. Promoting best practices for MSMEs and regulations that foster their business**

According to the Marshall School 2018 report on Realizing the Untapped Potential of MSMEs in APEC, one of the MSMEs' weaknesses in participating in global value chain is the lack of knowledge and experience in doing business. The report also pointed out that programs that link MSMEs to larger enterprises through technical assistance could help to increase the capacity of MSMEs and make them more attractive in the local market as well as globally.

While APEC member economies have been encouraging MSMEs to enter cross-border business, in particular using online trading platforms, there has been a failure to recognize and prepare companies for the possibility of – and potential harm from – cross-border disputes. In this regard, ABAC welcomes efforts to develop a region-wide framework for online dispute resolution platforms, which will both reduce the time taken to resolve a dispute, and reduce legal costs and provide them the ease to be better prepared to take their businesses offshore, draw up contracts, ensure the inclusion of dispute settlement clauses in the contracts, among others.

### **Recommendations**

- Explore the possibility to create APEC-wide mentorship for entrepreneur network as one way to develop MSMEs.
- Support the development of a region-wide framework for online dispute resolution platforms.

## **C. Strengthening the participation of women in the economy**

Women's economic empowerment boosts productivity, increases economic diversification and income equality, in addition to other positive development outcomes. As representatives of the private sector, we recognize that promoting women's economic participation is a business imperative, and will boost GDP growth in our economies.

ABAC is actively supporting the economic integration of women in the APEC region for the benefit of all. A United Nations report states that limits on women's participation in the workforce across the Asia-Pacific region cost the economy an estimated US \$89 billion every year. The digital era is conducive for women to realize their own economic future and to achieve entrepreneurial goals. ABAC has actively engaged in advancing women's economic inclusion through various initiatives, including the establishment of the ABAC Women Connect Program in 2017 to enable women entrepreneurs to leverage digital technologies to create their own economic future and realize entrepreneurial objectives through effective sharing, learning and recognition programs.

Through technology and the digital economy, the APEC Women Connect aims to empower women further and advance the economic integration of women in the APEC region in all sectors and at all levels for the benefit of all. The program is striving to build a global network connecting local communities through online and offline events and has identified and promoted role models from different economies and regions, inspired women's confidence in themselves with successful cases, and created a global network of women entrepreneurs enabling its members to share, learn, and recognize achievements collectively resulting in a favorable environment for women entrepreneurs. Starting from 2019, the APEC Women Connect will establish 50+ APEC Women Entrepreneurial Centers in universities across the APEC region, by designing and carrying out courses featuring digital skills, management skills to incubate future female leaders, and initiate a dialogue on "Empower Women, Engage Men", for ABAC male leaders to share stories, best practices and becoming better allies for women's economic empowerment. We ask Leaders to support the 2019 APEC Women Leadership Forum co-sponsored by ABAC.

We urge APEC to leverage technology and the digital economy to further empower women. APEC presents an important opportunity to equip policymakers and industry leaders to effect further changes. With the right policies, training, and education, APEC economies can further leverage their existing workforces as well as invest in future productivity. For example, having access to Science, Technology, Engineering and Mathematics

(STEM) educated women increases our pool of skilled employees. These projects promote sustainable growth in APEC economies by integrating women and girls into the economy, thereby actively working to close the gender gap. In addition, developing a leadership pipeline that strives to train, retrain and promote women within our organizations enables our firms to perform better and more effectively serve customers by leveraging new perspectives.

Leaders also need to act to close the gender gap in trade by committing to a standstill on current laws and regulations and further binding commitments to prohibit the discrimination between men and women with respect to the rights of ownership and entrepreneurship for women-owned businesses.

### **Recommendations**

- Leverage technology and the digital economy to further empower women.
- Address barriers that prevent women-owned MSMEs from accessing finance to further aid women-owned firms, both economically and socially. Bundling of financial services with business skill trainings, mentorship, better access to market, networking and due diligence assistance will help women-owned MSMEs to better achieve their entrepreneurial goals.
- Endorse a roadmap for action that would culminate in a Women's Economic Empowerment Trade Initiative for agreement by the time of the WTO Ministerial in Kazakhstan.

## **V. Achieving inclusive growth through financial inclusion, innovation and integration**

Financial inclusion and regional financial integration are two of the most important challenges we believe that APEC needs to address. Both are critical for achieving sustained, balanced and inclusive growth in our region.

### **A. Creating the digital and policy ecosystem for financial inclusion**

The ongoing digital revolution offers us many opportunities to make our financial systems more

inclusive. Today's technologies and the exponential growth in the volume of data have the potential to enable financial service providers to reach the more than 550 million unbanked persons and over 70 million financially underserved MSMEs in APEC economies.

Achieving this goal requires both bottom-up and top-down approaches. A key bottom-up measure is enabling market players to innovate in response to customer needs. In most developing economies, however, the process of matching technology with financial service providers to develop new products typically take many months, require significant costs and have low success rates.

We encourage member economies to study the case of the ASEAN Financial Innovation Network, where industry, regulators and a multilateral institution collaborated to provide a curated and secure regional platform for traditional banks and fintech firms to discover needs and solutions and design, test and deploy new products faster and at much lower costs. We recommend that regulators, industry and multilateral institutions to collaborate to develop, link together and deepen participation in public-private regional platforms for financial innovation across the region.

We also outline below a mutually reinforcing set of initiatives that can significantly advance financial inclusion in our region. Regional public-private platforms for innovation can help traditional financial institutions and fintech firms create innovative financial products powered by digital technology. Improved availability and quality of data, policy reforms and greater collaboration among industry and regulators will create the necessary conditions for financial service providers to provide a wider array of innovative services to a broader range of customers. These measures will enable digital innovation to lower the costs of banking, insurance, pension and payment services and working capital, and make them more available to MSMEs and low-income individuals.

### **Recommendations**

- Encourage regulators, industry and multilateral institutions to collaborate to develop, link together and deepen participation in curated and secure public-private regional platforms where traditional banks and fintech firms across the region can

discover needs and solutions, and design, test and deploy innovative products quickly and cost-effectively.

- Encourage the wider collection and sharing of data domestically, including relevant public sector data, under frameworks that consumers can trust, while respecting applicable domestic laws and regulations.
- Encourage the development of interoperable privacy regimes and creation of a strong regional data security environment for the cross-border flow of data.
- Initiate capacity building programs to facilitate the use of movable assets to obtain credit.
- Capacity building for developing economies in expanding individuals' literacy on and access to savings, insurance and pensions, and laying down the foundations of inclusive alternative payment channels.
- Encourage developing economies to undertake reforms to expand access of rural and low-income consumers and micro-enterprises to savings, insurance and pensions to widen the reach of financial services. This would support poverty alleviation by benefitting underserved groups such as the poor, women, youth, persons with disabilities, and population in rural and remote areas. Among other measures, we suggest:
  - Opening of savings accounts can be promoted through digitization of government-to-person (G2P) and person-to-government (P2G) payments, promoting e-commerce in rural areas, enabling tiered know your customer (KYC) compliance and e-KYC to simplify account opening procedures, and support for product and channel innovations.
  - Access to insurance can be improved by exposing regulators to international best practice in regional platforms for regulators and establishing mechanisms for inter-agency and public-private collaboration.

- Governments can promote access to pensions through educational programs, facilitating the use of digital KYC and robo-advisors, and promoting awareness among public sector stakeholders on the important role of pension funds in the economy.

- Encourage developing economies to lay down the foundations of inclusive alternative payment channels. These include digital IDs and interoperable digital consumer IDs, responsible digital financial practices to protect consumers and data, a whole-of-government, cross-jurisdictional and multi-stakeholder approach to digital financial sector deployment, and common digital financial service indicators for measurement and program tracking.

## **B. Accelerating regional financial integration**

Regional financial integration is critical to overcoming the challenges arising from our region's fragmented markets, including the lack of scale, depth and liquidity, high transaction costs and limited opportunities for domestic investors and borrowers, especially in developing economies. Integration can be accelerated by leveraging progress in other regional initiatives involving APEC member economies to deepen cross-border financial linkages and share best practices across the region. Private sector platforms, including the Asia-Pacific Financial Forum (APFF), can provide the bridge to create synergies between APEC and these initiatives, particularly in regionally integrating markets for local currency bonds, fund management products and insurance-linked securities, as well as creating regionally interoperable real-time payment channels.

APEC can advance regional financial integration by building on what has already been accomplished to support further progress and creating linkages among member economies across the Pacific. Such linkages can be created and expanded through measures to facilitate cross-border investment and issuance in local currency bond markets in East and Southeast Asia and sharing the experience to encourage similar initiatives in the Pacific Alliance, the development of a catastrophe bond market in Asia following the issuance of the Pacific Alliance catastrophe bond, promoting interoperability between the Asia Region Funds Passport (ARFP) and the Pacific Alliance funds passport, and development of interoperable real-time payments infrastructure.

## Recommendations

- Further accelerate cross-border investment and issuance in local currency bond markets in East and Southeast Asia and sharing these experiences with Latin American economies to encourage similar initiatives.
- Promote interoperability of funds passports in the region, starting with the Asia Region Funds Passport and the Pacific Alliance funds passport, and identify the modality for achieving this goal.
- Work with multilateral organizations to catalyze the development of an Asia-Pacific catastrophe bond market, through the issuance of catastrophe bonds for developing Asian member economies starting in 2020, learning from the experience of the Pacific Alliance catastrophe bond.
- Develop a robust and regionally interoperable real-time payments infrastructure based on international standards.

## VI. Building sustainable communities through social innovation and green growth

Sustainable development cannot be achieved without transforming the way we use our natural resources and build and manage our urban spaces. ABAC's work plan this year is aimed at identifying best practices in the natural resources sector, with particular focus on food and the extractive industries, and developing recommendations to mitigate climate change and address the challenges posed by rapid urbanization.

### A. Improving energy efficiency and advancing a circular economy

Considering the target and existing state of low-carbon development in the Asia-Pacific region and the world at large, improvement of resource use efficiency and accessibility is extremely urgent. Energy waste nowadays is still common and severe in the Asia-Pacific and the world. Many resources are inefficiently used, given inadequate efforts in reducing inputs, recycling outputs, and shouldering responsibility. The task of more efficient use of energy and other resources remains

daunting and therefore requires improving energy efficiency through technological and policy innovation, and advancing a circular economy.

A circular economy aims at ensuring the most effective primary use of resources and reducing generation of waste and energy consumption through the production-use-recycle-reuse approach. It offers economic, social, and environmental benefits through reduced demand for natural resources, reduced emissions, job creation and fostering innovation. A circular economy should develop in synergy with green and low-carbon economies, and they should complement each other.

Adoption of circular economy practices around the world is estimated to provide more than US\$ 1 trillion in material cost savings by 2025. For major consumer goods sectors, savings on material resources could reach upwards of \$706 billion annually. With the Asia-Pacific region accounting for over 60% of world share of fast-moving consumer goods sectors, the benefits of the adoption of circular economy practices would have a significant positive effect on the region's economic development.

Environmentally, circular models have the potential to significantly reduce emissions from landfills and efficiently manage waste and wastewater.

Aside from the material resource savings, a circular economy can generate both skilled and un-skilled jobs. A global study estimates that in just three to four material flows, a circular economy transition alone can deliver at least 100,000 new jobs.

The transition to a circular economy faces many challenges as well. These include a lack of infrastructure (e.g. recycling capacity), trade barriers, the lack of common metrics/reporting efforts, lack of resources to understand and implement, and the complexity and interconnectedness of value chains.

## Recommendations

- Improve energy efficiency through technological and policy innovation.
- Work to advance a circular economy.

- Consider incentives to move towards a circular economy.
- Eliminate policy and industry barriers that hinder the improvement of energy efficiency and development of smart energy.
- Advance the specialization of energy efficiency management. Promote informatization and the development of Energy Internet, Energy Big Data. Collect information/data about energy-intensive factories, service buildings and other infrastructure, and formulate higher energy efficiency standards and requirements that cover entire industrial supply chains.
- Encourage more capital, expertise and other key production elements to be allocated to the development of smart energy and technological innovation in the field of energy use.
- Bolster current efforts to transition to a circular economy by undertaking work in the following areas:
  - Adoption of common definitions and metrics for materials traded in support of a circular economy;
  - Identification of key trade barriers impeding circular economy cross-border trade (refurbished products);
  - Sharing of best practices in the development of interoperable product regulations (design, end-of-life, re-use); and
  - Assessment of capacity building needs, i.e. infrastructure.

## **B. Tackling climate change**

Climate change is a real and present challenge for the entire planet, as evidenced by rising global temperatures, sea levels and the incidence of extreme weather events, to name a few. The APEC region is experiencing increasingly severe weather patterns and natural disasters including droughts and flooding,

leading to the detrimental loss of human life, and significant damage to businesses (production, supply chain, transport and logistics) and to infrastructure in the region, thereby undermining our ability to achieve sustainable and inclusive growth. APEC economies collectively generate almost 62% of global carbon dioxide output and over 55% of total greenhouse gas emissions. Failure to develop climate change mitigation and adaptation strategies and inadequate support will result in more serious repercussions for the business sector. This presents an opportunity for economies to work collaboratively on pressing issues and to explore and develop innovative technological solutions which will enable the region to transition towards a low-carbon economy. Thus, due support should be given as outlined in the recommendations below.

### **Recommendations**

- Intensify efforts towards achieving the goals of: (i) doubling the share of renewables in the APEC energy mix by 2030; (ii) reducing 45% of energy intensity by 2035, as ascertained by APEC Energy Ministers; and (iii) increase the use of transitional fuels such as natural gas and its liquefied form (LNG) in the energy mix in order to meet the global goal of reducing greenhouse gas emissions, as defined by the Paris Climate Agreement.
- Encourage research and development efforts to provide better low-carbon options for domestic and global economies, and implement policies that will spur innovative solutions to climate change.
- Reduce greenhouse gas emissions by developing and implementing policies, most notably carbon pricing and voluntary measures, as key elements of these policies; freeing up trade flows of energy-efficient, low-carbon goods and environmental goods and services; and phasing out inefficient fossil fuel subsidies.
- Stimulate demand for goods with high energy efficiency and low-carbon footprints, especially energy intensive products.
- Share relevant domestic policies and best practices.

- Recognize the possible contribution of information technology (IT)-based total management, such as Demand Response (DR), Virtual Power Plant (VPP), among others.

### C. Addressing environmentally-harmful subsidies

Achieving ABAC and APEC goals of sustainable and inclusive growth, the transition to a low-carbon economy and durable food security will take concerted and sustained efforts on many fronts. Those efforts can be undermined, however, by the continued use of environmentally-harmful subsidies affecting agriculture, fisheries and fossil fuels, among other sectors. These subsidies have negative environmental impacts, work against the transition to more sustainable business models, discourage energy efficiency (in the case of inefficient fossil fuel subsidies), encourage unsustainable production (for both agriculture and fisheries), create unfair competition, in some cases failing to help the poorest consumers, even where that may be the policy intent, and undermine both food and energy security.

A number of APEC economies and other WTO members have advocated for reforms to the existing WTO rules to address these types of subsidies. APEC economies have the opportunity to show leadership in this area by demonstrating their commitment to the reform and eventual elimination of such subsidies. A strong affirmation of this commitment would be provided through agreement to an immediate standstill in the use of environmentally-harmful subsidies. Such a position would support and strengthen our shared goals of sustainable and inclusive growth, including a transition to a low-carbon economy, underpinned by durable food and energy security.

#### Recommendation

- Show leadership on environmentally-harmful subsidies in the WTO and in the APEC region, and work to phase out such subsidies, including those affecting agriculture, fisheries and inefficient fossil fuel use.

### D. Promoting food security

Promoting food security, including ensuring access to safe, sufficient and nutritious food supplies, and fostering a sustainable food system, remain critical concerns for all APEC economies. These concerns are increasingly pressing as we face significant population growth, rapid urbanization, growing competition for natural resources, technological change, volatile markets and climate change and other environmental challenges.

Increasing yields and productivity without jeopardizing the environment, including but not limited to the use of innovation and technology as well as the reduction or elimination of distorting subsidies that encourage unsustainable production, will contribute to food security. Innovation and technology could efficiently connect farm and market by popularizing mobile internet to accelerate the modern agriculture process and smart agriculture in the food value chain. Well-functioning agriculture and food trade will also help to improve food security, by better matching supply with demand and increasing food accessibility and availability.

#### Recommendations

- Use technology and innovation to increase yields and productivity and efficiently connect farms and markets through mobile internet to accelerate the modern agriculture process.
- Apply innovative information and communication technology to construct rural mobile internet infrastructure, provide incentives and other forms of policy support to telecom operators.
- Promote public-private partnerships and encourage internet companies to assist in the development of consultation, training and sharing platforms for the agricultural sector.
- Promote smart agriculture in the food value chain, including in order to reduce food loss and waste.
- Explore the potential contributions that IT-based total food supply chain management can provide.

- Further liberalize food trade in the region, including through reducing or eliminating tariffs and non-tariff barriers to food trade and the services that support this.

#### **E. Promoting Smart Cities**

Rapid urbanization has accompanied the growth of the global population. By 2050, more than 6 billion people will live in urban areas. Urban centers account for around 70% of both global energy consumption and greenhouse gas emissions. Consequently, innovation in urban infrastructure and technology, namely Smart Cities, can play a key role in addressing energy and environmental concerns. Cities around the world face common challenges. Rapid urbanization has given rise to a host of problems including in the areas of mobility, logistics, healthcare, safety, disaster prevention, aging infrastructure and industrial development. ABAC recognizes the benefits of ICT for Smart Cities and smooth data flow within and across cities. A Data-Centric Smart City supported by emerging technologies like 5G, cloud computing, big data, artificial intelligence (AI), virtual reality (VR) and advanced materials and Smart cities+ that cover public services, smart airports, public safety, environmental protection, and healthcare, can help achieve free flow of data, encompassing sustainable urban management, ecosystem composition, and enhanced engagement with citizens.

#### **Recommendations**

- Promote the development of Smart Cities to address energy and environmental concerns and problems arising from rapid urbanization.
- Recognize the benefits of smooth data flow within and across cities, namely 'Data-Centric Smart City'.
- Recognize the benefits of open ecosystem to encourage the wide use of best practices in the region.
- Evaluate different practices used by APEC economies and share the findings.

- Set up a domestic strategy and encourage new technology development and social adoption.

- Share best practices around the APEC region and encourage mechanisms for dialogue and information sharing.

- Recognize the importance of consistent and interoperable frameworks to manage security risks.

### **III. Conclusion**

There are significant challenges confronting the APEC region, key among which are the trade tensions and rise in protectionism, mitigating climate change and its economic impact, and how to prepare and take advantage of the opportunities offered by the digital economy while promoting inclusion. In addressing these challenges, APEC must stay true to its mission of "build[ing] a dynamic and harmonious Asia-Pacific community by championing free and open trade and investment, promoting and accelerating regional economic integration, encouraging economic and technical cooperation, enhancing human security, and facilitating a favorable and sustainable business environment."

This year, APEC is celebrating the 30th anniversary of its founding. The challenge is for APEC to remain relevant as it moves into its fourth decade and beyond.

### **The World Trade Organization (WTO): Fundamental to sustained prosperity and inclusive growth**

The WTO and its predecessor, the General Agreement on Tariffs and Trade (GATT), have created and sustained a system of multilateral trade rules which have helped to generate over 70 years of global prosperity, and created dynamic opportunities for businesses, communities and economies, including developing economies. WTO rules enable businesses to operate with greater confidence and at lower cost in world markets by reducing protectionist barriers and behind-the-border distortions. Enforcement of trade rules through binding dispute settlement has to a large extent provided crucial certainty for business planning, operations and investment. The WTO has also fostered trade and economic growth, created jobs and helped alleviate poverty around the world.

The benefits that the WTO system offers derive from both its authority and its efficacy. Any weakening of this system is a matter of significant concern. Business and investor confidence are reduced if market access is unpredictable, if WTO commitments are not met, if markets are volatile and if value chains are disrupted. The prospect of a world in which trade disputes are not settled through independent, rules-based arbitration would be deeply troubling. Such actions heighten uncertainty, drive businesses towards less inclusive and resilient models, and lower the propensity for businesses to provide good jobs.

That said, the Asia-Pacific business community recognizes that the current WTO system, derived from its predecessor, the GATT, and now over 70 years old, has not kept pace with the rapidly-changing global economy. Aspects of its judicial, rule-making and administrative functions need reform, including the following:

- We urge economies to expeditiously address the impasse in the process of appointing members of the Appellate Body. A full set of Appellate Body members is needed by December 2019 for the WTO dispute settlement mechanism to operate effectively. ABAC welcomes the discussions underway among members on reforms to ensure that the dispute settlement system works effectively;
- Unfinished business from the Doha Round should be addressed through resumed negotiations on agriculture, services and rules elements;
- WTO members should respect obligations related to transparency in policies and practices, and should be promptly held accountable for a sustained pattern of non-compliance;
- Business welcomes WTO initiatives that would better reflect 21st-century economic models and business concerns in WTO rules, including the WTO negotiation on trade-related aspects of e-commerce; ABAC has undertaken extensive work on supply chain connectivity and digital economy issues which may offer useful inputs to this process;
- WTO members should develop mechanisms to identify and address non-tariff barriers more promptly and effectively, drawing on ABAC's WTO-consistent Cross-Cutting Principles on Non-Tariff Measures (NTMs) / Non-Tariff Barriers (NTBs);
- Finally, plurilateral WTO negotiations must be open to all members willing to move ahead to more ambitious or new rules in specific areas, must be consistent with WTO principles and should be undertaken with a view to serving as building blocks to consensus multilateral outcomes in the future.

The APEC Business Advisory Council (ABAC) urges APEC economies to engage constructively to support and reform the WTO, including to reflect evolving business needs and models. ABAC is absolutely determined that our shared commitment with APEC economies to improve the WTO will lead to an institution that is relevant for all.

APEC Business Advisory Council  
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