I. Introduction

Nearly a decade since the global financial crisis of 2007-2008, global economic recovery remains fragile, with global growth projected to be a modest 3.2 percent in 2016, albeit strengthening in 2017. The International Monetary Fund (IMF) notes a renewed episode of global asset market volatility, some loss of growth momentum in advanced economies and continuing headwinds for emerging economies and lower income economies. Significant downside risks remain, notably the return of financial turmoil; persistent slow growth, which may reduce potential output, consumption and investment; and developments such as growing income inequality and structural shifts, all of which could trigger protectionist policies.

ABAC believes that at this fragile time for the global economy, APEC’s vision can only be attained by expanding trade and investment liberalization. Further, ABAC believes that APEC should give renewed attention to structural economic reform which promotes good governance and sound regulation and incentivizes further the growth of services and innovation in the region. This will also help economies in the region achieve quality growth and improve social stability.

ABAC’s 2016 theme is therefore “Quality Growth and Human Development”, the work program of which is focused on the following priorities:

- Consolidating progress towards the Free Trade Area of the Asia-Pacific (FTAAP)
- Facilitating micro, small and medium enterprises (MSME) development through access to global markets and new technologies
- Promoting economic growth, diversification and sustainability
- Strengthening the rule of law and economic and social sustainability

This report sets out practical steps APEC economies can take to achieve the above objectives and address current challenges facing economies in the region. Our recommendations are organized according to the five working groups set up this year to carry forward the ABAC 2016 work program.

II. Regional Economic Integration

Integrating the region and ensuring that goods, services and people move easily across borders is at the core of APEC’s work. Over the years, APEC has achieved notable progress toward greater trade facilitation through aligning regulations across the region in some sectors; creating faster customs procedures at borders to promote the movement of goods and people; and engendering more favorable business climates. This year, ABAC has sought to provide advice aimed at taking the Asia-Pacific region to the next level of economic integration by focusing on the following key areas: supporting the World Trade Organization (WTO) and countering protectionism; strengthening building blocks for the FTAAP; supporting the services agenda; and accelerating trade and investment liberalization and facilitation.

A. Supporting the multilateral trading system

ABAC reaffirms its fundamental commitment to the WTO, acknowledging the primacy of the multilateral trading system and its vital role in promoting economic growth, job creation and sustainable development. ABAC recognizes that a rules-based, transparent and non-discriminatory global trading system remains the best way to counter protectionism in all its guises.

ABAC urges APEC members to make every effort to ratify and implement recent WTO agreements and decisions. In particular, while welcoming the outcomes agreed at the WTO’s 9th Ministerial Conference in December 2013 and 10th Ministerial Conference in December 2015, ABAC remains frustrated at the slow progress made in bringing the Trade Facilitation Agreement (TFA) into effect. This Agreement will contribute to global economic development and the expansion of trade by reducing costs and increasing the efficiency of flows of goods and services across borders, and should be brought into effect as soon as possible. Likewise, ABAC encourages APEC economies to take the steps necessary to implement the expanded Information Technology Agreement (ITA), recognizing the core role that the information and communication technology (ICT) sector plays in promoting innovation, fostering global value chains (GVCs) and creating
jobs in both developed and developing economies. We also call on APEC economies to broaden participation in and conclude negotiations on the Environmental Goods Agreement (EGA) as soon as possible. This will facilitate economies’ access to quality environmental goods at lower costs. The liberalization of trade in environmental goods can also be beneficial for development by assisting developing economies in obtaining the tools needed to address key environmental priorities as part of their ongoing development strategies.

Recognizing the growing importance of services trade to economic growth and job creation, including by fostering global value chains, ABAC urges those APEC economies participating in the negotiations for a new plurilateral Trade in Services Agreement (TiSA) to seek broad and meaningful progress and the ambitious and timely conclusion of the negotiations, in a way that complements and supports efforts towards global liberalization under the WTO.

Finally, while acknowledging the centrality of the WTO, ABAC recognizes that bilateral, regional and plurilateral trade agreements such as the Trans Pacific Partnership agreement (TPP), Pacific Alliance (PA), and those still under negotiation including the Regional Comprehensive Economic Partnership (RCEP), can complement and support efforts towards freeing up trade around the world. Care must be taken to ensure that such agreements genuinely complement and support eventual efforts towards global liberalization under the WTO.

**Recommendations:**

- Demonstrate leadership in global trade by taking the necessary steps to bring the TFA and the expanded ITA into force as quickly as possible.
- Support plurilateral efforts to liberalize trade, including the TiSA negotiations for the further liberalization of trade in services and the EGA negotiations, in a way that complements and supports efforts towards global liberalization under the WTO.

**B. Enabling an FTAAP**

1. **Concluding pathways towards an FTAAP**

APEC Leaders have agreed that eventual realization of FTAAP should be achieved by building on ongoing regional undertakings and be an ambitious, high-quality and comprehensive agreement that incorporates and addresses next generation trade and investment issues.

We are pleased that the TPP was signed by its Ministers on 4 February 2016, as it represents one of the concrete pathways towards realizing an FTAAP. As indicated in the ABAC FTAAP Study, the TPP agreement addresses both next generation issues and traditional issues covered in preferential free trade agreements (FTAs). At the same time, the TPP recognizes its members’ different levels of development and diversity by establishing close cooperation, capacity building initiatives, and mechanisms to set forth new obligations. We urge the participating economies to promptly ratify the TPP. We are also hopeful for a successful conclusion to the RCEP negotiations. Together with the PA, the TPP and RCEP represent pathways to a future FTAAP.

We have noted that the TPP is attempting to address new issues such as access by small and medium-sized enterprises, e-commerce and the digital economy, regulatory coherence, transparency and anti-corruption, labor, environment and competitiveness, among others. Given that all of these issues are essential to conducting business in an innovative environment, ABAC strongly urges the participating economies to ratify and implement this ambitious, high-quality, and comprehensive agreement at the earliest possible opportunity.

**Recommendations:**

- Encourage parties to ratify the TPP at the earliest opportunity and to conclude negotiations for RCEP with a high level of ambition. We further urge all regional undertakings to remain open, transparent
and potentially accessible to all and to complement each other so as to contribute to trade and investment liberalization and facilitation in the region and the eventual realization of the FTAAP.

- Intensify implementation of the Beijing Roadmap for APEC’s Contribution to the Realization of the FTAAP, in particular by enhancing transparency and implementing tailor-made capacity building through the APEC Information Sharing Mechanism and the second phase of the APEC Capacity Building Needs Initiative.

2. Shaping and realizing the FTAAP

ABAC has long encouraged APEC to incubate an FTAAP and ensure that its development is forward-looking and relevant to business over the long term.

ABAC recognizes that there are great opportunities in the Asia-Pacific’s integrated but remarkably diverse market. It is true that due to the diverse economies, levels of development, capacity, and even the interests of APEC economies, the global economic slowdown may have prompted domestic measures to keep the ambitious objectives of an FTAAP in check. However, ABAC strongly believes that the current status of the world economy makes it all the more important for our economies to take concrete steps forward. Realizing the FTAAP pathways as soon as possible promises to expedite the region’s economic recovery and contribute to its future prosperity.

To support APEC’s desire to take meaningful steps towards an FTAAP, last year we submitted our contribution to the FTAAP Study and comments from the business sector on the APEC Officials’ draft Collective Strategic Study. We concluded that the FTAAP Study should be more forward-looking in incorporating business priorities, and more importantly, an FTAAP should converge beyond the levels of its pathways aiming to be a high-quality agreement.

Business requires an ambitious, high-quality and comprehensive FTAAP that accommodates change in the modern and innovative business environment. FTAAP should be a “living” agreement that addresses next generation issues, and encourages consultation with the private sector. In addition, it should remain open to new members in the longer term, take into account the different stages of development of APEC member economies and be accessible to all.

ABAC anticipates that after the completion of the FTAAP study, APEC is well-positioned to move to the next stage of the eventual realization of FTAAP. Ambitious targets, clear timetable and concrete actions to take are essential to ensure the direction and momentum of the FTAAP process.

Recommendations:

- Ensure that an FTAAP converge beyond the levels of its pathways and aim to be the high-quality agreement incorporating as many merits of the pathways that will bring substantial benefits to businesses from all member economies. Accelerate the momentum towards an eventual FTAAP by identifying concrete actions and a future timetable to launch an FTAAP.

- Ensure that an FTAAP is designed for periodic review to continue as a “living” FTAAP.

- Engage in capacity building initiatives to promote mutual understanding of next generation trade and investment issues. Such engagement should be effective in ensuring that the process of regional economic integration remains responsive to the changing business environment.

C. Pursuing the new services agenda

ABAC recognizes that services trade and investment are critical to the future growth of all APEC economies. Today, the services sector can no longer be seen in isolation. Services are needed to support many activities ranging from manufacturing, financial and social services and
government. Services are increasingly embedded in manufacturing value chains. Further, services facilitation also offers MSMEs greater access to global markets, thereby benefitting companies of all sizes.

ABAC regards the APEC Services Competitiveness Roadmap as a key means to advance the services agenda regionally. The Roadmap will pave the way for a more transparent and efficient regulatory environment for services, and create more economic growth opportunities for APEC economies. ABAC also recognizes the importance of structural reform in the services sector, and supports the inclusion of structural reform in the Roadmap. ABAC also supports ongoing work within APEC to extend and promote the Services Trade Access Requirements (STAR) database that will promote greater transparency of services regulation in APEC economies. Finally, ABAC welcomes and supports the establishment of the Asia-Pacific Coalition of Services Organizations to promote stronger advocacy for services industries. ABAC will continue to organize Public-Private Dialogues on Services to facilitate the development of the sector.

Recommendations:

- Make progress toward the development and finalization of the APEC Services Competitiveness Roadmap as the region's long-term strategy for services trade and investment liberalization. The Roadmap should take into account private sector concerns and recommendations, include interim targets with measurable goals, and place early priority on work on “backbone services” such as financial services, ICT, telecommunication services, transportation and logistics, education and health care.

- Recognize the importance of structural reform for the services sector in the Roadmap; and in complement to that high-level goal, put in place a system of benchmarking APEC economies’ services regulatory environments early. This will promote greater transparency of rules and “good governance” provisions in domestic regulations, and enable better clarity on how well individual economies and APEC as a region are addressing issues. With the benchmarking put in place early, APEC can make guided adjustments to its policies and initiatives to facilitate a more adaptive APEC Services Competitiveness Roadmap.

- Push strongly to jointly address barriers that inhibit “backbone” services industries that support other major economic and social development activities, in order to unleash the maximum benefit attainable from reform of these sectors.

- Recognize how technology is changing business models and how companies deliver services, so that APEC can make the necessary changes to its policies and initiatives to facilitate innovation, growth and new opportunities.

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

D. Accelerating trade and investment liberalization and facilitation

1. Addressing non-tariff barriers

While tariffs and other barriers at the border have been progressively lowered in many economies, non-tariff barriers (NTBs) are increasingly evident around the world. Even where such measures may not be intended to target cross-border activity, NTBs can distort trade flows including the smooth functioning of global value chains; add costs, including for consumers; inhibit investment; and are a source of continued frustration and concern to business. NTBs can be particularly burdensome for MSMEs. Accordingly, APEC economies should seek to foster the most open, predictable and transparent conditions possible for trade including in the development of non-tariff measures, while still meeting legitimate objectives in the domestic regulatory sphere.

NTBs can be difficult to identify, and their impacts subtle and challenging to measure. Recognizing this, APEC economies should seek to examine, and where necessary, establish
disciplines governing significant NTBs so that they have the least trade-distorting impact. Business can offer important insights into this work, and should be engaged and empowered to take the lead in identifying and developing approaches to address significant NTBs that make accessing markets more difficult. ABAC urges APEC to take account of the following principles:

- The processes to develop non-tariff measures should be transparent, consultative (including with business), timely, coherent, and non-discriminatory; and information about non-tariff measures should be readily available.
- Non-tariff measures should be based, as appropriate, on sound science or evidence, or closely aligned with international norms.
- Non-tariff measures should not discriminate against imported goods or services.
- Non-tariff measures should be the least trade-restrictive measure necessary to meet a legitimate objective, and should focus on outcomes rather than prescriptive approaches.

APEC economies should also seek to address NTBs, where possible, in negotiating trade agreements and arrangements.

Recommendations:

- Provide opportunities involving the private sector to discuss ways in which the impact of NTBs can be mitigated as far as possible while still allowing economies to achieve legitimate domestic objectives, taking note of a principled approach to NTBs.
- Provide leadership and support for high-quality multilateral, bilateral and regional trade agreements that seek to minimize the range of potential barriers at and behind the border, increase the level of utilization of those agreements by businesses, and ensure coherence and complementarity of multilateral and regional initiatives.

2. Facilitating investment flows

Recognizing the critical role of foreign direct investment (FDI) to continuing growth in the region, ABAC established the Regional Investment Analytical Group (RIAG) to collaborate with experts from multilateral organizations, officials and academia. RIAG aims to develop a cohesive investment framework through analysis of various stages of the FDI cycle. With the development of technology and available data, RIAG is identifying and applying potential measures of FDI for each stage of investment cycles to assist regional policy makers.

ABAC endorses this important and illuminating work and commends to all APEC economies RIAG’s case studies, recently presented to the APEC Investment Experts Group, in respect of Chile, Peru and Viet Nam.

Recommendation:

- Encourage all APEC economies to note RIAG’s continuing work and its contribution to enhancing FDI flows in the region and developing a cohesive investment framework in support of APEC’s Investment Facilitation Action Plan.

3. Enhancing trade facilitation through Authorized Economic Operators

Despite the significant drop in oil prices that began in July 2014, APEC has been endeavoring to maintain its growth through reduced trade costs. According to the APEC Policy Support Unit (PSU) Study of APEC Best Practices in Authorized Economic Operator (AEO) Programs, APEC trade costs in 2014 were significantly lower than they were in 2010. One reason for this is the AEO scheme that has been adopted by an increasing number of APEC economies, along with Mutual Recognition Agreements (MRAs).

APEC member economies are also working on ratification and implementation of the WTO Trade Facilitation Agreement, which includes a provision on Authorized Operators (Article 7, Section 7), in line with the APEC AEO Action Plan, to increase the number and capacity of participants within the region.
It is expected that the TFA will result in substantial cost reductions for traders and improve customs and border management.

The Boracay Action Agenda adopted last year also promoted widening the base of the AEO scheme to include MSMEs. ABAC is pleased by the steady efforts that APEC is making to implement the measures outlined in its Action Plan and Agenda.

We also welcome the APEC PSU Study which tabled nine recommendations in relation to concerns and best practices. Of particular interest to ABAC are the numerous examples of private sector skepticism about the benefits of the program. Some of the most common complaints were that the AEO program only provides customs authorities with additional opportunities for inspections, that there is little or no return on investment for participating in the program, especially for MSMEs, and that the benefits of joining the program are not worthwhile and do not offset the costs involved.

**Recommendations:**

- Consider and respond to the recommendations on “Stakeholder Involvement and Benefits” in the PSU Study of APEC Best Practices in Authorized Economic Operator Programs.

- Take immediate steps to comply with the following recommendations which reflect business priorities:
  
  - Conduct private sector satisfaction and inclusion surveys
  - Compile MRA processes in the APEC region and design an APEC AEO MRA checklist
  - Consider development of an APEC-wide automated electronic data exchange system and compatible trade identification number systems
  - Conduct an impact evaluation quantifying the trade benefits of MRAs

**III. MSME and Entrepreneurship**

The modernization of MSMEs and their integration into global value chains is of key importance for APEC economies as these enterprises are the most important source of employment for their populations. However, often times these enterprises are not well integrated into the global economy due to their lack of knowledge, financial resources, access to distribution networks, or innovation.

ABAC has prioritized the following six areas in 2016 as crucial factors to enhance APEC MSMEs’ access to global markets: facilitating MSME access to international markets and global value chains; promoting innovation in MSMEs; building collaboration mechanisms between large firms and MSMEs; expanding access to finance; enhancing women’s economic empowerment; and strengthening business ethics for MSMEs.

**A. Facilitating MSME access to international markets and global value chains**

E-commerce is revolutionizing the way business is transacted across borders because it enables enterprises, businesses, and in particular MSMEs, to bypass the traditional intermediaries to reach clients beyond their conventional footprint. An APEC-wide study conducted by ABAC with the University of Southern California (USC) Marshall School of Business in 2015 cited that the single most critical limiting factor was the lack of readiness and capability of MSMEs to engage in e-commerce. Problems of awareness, technical ability, access to talent and financing all limit the potential of MSMEs to adopt e-commerce, especially in developing economies.

**Recommendations:**

- Develop a stronger APEC agenda incorporating these key enablers for MSMEs to engage in cross-border e-commerce: extensive and reliable ICT infrastructures; widespread and low-cost Internet access; business-friendly regulations and legislation; encourage the existence of e-commerce intermediaries to lower barriers to entry for MSMEs; and access to e-payment facilities.
- Intensify capacity building efforts to enable MSMEs to be e-commerce ready especially through hands-on e-commerce training programs similar to the APEC Cross-Border E-Commerce Training (CBET) developed by ABAC to increase the capacity of MSME to expand markets beyond their borders, and through the APEC CBET Network established to improve the scalability of the CBET program.

- Tap on ABAC’s MSME-related initiatives, including mapping of Incubators and Accelerators across APEC economies; Cross-Border E-Commerce Training; APEC CBET Network; ABAC Digital Economy Work Plan; and our efforts in enhancing women’s economic empowerment, which can help complement APEC’s work in furthering MSME access to the global markets.

B. Promoting innovation in MSMEs

An ecosystem that supports enterprise creation and increases innovation capabilities of MSMEs is needed to allow MSMEs to penetrate global markets and global value chains. Partnerships and networking among innovation systems and MSME knowledge centers, including those involving large and small businesses, the academe, and the public sector needs to be supported as part of a strategy that promotes innovation in more effective ways. The Asia-Pacific Open Innovation Platform (AP-OIP), a voluntary initiative supported by ABAC, is one such model to assist MSMEs to bring new ideas to the market and promote cross-border collaboration.

To address the existing information gap and assist MSMEs and investors to collaborate and connect with each other, ABAC initiated the APEC Innovation Center Mapping Initiative which aims to provide a comprehensive and up-to-date interactive portal mapping incubators and accelerators across all APEC economies. The portal would provide solutions for startups, entrepreneurs, and MSMEs in emerging APEC economies to access innovation resources and promote the cross-fertilization of ideas among startups in the APEC region.

C. Building collaboration mechanisms between large firms and MSMEs

The evolution of global value chains has altered the way large corporations do business with MSMEs and offers great prospects in terms of job creation, competitiveness and economic prosperity. Such linkages between MSMEs and large corporations in the GVC draw out the full potential of MSMEs as partners in providing goods and services as well as creators of innovation, by facilitating transfer and upgrading of skills, knowledge and technology.

ABAC recognizes the need to strengthen MSME participation in local supply chains and GVCs by boosting collaboration mechanisms between large corporations and small businesses. To ensure their continued growth, it is crucial to identify and address challenges that hinder the development of these types of partnerships. Knowledge inputs and policy measures, based on careful analysis of behind the border, at the border and across the borders issues pertinent to the internationalization of MSMEs are key to addressing these. ABAC’s continuing study with the Asian Institute of Management documents best practices of big businesses that enable MSMEs to access the global value chain and seeks to identify policy recommendations to address the challenges that hinder the growth of these types of partnerships.

Recommendations:

- Institutionalize and incentivize inclusive business models that promote MSME participation in global value chains to strengthen the role of MSMEs in generating growth that is balanced, inclusive, sustainable, innovative and secure.

- Adopt policies that address obstacles to partnerships between MSMEs and large enterprises, which include difficult or high cost of doing business, high market competition, government red tape and corruption, lack of technological capacity, lack of human resources with adequate skills and knowledge, among others.
Establish a consultative and collaborative mechanism through the SME Innovation Centers in APEC for government and private sector representatives to develop conducive ecosystems to strengthen linkages between large firms and MSMEs.

Enhance talent and innovation capacity by developing capacity building programs, tools and packages on financing, ICT and supply chain integration to enable MSMEs to strengthen linkages with large firms.

Form exchange platforms such as trade fairs, conferences, fora, advisory centers or online platforms to bridge information gaps between multinational corporations and MSMEs.

D. Expanding MSMEs’ access to finance

ABAC is also undertaking work on MSME finance which is discussed in the Finance section of this report.

E. Enhancing women’s economic empowerment

“Quality Growth and Human Development” cannot happen without expanding the social and economic prospects for women. A 2015 McKinsey report estimates improving gender equity would increase world gross domestic product (GDP) by $12 trillion USD by 2025. Barriers to women’s full participation in the economy include inadequate skills training, restricted access to capital, unfavorable institutional frameworks that inhibit ownership of land and legal recourse. Cultural and social norms that obligate women to manage disproportionate household and family care duties also restrict their ability to participate in economically rewarding activities.

ABAC applauds a data-driven approach to policy development. The creation of the Women and the Economy Dashboard provides metrics that highlight policy gaps and opportunities for improvement.

One gap identified by the Dashboard is in Science, Technology, Engineering and Mathematics (STEM) opportunities for women and girls. ABAC is working to champion a STEM challenge in 2016 and the adoption of other new disruptive technologies with a gender lens. We are encouraged by the organization of the APEC Policy Partnership on Women and the Economy STEM Camp for Girls and we hope other economies will use this camp as a model to encourage young women to pursue an education and career in the STEM field.

ABAC strongly supports the APEC Healthy Women, Healthy Economies (HWHE) initiative and urges implementation of recommendations in a Policy Toolkit developed on a public-private basis to address health-related barriers to women’s participation in the workforce.

Recommendations:

- Intensify efforts to reduce barriers that disproportionately impact women-owned MSMEs so that they can access and benefit from the opportunities created by international trade.

- Utilize the 80 various data points in the Women and the Economy Dashboard to identify gaps and best practices.

- Explore mechanisms that encourage family-friendly work environments, including family leave and increased childcare options.

- Establish a public-private steering group to support ongoing implementation of the HWHE Toolkit’s recommendations and pledge to share the outcomes of the August workshop within our respective economies and champion their implementation.

F. Strengthening Business Ethics for MSMEs

ABAC continues to support the Business Ethics for APEC MSMEs initiative, which has grown to serve as the region’s largest collective action to strengthen ethical business practices. We welcome APEC economies achieving the Nanjing Declaration’s goal to double the number of industry association codes of ethics in just three years, expanding high-standard ethical business practices to more than 19,000 enterprises – including 34 new codes across ten economies. We urge continued implementation of APEC principles for codes of ethics in target sectors, as well as the launch of multi-stakeholder ethical collaborations to strengthen the business environment by 2020.
IV. Sustainable Development

Since 1989, APEC’s 21 member economies have been working to improve prosperity in the Asia-Pacific by promoting trade and economic ties while addressing sustainability and social equity. To help achieve sustainable, eco-friendly and stable economic and social growth, ABAC has focused this year on developing recommendations aimed at: boosting food security and promoting the blue economy; achieving energy security and sustainability; promoting a healthy and productive workforce; and strengthening the rule of law.

A. Achieving food security

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

ABAC welcomed the establishment in 2011 of the APEC Policy Partnership on Food Security (PPFS), and continues to be a strong supporter of the Partnership and its work on advancing the priorities set out in the APEC Food Security Roadmap Towards 2020 and other commitments agreed in Beijing in 2014. A greater level of engagement by all Parties is needed to fully realize the potential of this partnership. ABAC urges a more energetic and effective participation in PPFS from all participants, including through a careful re-examination of its current structure and operation.

ABAC has also established the Asia-Pacific Food Industry Forum (AP-FIF) in order to enable the private sector to develop robust positions to share with both PPFS and with APEC Economic Leaders through ABAC’s good offices. The group has met four times in 2015 and 2016.

Food industry participants in AP-FIF are conscious that recent developments in food trade and markets pose risks for achieving durable food security in the region, and emphasize the following key messages:

- **Trade and investment liberalization matter.** Trade in food and related services play a critical role in food security. However, new trade restrictive measures continue to emerge, while ambitious trade-liberalizing agreements lag behind. We must continue to pursue the liberalization of trade and investment flows in the region.

- **Addressing non-tariff barriers is critical.** Many non-tariff measures (NTMs) are intended to meet legitimate objectives, but can be designed or applied in a way that is more trade-restrictive than necessary, and become NTBs. NTBs can impose significant burdens on business, disrupt trade flows and make food more expensive. ABAC has research underway to identify the most egregious NTBs and try to come up with practical solutions; the outcomes of this research deserve careful consideration.

- **Using new technologies (including biotechnologies) and “smart” farming are part of a process of positive disruption to traditional agriculture and food production, which can be used to increase yields, reduce chemical use, prevent waste, optimize logistics, enhance cost efficiency and broaden opportunities for producers to adopt more effective approaches to food production. Governments and industry need to be partners in improving the way new technologies are developed and used.**

- **Effective food regulatory systems can provide increased safety and quality assurance for consumers and prevent unnecessary delays in food trade.** Food safety should not be a commercial issue. Food traceability is an important part of this picture. The concepts of “equivalence” and regulatory coherence are key to avoiding the creation of trade complexity and non-tariff barriers to trade. The adoption of global data standards can help make complex supply chains operate faster, cheaper and with greater integrity.
We need better infrastructure – including road, rail, ports, cool chain and others – to grow production and trade while minimizing waste. APEC economies should be more open to outside investment in large infrastructure projects.

Addressing the sustainability of the food supply is an ongoing challenge. Consumers are demanding greater assurances that food is sustainably produced; for business, enhanced sustainability makes good business sense. There is an ongoing debate over definitions and approaches but an international consensus on principles would be valuable. The private sector can play an important leadership role here.

Food is mainstream business. Too often food is seen as a sectoral issue which is handled by specialist committees. Food needs to be considered along with other business issues with a direct link to sustainable and inclusive economic growth.

ABAC believes that smallholder farmers are a critical part of the agriculture sector in the Asia-Pacific. Their development is critical to the achievement of food security, rural development and farmer advancement. We stress that smallholder farmers face crucial challenges in addressing globalization, increasingly complex food supply and value chains, pressures on natural resources and the adverse effect of climate change. We support efforts that aim to enable small stakeholders to make substantial contributions to ensuring food security, poverty alleviation and the fulfillment of the 2030 Sustainable Development Goals, while not distorting production or trade.

Recommendations:

- Continue APEC’s focus on food issues and the priority it attaches to inclusive and equitable access to safe, nutritious and sustainably-produced food, while also recognizing that food is mainstream.

- Deepen the level of strategic engagement and dialogue with the private sector, to improve the understanding of the economic and commercial context for food, including making PPFS more accessible to the private sector drawing on advice of ABAC and AP-FIF.

- Improve opportunities for smallholder farmers that focus efforts on sustainably increasing productivity, and create policy environments that facilitate their integration into complex supply and value chains while not distorting production or trade.

- Resist protectionism in all its forms and eliminate trade-distorting policies in relation to food production and trade, noting the key messages on food security developed by AP-FIF, including in relation to the importance of trade and investment liberalization; the need to address non-tariff barriers to food trade; recognition of the valuable role that new technologies and smart farming can play; the centrality of the concepts of equivalence, regulatory coherence and end-to-end traceability in food safety; the need for enhanced and robust food infrastructure; and the critical need to address “sustainability” in food production and trade, and the leadership role that the private sector can play in this.

B. Accelerating green growth

To enable low-carbon economies, it is essential that APEC continues with research into a variety of energy sources that could serve as an alternative to fossil fuels. One example is hydrogen, a secondary source of energy that does not emit carbon dioxide (CO2) at use. When hydrogen is produced by renewable energy it is carbon-free. Once the relevant technology becomes viable, it will enable reducing CO2 emissions across the APEC region. As hydrogen can be produced using different methods from a diverse range of primary energy sources, it has the potential to diversify energy sources and make a real contribution to energy security within the region. ABAC encourages APEC to implement policies that will accelerate the use of renewable energy, and promote research and development and practical demonstrations in the field of hydrogen, as a promising energy source that ties in with energy measures for the future.

In addition, ABAC urges APEC economies to accelerate their efforts to reduce tariff rates on environmental goods to 5% or lower, as committed by APEC Economic Leaders, in an effort to break down barriers to trade in environmental goods and services (EGS).
ABAC supports the Paris Agreement as agreed in the twenty-first session of the Conference of the Parties (COP21) that sets the new climate agenda underpinned by the pledge and review system creating an environment for all economies to join in the pursuit to bring down greenhouse gas (GHG) emission. APEC should actively contribute to finding solution to the global warming problem and its negative impact. In order to achieve an overarching objective of the Paris Agreement endorsed by the world leaders holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels, APEC economies should initiate an intense discussion on possible ways to bring down GHG emission, create climate-resilient economy and secure sustainable development, helping to improve livelihoods, social and economic well-being and ensure effective environmental management.

**Recommendations:**

- Promote energy conservation, use of energy saving equipment, and support technical innovation in the field.
- Promote greater use of renewables and support technical innovation.
- Where infrastructure utilizing the latest Clean Coal Technology is planned, provide the necessary assistance including capacity building and financing in association with international bodies and accelerate support for technical development and facilitate empirical research for Carbon Capture Utilization and Storage to make it commercially viable.
- Push forward with policies on hydrogen energy production, storage, transport, and use, the promotion of research and development and practical demonstrations, as well as share the results of our efforts, while comparing hydrogen against other energy technologies from a long-term perspective.
- Fulfill the commitment to reduce applied tariff rates for the 54 environmental goods items to 5% or less by the end of 2015.
- Take decisive actions on environmental services.
- Identify and eliminate non-tariff barriers to EGS.
- Explore every opportunity provided by the Paris Agreement.

C. Improving energy security

Energy is the foundation of all economic activity. Current shifts in the energy market, including falling prices and volatility, will have serious repercussions for both the public and private sectors. Energy security remains an important issue for the region as a whole as energy consumption will increase in line with economic growth throughout the APEC region. It is absolutely crucial that APEC continues to accelerate their efforts to break down barriers and to promote cross-border trade and investment in energy, in the interests of encouraging economic growth across the region. ABAC continues to recommend the following key actions in order to promote trade and investment in energy.

**Recommendations:**

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

Promote banking systems which allow free transfer of capital.

D. Promoting healthy and productive workforces

“Quality Growth and Human Development” is intrinsically linked to strengthening health and health care systems in the Asia-Pacific region as economic growth and prosperity depend on healthy and productive workforces. Demographic shifts such as ageing populations and increases in non-communicable diseases (NCDs) have significant fiscal and economic impacts. APEC economies face GDP losses of between 6-8.5% over the next 15 years due to the current and projected steep rise in NCDs such as cancer, cardiovascular disease, and mental illness, coupled with ageing populations. The curve is steep and effects will be felt in the next five years.

A 2015 study commissioned by ABAC and the APEC Life Sciences Innovation Forum showed an average of an additional 2% in lost GDP from early retirement due to ill health, with NCDs as the main contributing factor. This is putting pressure on public sector and corporate pension and health schemes. At the same time, the demographic trend of ageing populations and dwindling workforces paying into retirement systems is putting further pressure on pension obligations.

The fiscal implications of health are significant, and require creating fiscal space for innovation and financial stability in health budgeting.

ABAC recognizes that jobs requiring a familiarity with data analysis are forecasted to dramatically rise, resulting in a massive shortage of employees. ABAC is deeply concerned that this shortage of data science-enabled managers and analysts is costing billions of dollars in lost revenue annually. We urge swift action to avoid data-illiteracy becoming a significant constraint to economic growth.

Recommendations:

- Create coordination in the policy dialogue between health, finance and economic ministers to achieve proactive investment in healthy workforces and collaboration with the private sector to develop innovative solutions.

- Work toward implementation of the Healthy Asia-Pacific Roadmap by strengthening health systems, improving emergency preparedness, and improving the prevention and management of non-communicable diseases.

- Work with employers to determine the data science competencies in demand and develop an APEC “Data Science Competency Checklist” to enable APEC youth to secure the jobs of tomorrow and move with ease in tomorrow’s labor market.

E. Strengthening the rule of law and promoting good regulatory practices

The rule of law includes open and transparent government, absence of corruption, and consistent regulatory enforcement. ABAC seeks governments’ support to ensure that regulations are clear, publicized, stable, justified and non-discriminatory. Governments must also ensure that such regulations are duly administered and enforced.

Though the attention since last year has focused on domestic policies affecting trade and investment within borders, we should not ignore that increasingly divergent political and legal systems around the APEC region are making it harder for businesses to comply with rules or standards in the economies in which they operate without transgressing their home economy’s laws. This situation affects many multinationals, regional businesses, and MSMEs in the Asia-Pacific, as more types of businesses grow with the digital economy or become more specialized for a global market. International regulatory cooperation must be used as a tool to promote regulatory harmonization thus efficiently reducing barriers to trade, investment and economic growth.
Looking forward to promote good regulatory practices (GRPs) in all APEC economies, ABAC urges governments to support initiatives such as the GRP conference, and urges APEC to strengthen implementation of the three GRPs agreed to by APEC Leaders in the Honolulu Declaration as well as the three GRP tools identified in the APEC Bali Declaration. ABAC also solicits governments to establish formal channels through which to engage in policy dialogue to improve in areas where legal systems are hindering trade and investment.

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

**Recommendations:**

- Strengthen implementation of the three good regulatory practices agreed to by APEC Leaders in the Honolulu Declaration as well as the three GRP tools identified in the APEC Bali Declaration.

- Utilize performance-based rather than prescriptive-based regulations and design regulatory institutions that promote trade-friendly regulation.

- Provide an environment of legal certainty, transparency, and regulatory quality.

- Support the GRP conference to build high-level support for regulatory reform by strengthening public-private cooperation through the use of consultation mechanisms to enhance accountability, promote mutual learning, and encourage best practices.

- Establish a benchmark score based on regulatory quality indicators to be included in data sets for analysis.

- Encourage the sharing of best practices between APEC economies as well as lessons learned and more closely align APEC economies’ regulations with global best practices.

- Further implement the Beijing Declaration on Fighting Corruption, enforce anti-corruption laws equally among governments, businesses and citizens, participate in ACT-NET, and take concrete steps to implement locally the APEC Codes of Conduct.

- Use international regulatory cooperation as a tool to promote harmonization and reduce barriers to trade, investment and economic growth.

- Address new concerns in areas such as the internet and digital economy on peer-to-peer trading, cybersecurity, digital currency, etc. by providing market solutions and avoiding over-regulation in these new areas.

- Develop a set of recommendations based on the preliminary results of the Regulatory Quality questions of the APEC CEO Survey.

**F. Promoting the development of APEC’s mining sector**

The mining sector plays a vital role in the economic success of all of APEC member economies by providing essential resources to the global economy. Close cooperation between governments and the private sector is essential to promote regulatory environments that facilitate sustainable mining practices that integrate new technologies and benefit investors, communities, and economies.

ABAC applauds APEC’s decision to extend the mandate of the Mining Task Force (MTF), which has proven to be an effective venue for public and private sector collaboration. Building on
the success of public-private dialogues in 2014 and 2015, ABAC looks forward to continuing its engagement with the MTF on investment-related matters, sustainability, and community engagement. Toward that end, ABAC calls on APEC economies to monitor and report on the key performance indicators for the 10 mining principles agreed to by APEC Mining Ministers in 2007. ABAC encourages APEC economies to refrain from introducing regulation that unfairly targets the mining sector, and instead promote the development of regulatory systems that encourage the development of new technologies through research and development.

Recommendations:

- Continue strong MTF engagement with private sector stakeholders through public-private dialogues and collaboration in capacity building projects.
- Adhere to APEC’s 10 Mining Principles in the development and regulation of the mining sector.
- Support domestic efforts to create transparent, fair, and predictable investment and tax environments for companies in the mining sector. Such efforts should support use of green technology in the mining sector.
- Promote education and training efforts in the mining sector.
- Promote development of regulatory systems that encourage the use of new mining technologies through research and development.

G. Facilitating urban infrastructure development

ABAC welcomes the major outcomes of the APEC High-Level Urbanization Forum 2016, including the Ningbo Initiative, in which member economies resolved to conduct dialogue and enhance cooperation in eight key areas such as boosting inclusiveness and dynamic development of cities, improving urban infrastructure, building smart and green cities, etc.

ABAC believes that APEC economies must step up efforts to work with the private sector, multilateral development bank specialists, regional and global agencies, community groups and academics, and at various levels of government to foster sustainable and livable cities. Cities are growing rapidly as the central focus of economic development and livability of economies of the region.

As cities grow, both the public and private stakeholders strive to find new solutions to efficiently utilize resources to meet the most pressing needs of urbanization. Solutions to urbanization challenges vary greatly from one city to another, and different paths are pursued in building a more livable, healthy and sustainable urban environment. However, some basic principles and best practices are common to meeting the challenges of urbanization.

ABAC has endorsed the work of the Urban Infrastructure Network (UIN) in developing a holistic policy framework for urban infrastructure planning, project development and financing at the various levels of government. The UIN Secretariat released “A Report on Urban Infrastructure Development in the APEC Region: Proposed Best Practice Policy Framework and Action Plans.” The Framework sets out some basic principles of best practices and their application to guide economies in managing complex urbanization processes. The report also proposed action plans that relate to economies and municipalities at different stages of capability in handling the infrastructure challenges of urbanization.

ABAC through the UIN can support APEC economies in applying measures set out in the Action Plans to enhance the capacities of various levels of governments to meet the challenges of urbanization.

Recommendations:

- Take note of the report and encourage the use of the best practice principles and Action Plans by relevant levels of government in APEC economies to meet capacity building needs to improve urban development, planning and financing.
Support efforts to mobilize public and private sector resources to support investment in urban infrastructure.

Encourage closer collaboration and solution sharing among APEC cities and private and public stakeholders, including regional and international organizations, to facilitate the development of more livable, sustainable, and competitive cities in APEC.

Commend ongoing work of the UIN in fostering and implementing the recommendations under the auspices of ABAC.

V. Connectivity

ABAC welcomes the progress made in implementing the APEC Connectivity Blueprint for 2015-2025 by all member economies under the pillars of physical, institutional and people-to-people connectivity, and encourage further action to ensure continued implementation of this Blueprint and to promote regional and sub-regional connectivity in the Asia-Pacific region.

Recognizing that removing barriers to greater regional connectivity will help APEC strengthen and deepen regional economic integration, improve the region’s quality of growth, and contribute to the economic resilience of the Asia-Pacific region, ABAC pursued work this year on a connectivity agenda that was intended specifically to complement and give practical reinforcement to APEC’s own Connectivity Framework. As such, ABAC’s connectivity efforts were organized into three broad areas: institutional connectivity, people-to-people connectivity, and physical connectivity.

A. Facilitating institutional connectivity

1. Encouraging structural reform

Structural reform is a priority for boosting economic growth. Slowing trade growth across the APEC region and increasingly disruptive innovation point to a need for economies to look closely at the fundamental drivers for economic performance. It is clear that these are in large part structural. Economic activity can be choked by onerous regulatory frameworks; by contrast, reform in economic policy settings can help to energize GDP growth and enhance living standards for all. While ABAC continues to champion the liberalization of trade and investment, we also recognize that economies’ true potential can only be fully reached if domestic structural reform is part of the picture. Such reforms will also indirectly help to reduce and eliminate non-tariff barriers to trade. Structural reform in both the regulatory environment and in governance settings has the potential both to improve economic performance and lift living standards.

Given the importance of services for productivity growth, ABAC welcomes efforts to address regulatory restrictions on services (and on services-related investment), including restrictions on cross-border services trade. The work of the APEC Economic Committee is making a valuable contribution in that regard. ABAC urges that APEC economies ensure that the final APEC Services Competitiveness Roadmap contain strong structural reform elements.

Good governance frameworks and a stable rule of law likewise contribute to enhanced economic growth. ABAC highlights the importance of open and transparent government, the absence of corruption, effective regulatory enforcement, and the protection of fundamental rights, order and security. A business-friendly environment of legal certainty can best be fostered by laws that are clear, publicized, stable and fair. ABAC encourages APEC economies to share and adopt best practices in this regard.

Recommendations:

Continue to seek to align domestic regulation with global best practice; work towards greater regional regulatory coherence (including through enhanced international regulatory cooperation); design regulatory institutions in a way that promotes trade-friendly regulation, and strengthen public-private cooperation in the development of regulatory settings.
In particular, focus on reform of regulatory restrictions on services (including restrictions on cross-border trade in services and services-related investment), and ensure that the eventual APEC Services Competitiveness Roadmap contain robust structural reform elements.

Provide an environment of legal certainty, transparency, and judicial independence, and foster greater region-wide engagement on rule of law issues.

2. Improving internet and digital connectivity

Businesses and governments have recently come to recognize the profound economic and social transformation being driven by the digital economy, and digital technologies are fundamentally changing how all businesses operate. At the same time, they are creating unimagined opportunities for new businesses, new ways of doing business, and new opportunities for entrants (in particular MSMEs traditionally confined to local markets) into the global market place.

ABAC is continuing a robust internet and digital economy work program given the importance of these issues to the broader global economy. To date, we have shared private sector perspectives on the Internet of Things, big data and data analytics, broadband connectivity and STEM education, and their contribution to innovation. As APEC officials pursue next generation trade and investment issues, they are finding that the digital economy affects a myriad of sectors, from leading edge digital industries to traditional industries adopting digital technologies. In this regard, ABAC welcomes and supports APEC’s work plan for Facilitating Digital Trade for Inclusive Growth as a Potential Next Generation Trade and Investment Issue. The econometric research conducted by McKinsey\(^1\) indicates that global flows of goods, FDI and data have increased current GDP by roughly 10% or $7.8 trillion in 2014, with data flows accounting for a substantial portion of the increase - $2.8 trillion. The digital economy is creating new opportunities and business models, and will require new policies relevant to the 21st Century. ABAC also welcomes the progress made by the Ad Hoc Steering Group on the Internet Economy, including the holding of two stakeholder engagement sessions in the margins of ABAC meetings this year.

Recommendations:

- Promote policies that enable a strong internet and digital economy that is inclusive, beneficial to all, and bridges the digital divide. An important step will be for APEC to engage business and stakeholders for their input on the digital agenda in the trade area, and encourage innovation in the internet and digital economy through the use of cross-border data flows, and prevent old style customs and regulatory trade barriers. This will create an enabling environment to accelerate economic growth, regional integration and innovation.

- Adopt Digital Trade as a Next Generation Trade and Investment Issue as part of the APEC officials’ 2017 work program which will kick off in Viet Nam.

- Recognize the transformative power of technology and the speed with which services, players and industries emerge and thus the need for flexibility when considering policy approaches, including regulation.

- Embrace further individual and collective efforts to promote STEM to prepare for the workforce of the future in the Asia-Pacific, including greater participation of economies in the world-wide Hour of Code during Computer Science Education week in December 2016 as well as continue to emphasize the role of computer science education as integral to work force development.

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Contribute to work underway within APEC and in other fora, such as the WTO, as it renews work on e-commerce and the digital agenda and develops its forward agenda in the trade area, including by sharing work to date on issues of substantial relevance, such as data privacy. ABAC appreciates the workshop convened in Japan on cross-border data flows as part of this work.

Develop policies that attract the necessary talents that will enable governments and businesses to reap the benefits of digitization. Technical, management, policy and planning skills are all necessary, and should be proactively cultivated. ICT literacy is crucial, as it affects how digital content is consumed and adopted by people at large.

Partner with more stakeholders to lay a solid foundation, encourage cross-domain cooperation, and collaborate with the private sector to create an ecosystem for digital transformation.

3. **Enhancing supply chain connectivity**

ABAC applauds APEC’s efforts to enhance competitiveness in the region by making it easier, cheaper and faster to conduct trade in goods and services across borders through initiatives such as the APEC-wide 10% improvement in supply chain performance in terms of time, cost and uncertainty by 2015.

ABAC seeks greater private sector participation in the APEC Alliance for Supply Chain Connectivity (A2C2), a public-private forum that works with economies to advance capacity building initiatives and projects. Furthermore, ABAC encourages APEC economies to utilize the A2C2 as a tool to expedite their commitment to the WTO TFA.

ABAC welcomes the progress that has been made this year on pilot projects on global data standards (GDS). These pilot projects include projects funded by APEC and self-funded by member economies and private sector covering agri-food, beverages and pharmaceutical products. GDS provide a practical and effective means to address supply chain connectivity, traceability and supply chain integrity, thereby improving the operation of regional supply chains and advancing APEC’s trade facilitation goals. On pharmaceutical products, ABAC is piloting a project with two economies to demonstrate the ability to verify serialized pharmaceutical products from various scan locations to source data stored in distributed databases using GDS. The outcome of the pilot projects should offer important learnings for policy development and regulatory and operational coherence around the region.

ABAC welcomes the progress on the work of the APEC Cooperation Network on Green Supply Chain (GSCNET), including the launch of a bilingual website operated by GSCNET Tianjin Pilot Center. ABAC is glad to see new members who have joined the GSCNET and encourage more members to nominate more institutions and experts to join and contribute to a well-functioning GSCNET.

**Recommendations:**

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

- Continue to work towards a region-wide framework to facilitate a coherent deployment of GDS.

- Utilize A2C2 as a tool to expedite implementation of the WTO TFA commitments and leverage the knowledge of companies that have valuable experience in moving goods and services seamlessly, quickly, and inexpensively throughout the region.

- Continue contributing funding to the APEC Trade and Investment Liberalization and Facilitation Sub-Fund for Supply Chain Connectivity.
- Implement full electronic documentation in the issuance of bills of lading and sanitary certificates and the submission of customs forms.
- Simplify tax systems for international trade.
- Create a common APEC platform dealing with sanitary norms at both origin and destination.
- Adopt policies that facilitate innovation and increased and more efficient flows of trade and investment, such as measures to promote regulatory coherence.
- Continue contributing to the development of GSCNET.

**B. Facilitating people-to-people connectivity**

1. **Easing the mobility of skilled workers**

Improving the region-wide mobility of skills remains a high priority among the APEC region’s businesses. There is mounting concern over demographic and technological changes that are aggravating skills shortages region-wide. At the same time, barriers to the efficient movement of international skilled workers is adding to business costs and impeding economic growth. As a result, ABAC has devoted significant efforts over the past decade to ameliorate these mounting challenges, and has begun to work with various APEC governments to make practical progress.

ABAC efforts are focused on three specific initiatives: building a reliable predictive “Skills Map” that can identify areas of emerging and acute skills shortage; improving the management of the movement of international skilled workers; and supporting initiatives to facilitate the region-wide recognition of qualifications.

ABAC’s proposed Earn, Learn, Return (ELR) initiative to improve the management of internationally mobile labor is being considered by leaders, with detailed proposals now being discussed in key APEC working groups.

ABAC continues to encourage member economies to contribute data to the APEC Skills Mapping initiative which currently has input from just six members.

ABAC has given strong endorsement to the APEC Education Network initiative to improve the region-wide recognition of qualifications. Given the immense technical complexity of this task, ABAC is working with officials to identify “pilot” sectors in which to prioritize activity. At present, priority is being given to “allied health workers” and the tourism sector, in collaboration with the APEC Tourism Working Group. ABAC commits to facilitate private sector input in these pilot sectors.

**Recommendations:**

- Collaborate on practical development of sector-specific ELR Best Practice Model Cases, with the ultimate aim of developing a region-wide ELR Best Practice Template applicable to many sectors. This collaboration should identify and resolve obstacles to implementation.

- Provide “skills needs” data to the APEC Skills Map as a matter of urgency.

2. **Improving business mobility**

The extension of the validity of the APEC Business Travel Card (ABTC) scheme has demonstrated APEC’s ability to respond to business needs. This year, APEC’s Business Mobility Group (BMG) took another step towards meeting conditions that have been emphasized by the private sector. The implementation of an APEC-wide online application lodgment functionality has been made one of the highest priorities for 2016. This change was in response to recommendations by ABAC and APEC’s End-to-End Review in which ABAC participated.

ABAC agrees with the BMG’s view that the 20-year old ABTC stands to lose its standing as an innovative and desirable initiative to facilitate business travel if APEC fails to provide suitable online lodgment capabilities. Such capabilities need to be in sync with
technological innovations adopted by the business community in the region.

ABAC continues to monitor steps being taken by transitional economies to acquire full membership in the ABTC which would benefit their own business communities.

Recommendations:

- Encourage all 21 economies to adopt online lodging to expedite and simplify the ABTC process.
- Support APEC BMG in its efforts to realize online lodging, including by providing appropriate support to a workshop to be held in Australia late in 2016.
- Encourage transitional economies to complete domestic processes toward full membership status in the ABTC scheme.

C. Facilitating physical connectivity

The third critical pillar of APEC’s Connectivity Framework is a program of activity to improve physical connectivity both within APEC economies, and between them. ABAC has been focusing on four areas of physical connectivity for priority attention: building physical infrastructure like roads, railways, airports and ports; improving maritime connectivity across the region; addressing the fast-intensifying problems of managing air space across the region, including deepening skills shortages; and building digital infrastructure to enable internet-based business to flourish.

1. Encouraging infrastructure investment through best practices and public-private partnerships

It is predicted that $57 trillion in infrastructure investment will be required over the next two decades and transport infrastructure will comprise a significant portion of this spending. The private sector is an important source of the foreign direct investment that is required for infrastructure development. To attract the needed capital and compete globally for FDI, a stable, non-discriminatory and transparent legal, regulatory and investment environment is required to give businesses the certainty and predictability required for long-term, capital intensive investments.

Additionally, expertise and capital from the business community can be harnessed through public-private partnerships (PPP). PPP mechanisms can be utilized to create sustainable and attractive infrastructure projects that are funded throughout their lifecycle, including through measures to reinvest in existing assets through proper maintenance. ABAC encourages APEC to further build capacity in PPPs, including through measures that address best practices related to transparency in project design, contracting, division of responsibilities, performance measures, risk apportionment and neutral and objective mechanisms to prevent and resolve disputes. Further, ABAC invites APEC economies to leverage dialogues that include the private sector such as the Asia-Pacific Infrastructure Partnership (APIP) that facilitate additional capacity building.

To bring the range of issues that affect private sector investment in infrastructure together and encourage further interagency dialogue on effective policies, ABAC has developed a unique infrastructure investment checklist that has served as an important self-assessment tool for economies. Several governments have completed the Checklist and provided the business community with useful feedback that will inform future discussions.

Recommendations:

- Work closely with ABAC to further build capacity in PPPs focused on developing physical infrastructure.
- Leverage dialogues that include the private sector such as the APIP that facilitate additional capacity building.
- Encourage governments to better understand the private sector’s needs by reviewing frameworks such as ABAC’s Infrastructure Investment Checklist and engaging in partnerships with ABAC.
2. Improving maritime and air connectivity

ABAC has begun a multi-year initiative to develop practical recommendations that will help governments to improve the region’s maritime and aviation infrastructure, with the aim of reducing travel and transport times between destinations, improving transport efficiencies, harmonizing regulatory and operating environments, and in lowering logistics costs. In aviation, this also includes developing recommendations on how to manage pressures that are intensifying as a result of rapid growth in passenger and cargo services. Particular emphasis should be placed on harmonizing regulatory standards in the realms of air pilot training, air safety education and resource efficiency, in order to reach a region-wide “Single level of safety” and to bolster further innovation in the aerospace sector.

ABAC plans to build closer links with the APEC Transportation Working Group (TPTWG), to input business concerns, identify strategic business sector challenges, and to develop synergies with initiatives being prioritized by the TPTWG.

3. Strengthening the APEC region’s digital infrastructure

Separate from, but complementary to the ABAC digital initiatives in Institutional Connectivity, ABAC is driving an initiative to facilitate the development of strong physical digital infrastructures across the APEC region. This is underpinned by recognition that many of the ambitious aspirations being created by the “digital revolution” will remain unfulfilled while the physical infrastructure to enable fast and reliable internet infrastructures remains un- or under-developed. Governments should lead by example and increase spending on ICT infrastructure that benefits the general public.

Recommendation:

- Encourage and incentivize investment in strong digital infrastructures, in order to enhance broad-based productivity and efficiency, and to make possible (in particular to MSMEs previously blocked from competing for international business) the use and development of many new services being delivered by the digital revolution.

VI. Finance and Economics

A key ABAC objective this year is to provide support to APEC in building bigger, robust and inclusive financial markets. Priority areas include: promoting the innovation and integration of capital markets while also addressing the new risks arising from these developments; stimulating public and private investment for infrastructure; enhancing MSME access to finance; and shaping pension and insurance development.

A. Expanding access to finance

Enabling MSMEs to effectively participate in economic activities and global value chains is an important objective for APEC member economies. However, most MSMEs lack access to finance due to inadequate credit information systems, secured transaction frameworks and valuation practices that lenders need to manage credit risks. In addition, many low-income individuals also lack access to a host of financial services. To help address these issues, APEC Finance Ministers adopted ABAC’s proposals to launch the Financial Infrastructure Development Network (FIDN), the Asia-Pacific Financial Forum (APFF) and the Asia-Pacific Forum on Financial Inclusion.

Recommendations:

- Work with FIDN to develop modern credit information systems and regionally consistent legal and institutional frameworks for secured transactions and insolvency.

- Collaborate with the APFF in holding public-private dialogues on regulatory issues and emerging facilitators of trade and supply chain finance.

- Encourage policy makers and regulators responsible for financial inclusion and MSME finance to study the report of this year’s Financial Inclusion Forum and to participate in the 2017 Forum.
Encourage member economies to host roundtables with ABAC, the International Valuation Standards Council (IVSC), valuation professional organizations (VPOs), and other relevant stakeholders to improve valuation practices in the region.

B. Enhancing financial resilience

Effective risk management through micro-insurance is critical for low income individuals and micro and small enterprises, especially in developing economies. However, only around 5.2 percent of people in emerging markets worldwide are currently covered by micro-insurance. Related to this, Asia-Pacific policy makers need to develop financial instruments to mitigate the impact of natural catastrophes in the world’s most disaster-prone region.

Recommendations:
- Undertake joint activities with APFF in 2017 to complete the roadmap for expanding micro-insurance coverage in the region.
- Undertake a workshop with APFF to identify economies and perils of priority as an initial step in promoting private disaster insurance schemes, and complete the stocktaking on availability of risk exposure data as a step toward the development of regional risk sharing measures.
- Enjoin officials and regulators to collaborate with APFF in drafting an APEC roadmap for disaster risk financing and insurance, involving experts from the public and private sectors and multilateral institutions.

C. Promoting investment in infrastructure and capital markets

The region needs investments to bridge its huge infrastructure gap. While investors have plenty of appetite for opportunities in infrastructure, too few bankable infrastructure projects are available due to insufficient capacity for project preparation in the public sector. A related issue is how APEC can help build and mobilize the region’s long-term investor base, in particular insurers, pension funds and Islamic financial institutions. In addition, many of the region’s local currency capital markets lack the depth and liquidity to effectively serve as channels for investment in infrastructure.

Recommendations:
- Encourage Finance Ministers to integrate and coordinate its various infrastructure initiatives through the PPP Experts Advisory Panel.
- Expand cooperation with the Global Infrastructure Hub.
- Promote urban infrastructure development in collaboration with the Urban Infrastructure Network.
- Establish an Islamic Infrastructure Investment Platform (I3P) to facilitate collaboration among public, private, international and academic experts in addressing key obstacles to the expansion of cross-border infrastructure investment by Islamic financial institutions.
- Encourage more member economies to join the Asia Region Funds Passport (ARFP).
- Jointly hold workshops with APFF to help economies develop classic repo and derivatives markets and improve the availability and quality of information for capital market investors.
- Convene a regional symposium in 2017 to develop a roadmap for improving the regional financial market infrastructure.
- Consider the establishment of mandatory retirement systems to effectively channel the region’s huge savings currently concentrated in short-term bank deposits into longer term institutional investments.
- Introduce stronger tax incentives to promote the retirement savings market and encourage retirement income products should be put in place.
- Remove regulatory and accounting impediments to insurers’ and pension funds’ long-term business models and promote policies that are suitable for long-term investment products and insurance business.

- Encourage participation by all relevant agencies and institutions in a two-day seminar APFF plans to convene in 2017 where the public and private sectors can jointly examine ways to expand the region’s long-term investor base.

**D. Enhancing the role of finance through cooperation and innovation**

As economic cooperation within APEC progresses, we anticipate that demand for finance will grow significantly. Meeting this demand will require closer financial cooperation among governments and regulatory bodies and the support of multilateral development banks. It will also require innovations in financial services and platforms for various forms of collaboration among commercial financial institutions in the APEC region. Policy makers will also need to address the growing role of financial technology (Fintech), which raises new opportunities and risks with respect to the development of inclusive and efficient financial markets and services in the region. Additionally, last year’s Leaders’ Declaration noted the need to further explore and address the fiscal and economic impacts of ill health. APEC Ministers also recommended the convening of cross-fora dialogue for this purpose. ABAC supports these calls and encourages finance and health officials to collaborate in developing solutions to deal with this issue.

**Recommendations:**

- Encourage closer financial cooperation among policy makers and regulators in modernizing financial policy and regulatory frameworks, and encourage them to participate in APFF dialogues on financial regulations.

- Welcome the APFF’s work on definitions of infrastructure and real assets in the context of developing an enabling environment for investment by Islamic financial institutions.

- Establish a regional platform for the public and private sectors to collaborate in identifying concrete ways to help member economies harness financial innovation to build bigger, robust, inclusive and integrated financial markets.

- Encourage policy makers and regulators to participate in APFF workshops on cybersecurity, Know-Your-Customer (KYC) rules and ePayments to facilitate innovation in the region’s financial market infrastructure.

- Encourage policy makers to discuss innovative financing options that would drive more equitable financing, strengthen health systems and expand access to health care, pensions, and disability coverage.

**VII. Industry Dialogues**

**A. Chemical Dialogue**

The Chemical Dialogue’s work on regulatory cooperation and coherence is strongly supported by ABAC. ABAC welcomes the endorsement of the Dialogue’s Best Practice Principles Checklist and encourages economies to apply those principles during the regulatory review process. ABAC urges a more coordinated approach to implementation of the Globally Harmonized System of Classification and Labeling of Chemicals (GHS) and welcomes efforts to address divergences in GHS implementation in order to facilitate trade. ABAC welcomes efforts to streamline chemical import procedures through the consideration of a customs self-certification form. ABAC continues to support collaboration between the Chemical Dialogue and the Oceans and Fisheries Working Group on innovative solutions to mitigate marine debris. In particular, ABAC welcomes efforts to identify and reduce definitional, regulatory, and financial barriers to deploying sustainable waste management systems and create enabling environments for waste management infrastructure investment.
B. APEC Life Sciences Innovation Forum

The 6th High-Level Meeting on Health and the Economy hosted by the Minister of Health of Peru is especially timely, given the critical importance of health to the economy. As a joint initiative of the APEC Life Sciences Innovation Forum (LSIF) and the APEC Health Working Group, the meeting brings together diverse stakeholders to discuss whole of government, whole of society and a whole of region approach to health and related economic challenges.

ABAC values the collaboration with the LSIF on assessing the returns on investment that innovations bring to health systems and strongly supports a dialogue this year between health and finance officials and expert stakeholders to address the fiscal and economic impacts of ill health and ensure that our workforce remains healthy and competitive. We welcome the outcomes from the joint ABAC-LSIF projects on pharmaceutical serialization and verification and note their contribution to APEC’s broader efforts to promote the use of interoperable global data standards. In addition, ABAC welcomes initiatives to facilitate the use of big data analytics in bio-medical research and decision making, the initiative to lower barriers to SME innovator entry to the health value chain, and the continued activities of the LSIF training center for the commercialization of biomedical research.

ABAC strongly echoes the call by APEC Ministers for regional convergence on regulatory approval procedures for medical products by 2020. To that end, ABAC welcomes progress made to establish APEC Training Centers of Excellence in Regulatory Sciences including in multi-regional clinical trials, biotherapeutics, good registration management, and global medical product quality. ABAC also welcomes the collaboration between the APEC LSIF and the Global Health Security Agenda on platforms and partnerships to address the scourge of health care associated infections, and boost antimicrobial stewardship, and the establishment of the APEC blood safety partnership network. These types of government/industry/academic partnerships illustrate well the capacity of APEC to bring significant resources and skills to bear to build the necessary innovative capacity in the region and assure pandemic preparedness.

VIII. Conclusion

This report has laid out practical actions which APEC economies should take to achieve the APEC vision while addressing the quality and social dimensions of growth. The report augments and reinforces ABAC’s inputs and messages delivered over the course of the year through its ongoing interaction and engagement at various levels in the APEC process. It is ABAC’s hope that the Leaders, ministers and officials would find the recommendations useful as they continue to intensify efforts to deepen integration in the region to pave the way for a more prosperous Asia-Pacific community.