

RESILIENT INCLUSIVE GROWTH

A FAIR DEAL FOR ALL

APEC Member Economies

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Chile
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Hong Kong, China
Indonesia
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Papua New Guinea
Peru
Philippines
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Singapore
Chinese Taipei
Thailand
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Viet Nam

Report to APEC Economic Leaders



APEC Business Advisory Council



An aerial night view of a city skyline, likely Singapore, featuring numerous illuminated skyscrapers and a prominent circular road in the lower-left quadrant. The text "LETTER TO APEC ECONOMIC LEADERS" is overlaid in the center in a large, white, bold, sans-serif font.

LETTER TO APEC ECONOMIC LEADERS



His Excellency Benigno S. Aquino III

Chair, Asia-Pacific Economic Cooperation
President, Republic of the Philippines
Manila, Philippines

Your Excellency:

It is our great honor to present to you the report and recommendations of the APEC Business Advisory Council for 2015 in support of your overarching theme of inclusive growth.

Our recommendations are premised on the conviction that an open, predictable and transparent trade and investment environment for goods and services generates new opportunities for all. While much has been achieved, more needs to be done particularly in view of the changing dynamics of the global economy, which create new challenges to equitable and sustained growth. We urge strong action on trade agreements; on the services agenda; for micro, small, and medium enterprises; on the rule of law; for financial systems reform and investment; and sustainability.

We support wholeheartedly your desire to take meaningful steps towards the Free Trade Area of the Asia-Pacific (FTAAP). We are working to bring the business perspective to bear on the APEC Collective Strategic Study as the first tangible step in the Beijing Roadmap to FTAAP. We share your belief that FTAAP will provide the right conditions for economies to generate jobs and sustain growth.

Implementing the World Trade Organization (WTO) Trade Facilitation Agreement (TFA) will enhance the more efficient and cost-effective movement of goods across borders. We call on APEC economies to lead by ratifying the TFA by the 10th WTO Ministerial Conference in December, thereby ensuring that the WTO remains at the forefront of efforts to free up global trade. We applaud your leadership in finalizing negotiations to secure a commercially significant expansion of the ITA.

We share the priority APEC has given to building stakeholder support for a new and innovative services agenda, given the critical importance of the services sector to all APEC economies. We strongly urge APEC economies to step up their actions on the further development of the services sector through the APEC Services Cooperation Framework.

We support your recognition of the key role of micro, small and medium enterprises, which account for over 97% of enterprises and contribute significantly to employment in APEC economies. We call for further efforts to address barriers inhibiting the participation of these enterprises in cross-border trade and global value chains, in particular by promoting e-commerce, taking steps to enhance their access to finance, and boosting innovation through partnerships and networking among innovation systems.

We urge APEC to continue to utilize public-private dialogue mechanisms developed by ABAC to enhance financing of long-gestation infrastructure projects. We look forward to working with APEC in developing new approaches to address skills shortages and facilitate cross-border worker flows.

We draw your attention to our work aimed at identifying ways in which the private sector can contribute to enhancing the rule of law across our economies. We recognize that the basic building blocks for a sound business environment that fosters investment include open and transparent government, legal certainty, absence of corruption, regulatory enforcement, fundamental rights, and order and security.

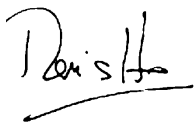
We welcome the launch of the APEC Finance Ministers' Cebu Action Plan as an important step in reforming financial systems. We ask Leaders to endorse initiatives to facilitate disaster risk financing, promote infrastructure investment, develop the insurance and pension industries, create deep and liquid capital markets, promote financial inclusion, enhance the investment environment and improve valuation standards and practices in the region. We call on Leaders to encourage public-private dialogues to develop financial regulations that are transparent, fair and conducive to development and integration. We welcome the launch of the Asia Region Funds Passport.

We commend the many initiatives endorsed by APEC to increase the region's sustainability. Specifically, we welcome the APEC Leaders' ambitious commitment to double the share of renewables, including in power generation by 2030. We further encourage Leaders to take decisive actions on environmental services, including further identification and elimination of non-tariff barriers to environmental goods and services and support for the development of low-carbon and renewable energy technologies. We urge APEC Leaders to honor their commitment to reduce applied tariff rates to five percent or less by the end of 2015 on the list of 54 environmental goods. Finally, we call on APEC to deepen engagement with the private sector to enhance food trade and address food security which is vital for achieving both inclusiveness and greater regional economic integration.

Our report addresses the full range of issues discussed by ABAC over the course of this year and for which detailed recommendations have been developed.

We look forward to discussing our recommendations with you when we meet in Manila in November.

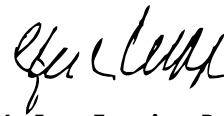
Yours sincerely,



Ms. Doris Magsaysay Ho
ABAC Chair 2015

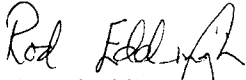


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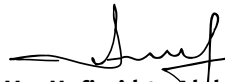
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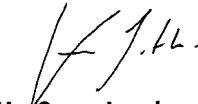
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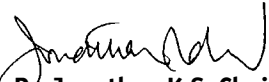
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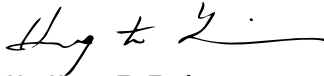


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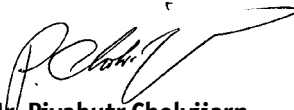


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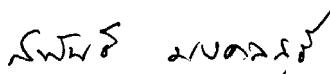
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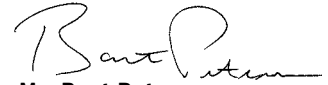


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A close-up photograph of a group of young children of various ethnicities. In the foreground, a young boy with a wide smile is wearing a yellow polo shirt with a green and white logo. To his right, another boy in a white shirt looks off to the side. In the background, a girl in a blue and red patterned shirt smiles. The overall atmosphere is warm and positive.

EXECUTIVE SUMMARY

Executive Summary

The following is a summary of the key messages contained in this report.

1. Support the multilateral trading system.

ABAC reaffirms its commitment to the World Trade Organization (WTO), recognizing that a rules-based, transparent and non-discriminatory global trading system remains the best option to counter protectionism. ABAC urges the early implementation of the Trade Facilitation Agreement by the 10th WTO Ministerial Conference in December this year. ABAC calls on APEC economies to lead in seeking to reinvigorate and conclude the Doha Round of multilateral trade negotiations. ABAC welcomes the consensus reached by 54 WTO members on the expansion of the product coverage of the Information Technology Agreement and strongly urges APEC economies which are participating in the negotiations to lead the final conclusion of the said negotiations without delay. ABAC encourages APEC economies to support the Trade in Services Agreement negotiations, for the further liberalization of trade in services. ABAC highlights the importance of identifying and addressing non-tariff barriers that inhibit access to markets, including by finding practical ways to engage and empower business to take the lead in these efforts.

2. Enable a Free Trade Area of the Asia-Pacific.

ABAC strongly supports the process underway following the Leaders' 2014 Declaration in Beijing, directing officials to undertake the Collective Strategic Study on Issues Related to the Realization of the Free Trade Area of the Asia-Pacific (FTAAP) and intends to make substantive contributions to that process throughout the 2015 and 2016 work program. ABAC's focus will be identifying business needs and identifying gaps in the coverage of existing Free Trade Agreements (FTAs), reasons for non-utilization of existing FTAs and identifying next generation trade and investment issues. ABAC is encouraged by the progress being made in implementing the Pacific Alliance (PA) and continues to urge the earliest completion of the negotiations of the Trans Pacific Partnership (TPP) and Regional Comprehensive Economic Partnership (RCEP). These negotiations should be mutually supportive and inclusive and should aim for agreements that are high-quality, ambitious and comprehensive.

3. Advance the new services agenda. ABAC shares APEC's commitment to the new services

agenda as a reflection of the importance of the sector as a key driver for growth in the region. Identifying the impediments to the growth of services industries in the region requires access to reliable and comprehensive data such as the APEC Services Trade Access Requirements Database and OECD Services Trade Restrictiveness Index. ABAC recognizes that collection of information regarding the impediments to services trade in the region will be best provided by well-structured and supported services organizations in every APEC economy. To that end, ABAC proposes the establishment of the APEC Coalition of Services Organizations to further promote the new services agenda. We strongly urge APEC economies to step up their actions on the further development of the services sector through the APEC Services Cooperation Framework.

4. Build and strengthen global value chains.

ABAC has focused on strengthening of global value chains (GVCs), and the integral role that services play in advancing economic integration and connectivity in the region. ABAC notes that the conclusion of comprehensive agreements such as the TPP, RCEP, PA and a future FTAAP will be enormously instrumental in facilitating GVCs in the region. ABAC welcomes further cooperation to advance APEC's Strategic Blueprint on Global Value Chains and the measurement of Trade in Value Added data, including assessing the impact of localization policies on GVCs. Addressing non-tariff barriers and pursuing global data standards will strengthen the resilience of GVCs.

5. Accelerate investment liberalization and facilitation.

ABAC commends the work of the Regional Investment Analytical Group (RIAG) which was established to provide objective advice on the development and use of quantitative indicators as a tool to promote confidence in, and to socialize the value of, investment performance indicators. ABAC encourages the use of the work of RIAG in reviewing the effectiveness of investment policy settings to contribute to the further development of the APEC Investment Facilitation Action Plan and to enhance long-term investment in the region. ABAC also highlights the importance of capacity building initiatives in the introduction of policy measures designed to attract long-term investment.

6. Achieve food security. Food security is vital for achieving more inclusive growth in the region.

ABAC encourages actions to promote investment and the efficient flow of food and agricultural goods, to reduce trade barriers that impede market access, and to minimize food loss and waste. The private sector needs to be part of the solution for food security, working in partnership with governments. ABAC calls on APEC to deepen the level of strategic engagement and dialogue with the private sector to improve the understanding of the economic and commercial context for food, to address supply chain connectivity and integrity, and promote the participation of micro, small and medium enterprises (MSMEs). ABAC urges APEC to continue to reform the APEC Policy Partnership on Food Security to make it more accessible to the private sector.

7. Promote a healthy and productive workforce.

Rapidly aging populations and the rising burden of non-communicable diseases pose a substantial challenge to sustainable economic growth. This trend has important implications for the well-being of communities, long-term care costs, as well as the productivity and availability of labor. Health-related absenteeism, disability, productivity losses and early retirement caused by poor health are a substantial concern for both the public and private sectors. A 2014 study jointly commissioned by ABAC and the APEC Life Sciences Innovation Forum (LSIF) found that productivity losses within the six economies measured ranged from 3.5% to 5.3% of Gross Domestic Product (GDP) in 2010. The same study projects that losses will increase to as much as 6.1% of GDP by 2030. In 2015, ABAC and LSIF conducted research that examines the intersection between pensions and early retirement caused by ill health. ABAC urges governments to treat the study data as a call to action to proactively invest in healthy workforces and collaborate with the private sector to develop innovative solutions.

8. Accelerate green growth. ABAC commends the many initiatives endorsed by APEC to reduce the region's environmental footprint. ABAC welcomes the APEC Leaders' ambitious commitment to double the share of renewables, including in power generation by 2030. Many APEC economies will continue to generate power using fossil fuels and it is imperative that the environmental impact is addressed. We therefore urge APEC to take decisive actions on environmental services, including further identification and elimination of non-tariff barriers to environmental goods and services and support

for the development of renewable energy and low-carbon technologies such as clean coal technology and carbon capture. ABAC urges APEC to honor its commitment to reduce applied tariff rates to five percent or less by the end of 2015 on the list of 54 environmental goods as endorsed by APEC Leaders in 2012 and reaffirmed annually since. ABAC encourages all APEC members to sign on to the APEC Remanufacturing Pathfinder to promote remanufacturing, a process that restores used and end-of-life commercial goods (commonly referred to as "cores") to meet the same performance and safety standards as new goods, with significant benefits to the environment.

9. Increase energy security. Energy security is vital to economic growth and continues to be a regional challenge. For business to thrive in rapidly changing times, it is imperative to establish rules and regulations that are predictable. ABAC urges APEC to accelerate efforts to remove barriers and promote energy trade and investment. Key elements to promote energy trade and investment include, among others: policy certainty ensuring the sanctity of contracts; open and fair competition on a level playing field devoid of local content rules, quotas, tariffs, restrictions on foreign ownership and investment; market-based pricing undistorted by subsidies; relaxed liquefied natural gas (LNG) destination clauses; and diversified and flexible LNG trading mechanisms.

10. Foster sustainable and livable cities. APEC cities continue on the path of rapid development, and as cities grow, both the public and private stakeholders strive to find new solutions to efficiently utilize resources to meet the city's most pressing needs. 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. ABAC recommends that APEC, through the Friends of the Chair on Urbanization, cooperate with ABAC on the work it started this year on measuring the challenges and success factors of urban development planning. This effort could include streamlining data collection framework to better measure the level of city development; learning from best practices and analyzing policies drawn from data comparisons; and encouraging closer public-private sector engagement in finding solutions towards building more livable, sustainable and competitive cities in the APEC region.

11. Facilitate the development of the mining sector in APEC. The mining sector plays a vital role in the economic success of all of APEC member economies by generating investment and driving regional trade. As ABAC's 2014 mining sector study noted, most APEC economies earn a proportion of their GDP through mineral rents. Close cooperation between governments, industry associations and the private sector is needed to promote business-friendly regulatory environments and best practices in sustainable mining that create positive outcomes for investors, economies and communities. In this regard, ABAC applauds APEC's decision to renew the Mining Task Force's mandate and strongly supports the sub-fund which is devoted to mining-related capacity building projects. While maintaining strong engagement with the private sector, ABAC urges APEC to adhere to APEC's 10 Mining Principles in the development and regulation of the mining sector and implement policies that promote open, predictable and stable investment environments based on an understanding and recognition of the inherent challenges for mining companies.

12. Accelerate infrastructure development. According to the World Economic Forum, the estimated shortfall in global infrastructure debt and equity investment is at least US\$ 1 trillion per year. ABAC applauds APEC's efforts to address this gap by examining barriers to physical connectivity as part of its effort to implement the APEC Connectivity Blueprint for 2015-2025 and is keen to support APEC's efforts by utilizing the Enablers of Infrastructure Investment Checklist to gather data on best practices and help economies benchmark performance. ABAC has endeavored to integrate progress made by the Asia-Pacific Financial Forum and the Asia-Pacific Infrastructure Partnership on developing deep and liquid capital markets, and public-private partnerships as a vehicle to promote much needed infrastructure investments with the outcomes of the Checklist. ABAC endorsed the work of the Urban Infrastructure Network in developing a holistic policy framework for urban infrastructure planning, project development and financing at the various levels of government.

13. Strengthen 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. ABAC calls on APEC economies to

meet the 2010 Leaders' objective of a 10% APEC-wide improvement in supply chain performance in terms of reduction of time, cost and uncertainty of moving goods through the region by the end of 2015. ABAC welcomes the progress made in areas such as the Model E-Port Network, and supports APEC's innovative capacity building initiative to help developing economies improve supply chain performance, and encourages APEC economies to utilize the APEC Alliance for Supply Chain Connectivity to help implement the WTO Trade Facilitation Agreement. ABAC continues to support APEC's systematic approach to improving supply chain performance and encourages increased APEC funding of a dedicated APEC Trade and Investment Liberalization and Facilitation Sub-Fund for Supply Chain Connectivity. To improve regional connectivity and enhance supply chain performance, ABAC urges APEC economies to continue to work towards the adoption of a region-wide framework for global data standards. Support is also proposed for ABAC's emerging pilot project focused on measuring the benefits of applying global data standards to international trade in medical products.

14. Promote the digital and internet economy. Today, digital and internet-based technologies provide the underpinning for the global economy, acting as a platform and catalyst for new innovations, and enabling new businesses and markets. The digital and internet economy is growing at a rapid pace all around us, and it offers enormous opportunities to advance APEC's regional economic integration and connectivity objectives, integrate MSMEs into global supply/value chains and markets, foster more inclusive and sustainable economic growth, advance human capital development, and address other critical societal goals. ABAC supports the creation of the SOM-level group on the Internet Economy, and looks forward to strong private sector engagement within this group. In 2014, ABAC established a digital economy workstream in the Connectivity Working Group, which aims to provide a unique, private sector perspective to APEC's work on the digital and internet economy. ABAC also encourages APEC to promote MSME inclusion in the digital and internet economy and plans to focus on policies that enable a strong digital and internet economy – including the Internet of Things, big data and data analytics, and on broadband developments – as well as bridging the digital divide.

15. Address skills shortages and facilitate cross-border worker flows. For over a decade, ABAC has sought to improve the way in which the movement of the region's 30 million international workers is managed. At last, significant momentum has built around the Earn, Learn, Return (ELR) principles developed over the past year and now being explored jointly with APEC officials. Together with the APEC Skills mapping initiative, APEC work on region-wide recognition of specific qualifications, ABAC is confident that we can improve greatly the effective matching across the region of reservoirs of in-demand skills in the areas of keenest shortage. As demographic changes amplify problems across the region of skills shortages and mismatches, this work is critical in all areas of business and ABAC seeks strong support from APEC Leaders to expedite progress.

16. Develop the APEC Business Travel Card. With over 150,000 APEC Business Travel Cards (ABTCs) now in use and demand for the card growing strongly, it is critically important to improve the card, and to minimize the workload of government officials in processing new cards. Agreement in 2014 to extend the life of the card from the present three years to five years was an important improvement. ABAC now seeks to cooperate with APEC officials to introduce e-Lodgment of cards – enabling applicants to fill in applications themselves and electronically. It is ABAC's hope that this important labor-saving initiative will both save processing time, and improve the reliability of information uploaded on the ABTC database.

17. Promote good regulatory practices. In recent years, there has been an emerging recognition of the need to tackle behind the border issues that create unnecessary non-tariff barriers to free trade and investment. High compliance costs make it difficult for companies, particularly MSMEs, to compete and grow in the global marketplace. ABAC urges APEC to strengthen implementation of the three good regulatory practices (GRPs) agreed to by APEC Leaders in the Honolulu Declaration as well as the three GRP tools identified in the APEC Bali Declaration. In this regard, ABAC applauds the agreement in Beijing on the APEC actions on public consultations on proposed regulations in the Internet Era and looks forward to assisting economies with implementing these actions through capacity building. Specifically, ABAC supports

efforts to more closely align APEC economies' regulations with global best practices, including those that promote regulatory coherence, utilize performance-based rather than prescriptive-based regulations, and design regulatory institutions that promote trade-friendly regulation. Further, ABAC encourages the strengthening of public-private cooperation through the use of consultation mechanisms to enhance accountability, promote mutual learning, and encourage best practices.

18. Strengthen the rule of law. ABAC highlights the importance of focusing on domestic policies and business environments affecting trade and investment within the borders. In 2015, ABAC has promoted the rule of law and its many features that include open and transparent government, absence of corruption, regulatory enforcement, fundamental rights, order and security, among others. ABAC urges governments' support to ensure that the laws are clear, publicized, stable and fair, thus providing an environment of legal certainty. ABAC encourages the sharing of best practices between APEC champions and economies that are underperforming on the rule of law and the holding of policy dialogues to improve in areas where public policy is hindering trade and investment. Recognizing that corruption has a negative impact on the ability of businesses and governments to operate effectively and ethically, ABAC endorses the APEC General Elements of Corporate Compliance adopted by APEC Leaders last November. The private sector has an important role to play in anti-corruption and we commit to sharing these Elements within our respective business communities. ABAC also encourages all economies to rigorously implement the Beijing Declaration on Fighting Corruption, enforce their corruption laws and actively participate in the newly created APEC Network of Anti-corruption Authorities and Law Enforcement Agencies (ACT-NET).

19. Enhance the internationalization of MSMEs. MSMEs' participation in regional and global markets is enhanced when they leverage on the benefits provided by e-commerce. A joint study by ABAC and the USC Marshall School of Business however found that existing international trade frameworks and regimes have been designed for traditional forms of trade and investment and are inhibiting growth and MSME participation in cross-border trade. The current systems have been built for big businesses

and MSMEs are struggling to deal with complex customs requirements and high trade compliance costs, high logistics costs, lack of cyber security laws and data protection, and lack of e-commerce infrastructure and e-payment facilities. It is recognized that governments have made efforts to keep pace with the onset of digitization, but there is still much work to be done. ABAC recommends that APEC economies: simplify and harmonize domestic policies and processes that enable internet-based business and trade; undertake capacity building initiatives that promote the adoption of internet-based tools and assist MSMEs to explore cross-border e-Commerce; encourage greater sharing of successful online training programs designed to educate MSME firms on cross-border e-Commerce, including ABAC's Cross Border E-Commerce Training Program (CBET); establish an APEC-wide action plan focused on creating forward-looking e-Commerce policy frameworks; and include e-Commerce trade facilitation provisions in FTAs and Regional Trade Agreements which is critical for connecting MSMEs to global and regional markets.

20. Facilitate MSME access to finance. ABAC welcomes the launch of the APEC Finance Ministers' Cebu Action Plan. ABAC calls for steps to enhance MSME access to finance as this remains a significant barrier to MSME expansion. These could include: launching pathfinder initiatives to help interested economies develop credit information systems and effective secured transaction regimes; regional dialogues on regulatory issues as they affect trade and supply chain finance and MSME finance in general; workshops on emerging facilitators of trade and supply chain finance; enhancing public-private collaboration to develop alternative funding mechanism for MSMEs and start-ups; and the development of best practices for strengthening MSMEs' resilience to the impact of financial crises, natural disasters and other unexpected events.

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

of a strategy that promotes innovation in more effective ways. A joint study by ABAC and the Asian Institute of Management highlights the need for APEC economies to identify and address the challenges that hinder the growth of these types of partnerships. Knowledge inputs and policy measures, based on careful analysis of behind the border, at the border and across the border issues pertinent to the internationalization of MSMEs, are key to addressing these.

22. Harness women's participation in the economy. Women's economic empowerment is a fundamental element of the inclusive growth that APEC strives to promote and is vital to the future competitiveness of the Asia-Pacific region. While ABAC applauds that steps have been taken to enhance women's economic participation, ABAC urges APEC to sustain the momentum to build on the gains. In 2015, ABAC is actively engaging the private and public sectors to consolidate best practices for increasing women's representation in the board room, corporate family responsibility, and integration of women-owned businesses into the global supply chain. ABAC looks forward to working with APEC to make continued strides toward a future of full economic inclusion of women, in particular by addressing barriers that prevent women from having access to capital, education, health and ownership of land and resources, and appointing women to serve in ABAC.

23. Build resilient communities and small businesses through micro-insurance and disaster risk financing. The Asia-Pacific region has for decades experienced the largest number of natural disasters, with enormous economic consequences. The region's vulnerable low income population remains for the most part without access to safety nets. To help build financial inclusiveness and resilience of communities and small businesses, ABAC recommends that APEC design roadmaps for the development of micro-insurance and disaster risk financing, in collaboration with experts from the private sector and international organizations. ABAC urges the adoption of a formal definition of financial inclusion to help measure and compare financial inclusion across economies and serve as a useful guide for policymakers and make an APEC model framework for financial inclusion strategies that can help economies in designing domestic strategies suited to local needs and conditions.



MAIN REPORT



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I. Introduction

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

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

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

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

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

II. Regional Economic Integration

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

A. Supporting the multilateral trading system

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

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

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

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

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

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

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

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

Recommendations:

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

B. Addressing non-tariff barriers

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

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

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

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

Recommendations:

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

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

C. Concluding pathways towards an FTAAP

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

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

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

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

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

Recommendations:

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

D. Enabling an FTAAP

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

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

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

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

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

Recommendations:

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

E. Advancing the new services agenda

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

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

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

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

Recommendations:

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

- Expand the APEC Services Trade Access Requirements (STAR) Database to cover all 21 APEC economies and more services sectors and provide more comprehensive information on market access and behind the border requirements for market entry in the various services sectors.
- Support the development work of the ASCF, an APEC-wide strategy for dialogue and guiding priorities for regional collaboration to ensure that services remain dynamic and responsive to economic, market and technological developments.

F. Building and strengthening global value chains

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

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

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

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

their integration into GVCs and to enhance their resilience.

Recommendations:

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

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

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

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

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

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

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

Recommendations:

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

H. Accelerating investment liberalization and facilitation

1. Regional Investment Analytical Group

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

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

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

Recommendations:

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

III. Sustainable Development

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

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

A. Achieving food security

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

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

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

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

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

Recommendations:

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

B. Promoting a healthy and productive workforce

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

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

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

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

Recommendations:

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

C. Accelerating green growth

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

Recommendations:

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

D. Increasing energy security

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

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

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

Recommendations:

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

E. Fostering sustainable and livable cities

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

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

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

Recommendations:

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

F. Facilitating the development of the mining sector in APEC

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

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

Recommendations:

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

10 APEC Mining Principles

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

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

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

G. Developing ICT infrastructure resilience against natural disaster

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

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

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

Recommendation:

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

H. Building momentum for work on remanufacturing

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

Recommendations:

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

IV. Connectivity

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

A. Accelerating infrastructure development

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

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

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

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

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

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

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

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

Recommendations:

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

B. Strengthening supply chain connectivity

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

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

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

Recommendations:

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

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

Enhancing quality of transport

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

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

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

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

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

Recommendation:

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

C. Promoting the digital and internet economy

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

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

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

Recommendations:

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

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

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

strong support from APEC Leaders to expedite progress.

Recommendations:

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

E. Improving business mobility

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

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

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

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

Recommendations:

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

F. Promoting good regulatory practice

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

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

Recommendations:

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

G. Strengthening the rule of law

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

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

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

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

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

Recommendations:

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

V. MSME and Entrepreneurship

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

A. Enhancing the internationalization of MSMEs

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

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

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

Recommendations:

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

B. Facilitating MSME access to regional and global finance

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

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

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

Recommendations:

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

their significant unintended impact on MSMEs' access to finance.

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

C. Building innovation and value-adding activities in MSMEs

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

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

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

Recommendations:

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

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

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

D. Harnessing women's participation in the economy

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

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

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

Recommendations:

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

VI. Finance and Economics

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

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

A. Developing disaster risk financing

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

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

Recommendations:

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

B. Expanding unbanked households' access to finance

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

Recommendations:

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

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

C. Promoting infrastructure investment

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

Recommendations:

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

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

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

Recommendations:

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

transition and presentation of traditional long-duration contracts.

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

E. Promoting capital market development

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

Recommendations:

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

F. Improving the financial regulatory environment

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

Recommendations:

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

G. Improving valuation practices in APEC

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

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

Recommendation:

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

VII. Industry Dialogues

A. Chemical Dialogue

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

B. APEC Life Sciences Innovation Forum

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

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

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

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

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

VIII. Conclusion

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





ANNEXES



23 April 2015

Hon. Gregory L. Domingo

Chair, Meeting of APEC Ministers Responsible for Trade
Secretary of Trade and Industry
Republic of the Philippines

Dear Secretary Domingo:

As you prepare for the meeting of APEC Ministers Responsible for Trade (MRT) in Boracay, the members of the APEC Business Advisory Council are conscious that you and your colleagues will be considering how to make progress on APEC's goal this year of promoting inclusive growth against a background of continuing fragility in the global economy and persisting inequality in many parts of our region.

ABAC is pleased to work with you and your officials to find innovative and practical solutions to these problems. Our views are premised on the conviction that an open, predictable and transparent trade and investment environment for goods and services empowers all sectors and provides new opportunities for our communities.

First and foremost, we support wholeheartedly your desire to take meaningful steps towards the Free Trade Area of the Asia-Pacific (FTAAP). We are working to bring a realistic business perspective to bear on the APEC Collective Strategic Study as the first tangible step in the Beijing Roadmap to FTAAP. On pathways and other practical building blocks to FTAAP, we are encouraged by the implementation of the Pacific Alliance, and urge participating economies to complete negotiations for the Trans Pacific Partnership (TPP) and the Regional Comprehensive Economic Partnership (RCEP). These negotiations need to be mutually reinforcing and high-quality, ambitious and comprehensive.

Secondly, it is clear to us that urgent action is required to shape global trading rules that will also benefit our region. We underscore the importance of implementing the WTO Trade Facilitation Agreement (TFA) and urge economies to complete their ratification procedures as soon as possible. We hope that completion of the TFA will lead to more effective engagement and progress in Geneva on the post-Bali work program of the Doha Agenda. We urge APEC economies to demonstrate leadership in securing a commercially significant expansion of the Information Technology Agreement (ITA) and swift conclusion of the stalled negotiations among key participating economies. Similarly, it is imperative that APEC economies honor their commitment to reduce applied tariff rates to five percent or less by the end of 2015 on the list of 54 environmental goods as endorsed by APEC Leaders in 2012 and reaffirmed annually since. We cannot afford to miss this deadline.

Thirdly, the Trade in Services Agreement (TiSA) has the potential to set a high level of ambition for global services trade. Currently, eleven APEC economies are participating in this negotiation. We urge more economies to join this negotiation and for existing participants to be inclusive of new applicants who are ready to support a high standard agreement. We welcome the proposal for an APEC Services Cooperation Framework which would serve as an enabler in achieving greater trade in services in the region. We urge Ministers to consider analytical tools to promote greater data transparency, such as the OECD's Services Trade Restrictiveness Index. Meanwhile, ABAC continues to organize Public-Private Dialogues on Services and to bring like-minded business organizations together in an APEC Coalition of Services Organizations. These activities help socialize our focus on the services sector.

Fourthly, we know that effective regional economic integration is premised on efficient and strong connectivity. We are developing recommendations to APEC Economic Leaders to promote more efficient movement of goods and services through measures supportive of global value chains, infrastructure investments, global data standards, utilization of the digital economy which enhances the internet economy, disaster risk financing and, the movement of workers to meet demands for skills across the region in our Earn, Learn and Return Initiative.

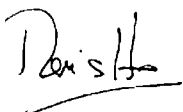
Fifthly, the region's vitality depends on the well-being of micro, small and medium enterprises (MSMEs) which account for over 97% of enterprises and contribute 60-90% of employment in APEC. We call on APEC economies to implement measures that would help MSMEs adopt innovation, gain access to finance, enhance their participation in the global market and make them more resilient. Likewise empowering the next generation of women entrepreneurs and business leaders will open up new areas of sustainable enterprise and growth.

Lastly, we draw your attention to our work aimed at identifying ways in which the private sector can contribute to enhancing the rule of law across our economies. We recognize that the basic building blocks for a sound business environment include open and transparent government, absence of corruption, regulatory enforcement, fundamental rights, and order and security. You will hear more from us about the importance of rule of law in the coming year.

With inclusive growth as a guiding principle, we encourage that the work done in the various areas are relevant to all sizes of business so that the benefits of integration and global trade bring prosperity to all. Further details are provided in the attachment.

We look forward to discussing these recommendations in greater detail in your meeting in Boracay.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Doris Ho", with a horizontal line underneath.

Doris Magsaysay Ho
ABAC Chair 2015

Progress Report to APEC Ministers Responsible for Trade of Relevant ABAC Initiatives

To address the challenges of sustained economic growth and promoting inclusion, resiliency and sustainability, we have adopted the theme “Resilient, Inclusive Growth: A Fair Deal for All” which is focused on the following priorities: advancing regional economic integration and services agenda; strengthening connectivity; facilitating MSME entry into global markets; maximizing innovation and human capital potential; and promoting livable, sustainable cities and resilient communities.

On Regional Economic Integration

1. **Enabling the development of a Free Trade Area of the Asia-Pacific.** ABAC welcomes progress towards achieving the Free Trade Area of the Asia-Pacific (FTAAP) as stipulated in the Beijing Roadmap. To this end, ABAC is committed to support and participate in the APEC Collective Strategic Study as a tangible first step to the realization of this transformative initiative in regional economic integration. ABAC’s focus will be on identifying gaps, from a business perspective, in the coverage of existing FTAs, reasons for non-utilization of existing FTA provisions and identifying next generation trade and investment issues. ABAC is encouraged by the progress being made in implementing the Pacific Alliance and continue to urge the earliest completion of the negotiations of the Trans Pacific Partnership (TPP) and Regional Comprehensive Economic Partnership (RCEP) and other practical steps to promote regional economic integration. These negotiations should be mutually supportive and aim for an agreement that is high-quality, ambitious and comprehensive.
2. **Supporting the multilateral trading system.** ABAC believes that successful multilateral agreements remain key to improving the global trading system. ABAC underscores the importance of implementing the WTO Trade Facilitation Agreement (TFA), which will contribute to reducing costs and increasing efficiency in the movement of goods and provision of services. ABAC urges economies to complete their domestic ratification procedures prior to the Meeting of APEC Ministers Responsible for Trade and move towards immediate implementation of the TFA. ABAC hopes that completion of the TFA will lead to more effective engagement and progress in Geneva on the post-Bali work program of the Doha Development Agenda.

The Information Technology Agreement (ITA) is one of the most commercially successful trade pacts in the WTO driving growth, innovation, and creating jobs in both developed and developing economies. Consumers in the APEC region have been the biggest beneficiaries of this agreement by getting more innovative and more affordable information and communication technology (ICT) products. Additionally, the ITA has provided access to necessary components of high-value ICT products, encouraging greater integration in global value chains for manufacturing of these devices. Tremendous technology innovation has changed the ICT sector’s product landscape since 1996, and thousands of new ICT products have appeared on the market, yet not a single new tariff line has been added to the ITA in the past 19 years.

ABAC believes that strong leadership by APEC Leaders would have led negotiation participants to engage in finalizing the ITA expansion negotiations after the Leaders’ meeting in November last year. However, we are now seriously concerned that negotiations may have stalled again and lost their momentum. We strongly urge a swift conclusion to these negotiations among key participating economies.

3. **Pursuing the new services agenda.** ABAC has long highlighted the critical need for services and investment liberalization and facilitation as key factors in regional economic integration and connectivity, development and inclusive growth that result to improvement in the lives of the people. Identifying the impediments to the growth of services industries in the region requires access to reliable and comprehensive data. ABAC calls for steps to be taken to ensure that the extension of trade in services data (Trade in Value Added (TiVA) and Services Trade Restrictiveness Index (STRI)) to cover all APEC economies be a matter of priority. ABAC looks forward to seeing the expansion of the APEC Services

Trade Access Requirements (STAR) Database to cover all 21 APEC economies and more services sectors and provide more comprehensive information on market access and behind the border requirements for market entry in the various services sectors. ABAC likewise recognizes that collection of information regarding the impediments to services trade in the region will be best provided by well-structured and supported services organizations in every APEC economy, and to that end, propose the establishment of an APEC Coalition of Services Organizations to further promote the new services agenda.

- 4. Building more effective global value chains.** ABAC has focused on strengthening of Global Value Chains (GVCs), and the integral role that services play, in advancing economic integration and connectivity in the region. ABAC continues to promote the Infrastructure Checklist, and initiatives to facilitate investment in infrastructure, in particular the value of the Asia-Pacific Infrastructure Partnership (APIP) Task Force. ABAC notes that the conclusion of comprehensive agreements such as the TPP and RCEP will be enormously instrumental in deepening the role of GVCs in the region. To ensure inclusiveness and enlarge the economic benefits of these agreements, we urge APEC Ministers to support participation by their own economies and accelerate completion of negotiation of these agreements. ABAC welcomes further cooperation to advance APEC's Strategic Blueprint on Global Value Chains and the measurement of TiVA data.

ABAC is collaborating with the APEC Policy Support Unit study on "Manufacturing Related Services in Supply Chains/Value Chains," noting that the services component of manufacturing supply chains contributes greater value than the manufacturing itself. We urge APEC Ministers to examine mechanisms, such as global data standards, to strengthen the resiliency of GVCs to enable business to navigate the challenges of natural disasters and economic crises, and in particular, to give focus to the greater impact on MSMEs.

- 5. Promoting trade in environmental goods and services.** ABAC commends APEC for its foresight and initiative to promote trade in environmental goods and services in the region. Failure to follow through, however, will put the credibility and reputation of APEC at stake, as well as have an adverse impact on the course of the Environmental Goods Agreement negotiations in the WTO, an initiative APEC has welcomed. APEC therefore needs to honor its commitment to reduce applied tariff rates to five percent or less by the end of 2015 on the list of 54 environmental goods as endorsed by APEC Leaders in 2012 and reaffirmed annually since. ABAC also encourages APEC to take decisive action to address barriers to trade in environmental services.
- 6. Bridging gaps in infrastructure investment.** According to the World Economic Forum, the estimated shortfall in global infrastructure debt and equity investment is at least US\$ 1 trillion per year. ABAC applauds APEC's efforts to address this gap by examining barriers to physical connectivity as part of its effort to implement the Blueprint on Connectivity. We look forward to supporting this effort through the implementation of the complementary Enablers of Infrastructure Investment Checklist. ABAC applauds the governments of Mexico, New Zealand, the Philippines, Russia and the United States for completing the Checklist's self-assessment process and sharing outcomes with ABAC. We encourage the governments of all APEC member economies to leverage this important tool in partnership with the business community by completing the Checklist this year.

The lack of a pipeline of bankable projects is a major obstacle to private sector investment in infrastructure in many economies. Through various initiatives, including the Asia-Pacific Infrastructure Partnership, the network of APEC Public-Private Partnership (PPP) Centers and the PPP Experts Advisory Panel that implement the third pillar of the Multi-Year Plan for Infrastructure Development and Investment (MYPIDI), as well as the Asia-Pacific Infrastructure Partnership and the ABAC Enablers of Infrastructure Investment Checklist, the public and private sectors are collaborating to address this challenge. ABAC invites APEC to take concrete steps to advance the first and second pillars of MYPIDI that the Leaders

envisioned to be completed in 2016, providing transparent and predictable regulatory frameworks and integrated planning mechanisms. ABAC also calls on APEC to continue progressing the fourth pillar – promoting long-term investment – by developing deep, liquid and integrated capital markets, as well as equity and debt financing instruments through which institutional investors can pool capital to invest in infrastructure; by encouraging regulatory and accounting frameworks that take into account the region’s diversity and business models and incentivize insurers and pension funds to invest in long-term assets; and by promoting continued accumulation of long-term assets through retirement income reform in response to the needs of aging societies.

- 7. Enhancing investment performance in the region.** ABAC has established the Regional Investment Analytical Group (RIAG), which met for the first time in early March, bringing together policymakers from regional investment promotion and facilitation agencies, as well as leading investment experts from multilateral development banks, international institutions and academics. RIAG will work on assessing regional investment policy frameworks and performance through the use of quantitative indicators of foreign direct investment flows into selected sectors in APEC economies and the policy practices of investment promotion agencies. ABAC will report the outcomes of this work to APEC Senior Officials and Ministers.
- 8. Enhancing supply chain connectivity.** ABAC applauds APEC’s continued efforts to enhance competitiveness in the region by making it easier, cheaper and faster to conduct trade in goods and services across borders. A 2013 report by the World Economic Forum estimates that raising all economies’ supply chain performance halfway to global best practices on border administration, as well as transport and communications infrastructure, would increase global GDP by approximately US \$2.6 trillion and exports by US \$1.6 trillion.

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

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

On Strengthening MSMEs

- 9. Strengthening and facilitating MSME entry into global markets.** MSMEs in the APEC region account for a significant share of employment, exports and GDP. Access to international markets offers a host of business opportunities for MSMEs, including new niche markets; possibilities to exploit economies of scale, scope, volume and technological advantages; ways of spreading risks; lowering and sharing costs, and in many cases, affording improved access to finance.

ABAC believes that the globalization process for MSMEs can be realized through: (i) policies that promote innovation and commercialization of cutting-edge technologies; (ii) capacity building initiatives that encourage the adoption of internet-based tools such as e-commerce platforms and online portals to assist MSMEs to explore and conduct cross-border transactions; (iii) online tools and curriculum to promote MSMEs access to the supply chain and global value chain; (iv) sustainable financing for MSMEs to strengthen resilience against crises (e.g. financial crises, natural disasters, economic instability).

ABAC also calls for steps to enhance MSME access to finance as this remains a significant barrier to MSME expansion. Specific measures include the following:

- (a) Facilitating supply chain finance to improve access to global supply chain. Supply chain finance provides an opportunity to help expand MSMEs' participation in regional and global trade, particularly under the current environment where access to and cost of working capital for MSMEs are being impacted by tighter rules on capital, liquidity and counterparty due diligence, among other issues related to the lack of enabling policy environments. ABAC recommends (i) legal and institutional reforms to facilitate debt financing secured by movable assets; and (ii) promoting the use of e-commerce platforms, innovative working capital management tools and regional currencies for cross-border trade payment and settlement.
- (b) Building the lending infrastructure for MSME finance. The lack of a legal and policy environment enabling wider use of reputational and movables collateral is a major challenge for many MSMEs in the region, which typically do not have the real estate collateral commonly preferred by lenders. Inclusive full-file and comprehensive credit information systems for both consumers and commercial enterprises enable entrepreneurs without physical collateral or accounts with formal financial institutions to access finance using their personal credit profiles from financial and non-financial transactions, as well as their enterprises' transaction and payments data. Robust legal architecture for movable asset lending and factoring with clear and effective enforcement mechanisms to protect creditor rights, efficient (e.g., centralized, exclusive and digitally accessible) collateral registries underpinning the perfection and priority of liens, and clear rules on priority enforceability and assignment of claims enable MSMEs to use movable assets (e.g., equipment and inventory), accounts receivables, intellectual property and other intangibles as collateral against loans. ABAC recommends the launch of pathfinder initiatives to develop effective and efficient operational infrastructure for credit information systems and secured transactions/movable asset finance.
- (c) Encouraging innovative financing mechanisms for MSMEs. Developing a comprehensive suite of policy and regulatory options supporting innovative and diversified financing models can broaden the range of financing options and help meet the needs of MSMEs at different stages of growth, while at the same time encouraging banks to maintain an active presence in MSME markets through financing mechanisms enabled by data to assess individual companies' creditworthiness. ABAC recommends that APEC initiate an MSME ecosystem review covering key issues, including regulatory frameworks, the environment for equity-based financing options (e.g., angel, seed and venture capital) and Islamic finance, economy-specific framework for the responsible growth of crowdfunding and digital finance (e.g., customer data, privacy and protection practices, customer protection and financial literacy training on issues such as e-money, data gathering and cyber security), and an enabling role for government in blended public-private financing vehicles.

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

that promotes innovation in more effective ways. We urge economies to adopt policies that will improve the environment for innovation, stimulate innovation, and increase the contribution of MSMEs to innovation.

- 11. Harnessing women's participation in the economy.** Studies consistently demonstrate significant social and economic costs of women's underrepresentation in APEC economies. While we applaud that steps have been taken to enhance women's economic participation, ABAC urges APEC Ministers to sustain the momentum to build on the gains. In 2015, ABAC is actively engaging the private and public sectors to consolidate best practices for increasing women's representation in the board room, corporate family responsibility, and integration of women-owned businesses into the global supply chain. ABAC looks forward to working with APEC to make continued strides toward a future of full economic inclusion of women.
- 12. Promoting good regulatory practice.** In recent years, there has been an emerging recognition of the need to tackle behind the border issues that create unnecessary non-tariff barriers to free trade and investment. For businesses, and in particular MSMEs, higher compliance costs hinder international competitiveness and complicate the most efficient deployment of economic resources.

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

On Sustainable Development

- 13. Ensuring food security.** Food security is vital for achieving more inclusive growth in the region. ABAC encourages the continued reduction in trade barriers that impede market access, investment and the efficient flow of food and agricultural goods. The private sector needs to be part of the solution for food security, working in partnership with governments. It has proved difficult to ensure an effective voice for business at the Policy Partnership for Food Security (PPFS). ABAC is prepared to continue to support this forum and has advanced proposals for strengthening private sector leadership and input.
- 14. Promoting green growth.** The development of renewable energy sources, increased energy efficiency and application of energy efficient production techniques are key elements to achieving economic growth in an environmentally sustainable manner. ABAC continues to recommend that economies introduce policies that stimulate renewable energy development, energy efficiency and conservation, encourage wider use of energy-saving equipment and techniques such as remanufacturing, and facilitate free trade of such goods and services.
- 15. Addressing energy security.** Energy security is vital to economic growth. Recent global developments, including dramatic price volatility, supply uncertainties, and shifting demand patterns, threaten to jeopardize economic growth. As the largest net importer of energy in the world collectively, APEC economies should articulate collaborative regional policy goals and establish strategic plans designed to increase long-term economic security and environmental sustainability for the entire region.

ABAC encourages Ministers to eliminate tariff and non-tariff barriers and enhance stronger intellectual property rights (IPR) protection for energy production, low-carbon and renewable energy technologies, including advanced clean coal technology and carbon capture and storage and other environmental goods and services; relax liquefied natural gas (LNG) destination clauses to create favorable conditions for trade and investment; encourage diversified and flexible LNG trading mechanisms; and phase out inefficient fossil fuel subsidies that distort the true cost of energy.

16. Promoting healthy workforces. Rapidly aging populations and the rising burden of non-communicable diseases (NCDs) pose a substantial challenge to sustainable economic growth. This trend has important implications for the well-being of communities, long-term care costs, as well as the productivity and availability of labor. Health-related absenteeism, disability, productivity losses and early retirement caused by poor health are a substantial concern for both the public and private sector. A 2014 study jointly commissioned by ABAC and the APEC Life Sciences Innovation Forum (LSIF) found that productivity losses within the six economies measured ranged from 3.5% to 5.3% of GDP in 2010. The same study projects that losses will increase to as much as 6.1% of GDP by 2030. ABAC urges governments to treat the study data as a call to action to proactively invest in healthy workforces and collaborate with the private sector to develop innovative solutions.

17. Expanding APEC's potential as a forum for mining sector collaboration. The mining sector plays a vital role in the economic success of all of APEC member economies by generating investment and driving regional trade. Close cooperation between governments and the private sector will be needed to promote the business-friendly regulatory environments and best practices in sustainable mining that create positive outcomes for investors, economies and communities.

As noted in APEC's independent assessment of the Mining Task Force (MTF), the mining life cycle involves all APEC economies, with the region consuming 60% and producing 70% of the world's minerals and metal and the MTF has an important role to play by bringing together the major producer and consumer economies in the region. ABAC applauds APEC's decision to renew the MTF mandate and the Philippines' decision to host a second Public-Private Dialogue in 2015. ABAC's 2014 Public-Private Dialogue with the MTF in Beijing, China and the creation of an MTF sub-fund for capacity building programs are important steps towards creating a more robust agenda on this important topic.

18. Facilitating access to trade finance. Trade finance is critical for the growth of Asia-Pacific trade. It enables secured and timely payments across borders, provides liquidity and funding, helps mitigate trade-related risks, and facilitates the flow of information about transactions. However, numerous factors, including laws, regulations and market practices, affect its availability and cost. To ensure its continued availability and reduce costs, ABAC recommends continuous dialogues to help financial regulators implement evolving capital, liquidity, counterparty due diligence and similar rules in a regionally consistent way that mitigates their unintended impact on suppliers' and buyers' access to affordable working capital.

19. Building resilient communities and small businesses through micro-insurance and disaster risk financing. The Asia-Pacific region has for decades experienced the largest number of natural disasters, with major economic consequences, as the concentration of people and business activities in hazard-prone areas continue to increase. The region's vulnerable low income population remains for the most part without access to safety nets (the percentage of low income people covered by insurance is 4.3 percent in Asia and 7.6 percent in Latin America). To help build financial inclusiveness and resilience of communities and small businesses, ABAC recommends that APEC design roadmaps for the development of micro-insurance and disaster risk financing, in collaboration with experts from the private sector and international organizations.

20. Supporting the Urban Infrastructure Network. The work of the Urban Infrastructure Network (UIN), established in 2014 and supported by ABAC, is on track to develop a holistic policy framework and action plan for sustainable urban infrastructure development. The UIN's work is organized in three workstreams focusing on: (a) sustainable urban infrastructure policy and planning; (b) project development and implementation; and (c) infrastructure financing. The policy framework and action plans will include recommendations for regional policymakers on assessing sustainability of urban planning and policies, project development facilities for urban infrastructure delivery and the funding and financing options and instruments available to regional, economy-level and local governments for infrastructure. The UIN is expected to report its draft policy framework and recommendations to APEC Ministers and Leaders by the end of 2015.

On Connectivity

21. Upholding the rule of law. ABAC recognizes the need to create sound business environments that attract investments, create jobs, and bring development to the people. One of the basic building blocks for this sound business environment is the rule of law and its many features that include open and transparent government, absence of corruption, regulatory enforcement, fundamental rights, order and security, among others. More than half of APEC economies have been found to be underperforming on the rule of law. These economies are mainly investment recipients while investor economies are in the upper half. Recognizing that corruption has a negative impact on the ability of businesses and governments to operate effectively and ethically, ABAC endorses the APEC General Elements of Corporate Compliance adopted by APEC Leaders last November. The private sector has an important role to play in anti-corruption and we commit to sharing these Elements within our respective business communities. ABAC also encourages all economies to rigorously enforce their corruption laws and to actively participate in the newly created APEC Network of Anti-corruption Authorities and Law Enforcement Agencies (ACT-NET).

22. Promoting the digital/internet economy. The digital/internet economy has been an active point of discussion in APEC throughout the years. ABAC supports the creation of the SOM-level group on the Internet Economy, and looks forward to strong private sector engagement within this group. In 2014, ABAC established a digital economy workstream in the Connectivity Working Group, which aims to provide a unique, private sector perspective to APEC's work on the digital economy. ABAC also encourages APEC to promote MSME inclusion in the digital/internet economy and plans to focus on policies that enable a strong digital/internet economy - including the Internet of Things, big data and data analytics, and on broadband developments - as well as bridging the digital divide.

23. Promoting the efficient management of labor in the region. ABAC has for many years sought improvements in the management of the movement of the 30 million or more international workers around the region. It strongly encourages more APEC economies to commit to providing data for the APEC Regional Skills Map – a critical foundation for understanding the deepest and most challenging labor shortages in the region. It also strongly supports recent APEC efforts to improve management of the movement of labor around the region, and encourages further consideration of the Earn, Learn, Return initiative launched and endorsed during 2014.

24. Facilitating travel within the region. More than 150,000 business travelers in the APEC region now benefit from the APEC Business Travel Card (ABTC). ABAC applauds the extension of the life of the card to five years, and in 2015, will be pressing APEC officials formally to endorse e-Lodgment of cards with the aim of simplifying and speeding the issuance of cards. Building on the experience of developing the ABTC, we encourage APEC officials to consider wider use of cards that facilitate travel around the APEC region, and commit to working closely on this within the APEC Travel Facilitation Initiative.



13 August 2015

Hon. Janette P. Loreto-Garin

Chair, High-Level Meeting on Health and the Economy
Secretary of Health
Republic of the Philippines

Dear Secretary Garin:

The APEC Business Advisory Council applauds your department's great efforts on promoting the health agenda in APEC this year, including hosting the 5th APEC High-Level Meeting on Health and the Economy (HLM5). The issue of health is directly connected to economic development and this year's theme of "Building Inclusive Economies." As representatives of the business communities throughout APEC, ABAC members are keenly aware of the mounting economic challenges and workforce impact resulting from the continued burden of infectious disease, rapidly aging populations, and exponentially increasing rates of non-communicable disease.

The HLM provides an important opportunity for collaboration among the healthcare stakeholders within the APEC region to discuss policies that promote an environment that fosters the growth of life sciences innovation and the improvement of public health in the Asia-Pacific region. We recognize the important contributions of the Life Sciences Innovation Forum (LSIF) and the Health Working Group in organizing the meeting and we encourage future APEC hosts to continue this vital dialogue.

Last year's ABAC and the LSIF's jointly-published study, *Impact of Health on Worker Attendance and Productivity in the APEC Region* concluded that economies risk a loss of GDP growth of as much as 6.1% by 2030 due to the impact of growing chronic disease and aging on workforce productivity. The enormous impact of non-communicable diseases on worker productivity and lost economic growth require innovative partnerships between governments and the private sector to address the challenges of chronic disease.

Building on the interest last year's report generated, ABAC is continuing its partnership with the LSIF to pursue additional research and examine the intersection between pensions and early retirement caused by ill health. We believe this new study will further demonstrate the importance of workforce health as a competitiveness issue.

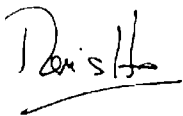
ABAC encourages APEC governments to adopt policies that facilitate innovation and increased flows of trade and investment, such as measures to promote regulatory convergence. ABAC is actively collaborating with the LSIF on a pilot project in relation to global data standards focused on pharmaceutical products. This pilot project is designed to promote patient safety by measuring the benefits and efficiency gains that can be achieved through a common data standard for the serialization and verification of pharmaceutical products. Such standards provide a practical means to address supply chain connectivity, traceability and integrity, thereby improving the operation of regional supply chains and advancing APEC's trade facilitation and medical supply safety goals.

ABAC applauds the *Healthy Women, Healthy Economies* initiative that is being jointly advanced by the Policy Partnership on Women and the Economy, the Health Working Group and the Human Resources Development Working Group. We look forward to seeing the recommendations and acknowledge the need to promote dialogue within ABAC and throughout the region's business community on women's health and workforce participation.

The issue of the health and well-being of the citizens of APEC is indelibly linked to economic growth and empowerment. We congratulate Ministers on their holistic approach to strengthening health systems and look forward to the approval of the Roadmap to achieve implementation of the Healthy Asia-Pacific 2020 initiative. ABAC is encouraged that health has gained increased prominence on APEC's agenda. Continued industry engagement coupled with robust participation from officials responsible for trade, finance, and healthcare policy, will ensure its continued success and further promote economic cooperation and inclusive growth in the region.

ABAC strongly supports APEC's health agenda and looks forward to continued collaboration with government officials to advance positive health and economic outcomes for the Asia-Pacific.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Doris Ho", with a horizontal line underneath.

Doris Magsaysay Ho
ABAC Chair 2015



13 August 2015

Hon. Arsenio M. Balisacan

Chair, APEC Structural Reform Ministerial Meeting
Secretary of Socioeconomic Planning
Republic of the Philippines

Dear Secretary Balisacan:

The APEC Business Advisory Council welcomes the opportunity to put to you recommendations for your forthcoming APEC Structural Reform Ministerial Meeting.

This is the second time Ministers have gathered to build a structural reform agenda for the Asia-Pacific region. Your meeting is timely given the ongoing fragility in the global economy and the persisting inequality between and within economies. Structural reform plays a key role in addressing entrenched policy-related distortions and impediments to a well-functioning market economy. It provides a critical backdrop to APEC's efforts to promote regional economic integration and to narrow development gaps.

In our last set of recommendations to this meeting five years ago, we stressed the importance of transparency, clarity and legal certainty in decision-making and the need for efficiency in regulation, particularly in terms of the timeliness of regulatory approvals. These elements are no less important today. Business has a key interest in ensuring that the rule of law, good government and well-performing institutions support the efficient operation of markets and minimize any unforeseen costs arising from regulation, especially for micro, small and medium enterprises (MSMEs).

This year, we would like to highlight the importance of reforms which aim to create a more level playing field and seamless commercial environment for businesses operating across multiple jurisdictions in the region. Business models are continuing to evolve and competition between economies is being matched by competition between value chains and networks. We urge governments to focus attention on addressing behind the border structural policy impediments by removing unnecessary non-tariff barriers to trade, enhancing connectivity between economies, enhancing the internet and digital economy, fostering innovation and taking account of the importance of MSMEs and the services economy.

ABAC therefore welcomes progress made under the umbrella of the APEC New Strategy for Structural Reform 2010-2015 and urges the formulation of a continuing strategy, taking into account the imperatives of the business environment outlined above and the specific recommendations outlined further in the attachment.

It is clear to us that the APEC Structural Reform Agenda provides a cross-cutting mechanism to respond to pressing next generation policy issues that are fundamentally important to achieving inclusive growth and development in the region. This reform agenda should enable business and economies to prosper in tandem by creating the conditions of future growth and job creation.

We look forward to discussing these issues and our recommendations in further detail when we meet in Cebu in September.

Yours sincerely,

Doris Magsaysay Ho
ABAC Chair 2015

ABAC Recommendations Relevant to the Structural Reform Agenda

Structural reform is increasingly important as a tool for governments to stimulate economic growth in the region rather than relying purely on public spending and monetary policy. APEC has been successful in reducing the significance of many barriers to trade and must now address the more difficult task of structural reform behind the borders.

Structural Reform for Inclusive Growth

ABAC is concerned that while our region offers enormous opportunities for growth, increasingly those benefits are experienced in an uneven way, with great disparities between economies and populations. Inclusive growth is paramount for regional development and prosperity, and structural reform can act to encourage greater sharing of the benefits of globalization and more equitable outcomes.

The region's vitality depends on the well-being of micro, small and medium enterprises (MSMEs) which account for over 97% of enterprises and contribute 60-90% of employment in APEC. We call on APEC economies to address impediments to the ability of MSMEs to adopt innovation, their access to finance and to global markets, and to implement measures to make them more resilient. Likewise, empowering the next generation of women entrepreneurs and business leaders will open up new areas of sustainable enterprise and growth.

Specific measures could include the following:

- (a) **Building the lending infrastructure for MSME finance.** The lack of a legal and policy environment enabling wider use of reputational and movables collateral is a major challenge for many MSMEs in the region. There is also a need to support innovative and diversified financing models that can broaden the range of financing options and help meet the needs of MSMEs at different stages of growth.

We recommend that APEC economies undertake legal and institutional reforms to help build credit information systems and improve policy frameworks for secured transactions and the use of movable assets as collateral.

We also call on APEC to initiate an MSME ecosystem review covering key issues, including regulatory frameworks, the environment for equity-based financing options and Islamic finance, economy-specific framework for the responsible growth of crowdfunding and digital finance, and an enabling role for government in blended public-private financing vehicles.

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

We urge Ministers to adopt policies that will stimulate and improve the overall environment for innovation, while encouraging MSME development and participation. APEC economies need to adopt a holistic view of the global value chains and international production networks in designing policies toward strengthening trade and investment linkages among MSMEs and big business.

- (c) **Enhancing the internationalization of MSMEs.** MSMEs' participation in regional and global markets is enhanced when they leverage on the benefits provided by e-commerce. The existing international trade frameworks and regimes have been designed for traditional forms of trade and investment and are inhibiting growth and MSME participation in cross-border trade.

We recommend the establishment of an APEC-wide action plan focused on creating forward-looking e-Commerce policy frameworks to address issues in e-payment frameworks, cross-border e-Commerce fraud and consumer protection, enhanced logistics value chains for MSMEs, streamlined customs procedures for MSMEs, and import duties and tax issues for e-Commerce exports and returns.

Structural Reform and the Digital and Internet Economy

While it is already clear that digital and internet-based trade and economic activity are having radical impacts on all aspects of business, few are yet clear about where digital developments will take our economies, and what regulatory changes will be needed to capture and optimize new opportunities. Only one thing is certain: international cooperation on regulatory change will be critical as digital developments provide the platform and catalyst for new innovations, and enable new businesses and markets, in particular for small companies. Digital regulation will need to be light handed and flexible in view of the uncertainty of future developments. Building appropriate regulatory architecture for the digital age will be one of our regulators' greatest challenges, and so will sit at the heart of future structural reform efforts.

ABAC is committed to collaborate closely with regulators to signal the implications of future change, and to make recommendations aimed at flexible and light handed regulation of the digital economy.

ABAC supports the creation of the SOM-level group on the Internet Economy, and looks forward to strong private sector engagement with this group.

Structural Reform and Services

The importance of the services sector to growth in the region is now so significant that services represent 66% of the combined GDP for all APEC economies. The changing nature of trade and the way that business is conducted in the region and around the world, means that removal of impediments to services industries has become critical to the prosperity of almost all other sectors. The services sector faces unique and significant barriers, many of which are regulatory, and must be addressed through structural reform.

We urge Ministers to address the behind the border barriers to services that reduce competition and restrict investment options.

We welcome the Philippines' proposal for an APEC Services Cooperation Framework which will serve as an enabler in achieving greater trade in services in the region.

We urge Ministers to consider enhanced APEC participation in analytical tools to promote data transparency, such as the OECD's Services Trade Restrictiveness Index.

We invite Ministers to participate in the Regional Conference of Services Coalitions and Services Industries to be held immediately before your meeting in Cebu in September, to discuss how we can work together to reduce barriers and improve the environment for regional trade in services.

Structural Reform and Infrastructure Investment

The lack of a pipeline of viable bankable projects is a major obstacle to private sector investment in infrastructure in many economies. The public and private sectors are collaborating to address this challenge through various initiatives, including the Asia-Pacific Infrastructure Partnership, the network of APEC Public-Private Partnership (PPP) Centers and the PPP Experts Advisory Panel that implement the third pillar of the Multi-Year Plan for Infrastructure Development and Investment (MYPIDI), as well as the ABAC Enablers of Infrastructure Investment Checklist.

We invite APEC to take concrete steps to advance the first and second pillars of MYPIDI that the Leaders envisioned to be completed in 2016, providing transparent and predictable regulatory frameworks and integrated planning mechanisms.

We also call on APEC to continue progressing the fourth pillar – promoting long-term investment – by developing deep, liquid and integrated capital markets, as well as equity and debt financing instruments.

Structural Reform and the Rule of Law

A basic building block for an environment conducive and supportive of business is the rule of law, incorporating open and transparent government, absence of corruption, regulatory transparency and enforcement, fundamental rights, and order and security. More than half of APEC economies have been found to be underperforming in relation to the rule of law based on the Rule of Law Index of the World Justice Project. This is of particular significance for sustainable growth and development in the region, given that those economies with the greatest challenges are investment recipients. Structural reform of legal institutions and provision of legal certainty are fundamental to investment decision-making.

Recognizing that corruption has a negative impact on the ability of businesses and governments to operate effectively and ethically, we endorse the APEC General Elements of Effective Voluntary Corporate Compliance Programs adopted by APEC Leaders last November. The private sector has an important role to play in anti-corruption and we commit to sharing these Elements within our respective business communities.

We urge APEC economies to give priority to delivering legal certainty to our communities, including for business and investors, firmly entrenching core principles of rule of law in all jurisdictions around the region.

We encourage all economies to rigorously enforce their anti-corruption laws, to fully implement the Beijing Declaration on Fighting Corruption, and to actively participate in the newly created APEC Network of Anti-corruption Authorities and Law Enforcement Agencies (ACT-NET).

Structural Reform and Behind the Border Trade Barriers

While tariffs have been progressively lowered in many economies, non-tariff barriers (NTBs) remain problematic for international trade and investment. This is a source of frustration for business. NTBs such as import licensing regimes that are biased in favor of local enterprises, subsidies, unjustified technical standards or local content requirements can diminish efficiency, distort trade patterns and inhibit investment flows, even where cross-border activity is not the target. The impact of NTBs can be particularly severe for global value chains. NTBs can be difficult to identify and to address.

APEC economies should seek to identify, assess and address significant NTBs. This should be done with the close engagement of business, in order to identify the NTBs with the greatest impact on trade and investment.

Enhanced regulatory coherence across the APEC region would lower costs for business, enhance connectivity and help achieve a seamless commercial environment.

Structural Reform and Labor Mobility

For over a decade, ABAC has sought to improve the way in which the movement of the region's 30 million international workers is managed, and to secure cooperation between APEC member economies in identifying solutions. ABAC's Earn, Learn, Return (ELR) principles have been built on the foundations of the Skills

Mapping initiative championed by APEC Australia over the past three years and will be aided by parallel APEC work on region-wide recognition of specific qualifications. Together, these three initiatives can be expected to improve greatly the effective matching of in-demand skills across the region, to eliminate corrupt and opaque practices in the regional movement of workers, and encourage workers to retain close links with their home economies.

As ABAC continues to collaborate closely with the APEC Human Resources Development Working Group on the ELR initiative, it proposes to create a task force to coordinate the three closely linked initiatives, at the same time recognizing that significant regulatory change and structural reform will be required to succeed. Initial progress should be sought on a sector by sector basis, perhaps beginning with allied health workers and construction workers.

ABAC, in partnership with PricewaterhouseCoopers, is undertaking a study on the New Global Worker. Global businesses today deploy a variety of corporate mobility programs to temporarily post employees around the world. These corporate mobility programs are a subset of today's skills migration patterns. But it is an important subset. Businesses are accelerating the movement of peoples against a backdrop of rising immigration restrictions as well as rising compliance and tax-related costs.

Creating greater opportunities for rewarding mobility experiences at all levels – not just senior employees or those with niche skill sets – help businesses in APEC by ensuring they have the right talent in the right place to support growth strategies; deliver value for both the sending and receiving economies through flows of knowledge, creation of networks and upskilling of employees.

We invite further action on these issues as APEC seeks to address labor mobility issues in the region.

Tools for Structural Reform: Good Regulatory Practices

ABAC has long recognized that the existence of predictable and transparent regulatory practices throughout the region is a critical element in building environments that will enable and foster inclusive growth and prosperity and signal to the international business community that investment is welcome and encouraged.

We urge APEC to strengthen implementation of the three good regulatory practices (GRPs) agreed by APEC Leaders in the Honolulu Declaration, as well as the three GRP tools identified in the APEC Bali Declaration.

We applaud the agreement in Beijing on the APEC actions on public consultations on proposed regulations in the Internet Era and look forward to assisting economies with implementing these actions through capacity building. Specifically, we support efforts to more closely align APEC economies' regulations with global best practices, including those that promote regulatory coherence, utilize performance-based rather than prescriptive-based regulations, and design regulatory institutions that promote trade-friendly regulation.

We encourage the strengthening of public-private cooperation through the use of consultation mechanisms to enhance accountability, promote mutual learning, and encourage best practices.



20 August 2015

Hon. Cesar V. Purisima

Chair, APEC Finance Ministers' Meeting
Secretary of Finance
Republic of the Philippines

Dear Secretary Purisima:

I am pleased to convey to you this year's ABAC Report to APEC Finance Ministers.
(<https://www.abaconline.org/v4/download.php?ContentID=22612587>)

Recent developments in financial markets have underscored the uncertainties in the minds of investors today about the sustainability of global economic growth. We believe that APEC has an important role to play in addressing the causes of these uncertainties by promoting the inclusive and broad-based growth that will transform the entire Asia-Pacific region into a strong and resilient engine of the global economy. In particular, we wish to highlight the significant contributions that improved access to finance, deeper, more liquid and regionally integrated capital markets, increased investment in infrastructure and a more developed long-term institutional investor base can make to this process.

Reforming our region's financial systems is critical to achieving this objective, and ABAC welcomes the Finance Ministers' decision to launch the Cebu Action Plan (CAP) to provide a roadmap for this undertaking. ***We particularly support the following initiatives currently being considered for inclusion in the CAP:***

- *Financing of micro, small and medium enterprises (MSMEs) and supply chains.* We endorse the proposal to establish a public-private Financial Infrastructure Development Network (FIDN) to help build credit information systems and improve policy frameworks for secured transactions and the use of movable assets as collateral. We also recommend initiatives to promote an enabling environment for trade and supply chain finance and alternative financing mechanisms, and to identify best practices for strengthening MSMEs' resilience against unexpected events, disasters and financial crises.
- *Expanding financial inclusion.* We welcome the proposal to use the Asia-Pacific Forum on Financial Inclusion as a platform for sharing experiences on policy innovations to promote financial inclusion and literacy. We propose that efforts be included to develop a regional model framework as a helpful reference to support member economies in designing domestic financial inclusion strategies through public-private collaboration, and discuss digital finance issues within the context of global and regional efforts.
- *Micro-insurance.* We endorse the proposal to utilize the Asia-Pacific Financial Forum (APFF) as a platform for a network of experts from the public and private sectors and multilateral organizations to help expand the coverage of micro-insurance in member economies.
- *Disaster risk financing (DRF).* We welcome proposals to harness the APFF in building a network of public and private sector experts who can collaborate to develop sound financial and insurance markets to secure public trust in DRF products; improve disaster risk evaluation; and raise public awareness of disaster risk.
- *Pipeline of bankable infrastructure projects.* We recommend that the CAP include initiatives to accelerate the development of a pipeline of bankable infrastructure projects through collaboration among the APEC PPP Experts Advisory Panel, the Asia-Pacific Infrastructure Partnership (APIP); the Global Infrastructure Hub; and the Urban Infrastructure Network (UIN).

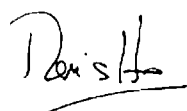
- *A greater role for the insurance and pension industries.* We recommend that the APEC PPP Experts Advisory Panel be tasked to identify best practices in establishing private funds for equity investment in infrastructure involving public-private collaboration; as well as standards, policies, regulations and practices that impact the appetite of insurers and pension funds for investing in long-term infrastructure projects. We recommend APFF as a platform for sharing experiences in retirement income reforms to promote the growth of the pension industry and availability of long-term funds. We also suggest the inclusion of capacity building training programs to help officials design effective policies to attract long-term investments.
- *Development and integration of capital markets.* We welcome the proposal to use APFF as a platform for improving capital market depth and liquidity in the region. As key deliverables, we recommend undertakings to promote an enabling legal and regulatory environment and capacity building to accelerate the development of repo and derivatives markets; improve availability of relevant information needed by capital market investors; and develop financial market infrastructure and practices to facilitate cross-border portfolio investments. We also underscore the importance of improving transparency of financial regulations and establishment of fair and coherent regulatory environment as a frontier for future work.
- *Asia Region Funds Passport.* We recommend that the CAP include regional public-private sector dialogues using APFF as a platform to facilitate its early enlargement to include a critical mass of participating jurisdictions, the key success factor for the scheme from the viewpoint of the industry, as well as its interoperability with other regional mutual recognition frameworks and identification of ways to effectively deal with other issues.

In addition, we propose broad collaboration across APEC fora on cross-cutting initiatives that impact the financial sector. In particular, we suggest that Finance Ministers support the efforts of the Regional Investment Analytical Group (RIAG) in developing indicators to help enhance investment flows in the region, as well as ABAC's collaboration with the International Valuation Standards Council (IVSC) to improve valuation practices across APEC economies.

We invite Finance Ministers to consider these recommendations, which are explained in greater detail in the report.

We thank the Finance Ministers for giving us the opportunity to contribute our views to the development of the CAP, in collaboration with our partners in APFF, APIP and the Asia-Pacific Forum on Financial Inclusion, through the various discussions hosted by the Philippines this year. We look forward to discussing these matters with the Finance Ministers during our upcoming dialogue in Cebu and to the successful conclusion of this year's AFMM.

Yours sincerely,



Doris Magsaysay Ho
ABAC Chair 2015



13 August 2015

Hon. Gregory L. Domingo
 Chair, APEC SME Ministerial Meeting
 Secretary of Trade and Industry
 Republic of the Philippines

Dear Secretary Domingo:

The APEC Business Advisory Council commends APEC for the ongoing and new initiatives developed to foster the participation of APEC micro, small and medium enterprises (MSMEs) in regional and global supply chains and markets.

We particularly applaud the adoption of the **Boracay Action Agenda to Globalize MSMEs**. The Action Agenda builds on APEC's extensive work on regional integration and trade facilitation and will help ensure that these efforts remain relevant and responsive to the needs of MSMEs as much as they are to big business. ABAC welcomes the opportunity for close collaboration between **ABAC and APEC, as called for in the Boracay Action Agenda**, toward promoting APEC MSMEs participation in global trade.

ABAC recognizes that access to international markets offers a host of business opportunities for MSMEs, including new niche markets; possibilities to exploit economies of scale, scope, volume and technological advantages; ways of spreading risks; lowering and sharing costs, and in many cases, affording improved access to finance. Affirming the importance of spreading the benefits of globalization to encompass MSMEs, ABAC priorities this year include **embracing electronic commerce to accelerate MSME access to international markets; promoting innovation and MSME participation in the global value chain (GVC); and expanding affordable credit to MSMEs**.

First, we believe that MSMEs' participation in regional and global markets is enhanced when they leverage on the benefits provided by e-commerce. The existing international trade frameworks and regimes have been designed for traditional forms of trade and investment and currently inhibit growth and MSME participation in cross-border e-Commerce. As such, based on a joint study carried out by ABAC and the University of Southern California Marshall School of Business, we identified that the cross-border e-Commerce process for MSMEs can be realized and enhanced through: (i) simplified and harmonized domestic policies and processes that enable internet-based business and trade; (ii) more capacity building initiatives that promote the adoption of internet-based tools and assist MSMEs to explore cross-border e-Commerce; (iii) greater sharing across APEC economies of successful training programs, especially online training courses designed to educate MSME firms on cross-border e-Commerce (including ABAC's Cross Border E-Commerce Training Program (CBET)); (iv) establishing an APEC-wide action plan focused on creating forward-looking e-Commerce policy frameworks to address issues in cross-border e-payment frameworks, cross-border e-Commerce fraud and consumer protection, customs procedures, import duties and taxes for e-Commerce exports and returns and utilization of online logistics services by MSMEs; and (v) including e-Commerce trade facilitation provisions in Free Trade Agreements and Regional Trade Agreements which is critical for connecting MSMEs to global and regional markets.

Second, ABAC recognizes the vital role of MSMEs in bringing new ideas to the market and in fostering innovation in the 21st century. There is, however, a need to boost innovation by creating an ecosystem that supports enterprise creation and increase innovation capabilities of MSMEs. Partnerships and networking among innovation systems, including those involving large and small businesses and the public sector need to be supported as part of a strategy that promotes innovation in more effective ways. The Asia-Pacific Open Innovation Platform (AP-OIP), a voluntary initiative to promote cross-border collaboration and facilitate technology development and market-driven dissemination, can serve as a model for enhancing the entrepreneurship environment for MSMEs and start-ups throughout the region.

Global value chains also play an important role in the global economy and offers great prospects in terms of job creation, competitiveness and economic prosperity. ABAC sees the need to further strengthen MSME participation in local supply chains and GVCs through long-term, value-driven partnerships between big businesses and small businesses. For this to prosper, APEC needs to identify and address the challenges that hinder the growth of these types of partnerships. Knowledge inputs and policy measures, based on careful analysis of behind the border, at the border and across the border issues pertinent to the internationalization of MSMEs, are key to addressing these. MSME and big business linkages in the global value chain facilitate transfer and upgrading of skills, knowledge, and technology. There is a need to institutionalize and incentivize good practices in these areas to strengthen the role of MSMEs in generating growth that is balanced, inclusive, sustainable, innovative, and secure. We urge policymakers to adopt a holistic view of the global value chains and international production networks in designing policies toward strengthening trade and investment linkages among MSMEs and big business. We recognize that enterprises can move up the value chain and become creators of new technologies and high-impact business solutions through innovation. An ecosystem that breeds innovation among MSMEs, that expands the network and quality of capacity building institutions, and that fosters innovative drive among entrepreneurs needs to be promoted.

In relation to the above, ABAC hereby endorses a set of principles on the digital economy. These bear key considerations as APEC seeks to advance its work on regional economic integration and in building regional connectivity. These principles are likewise relevant to efforts aimed at integrating MSMEs into global supply/ value chains and markets.

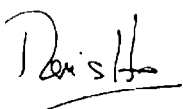
Third, ABAC calls for steps to enhance MSME access to finance as this remains a significant barrier to MSME expansion. We request Ministers to support the establishment of a public-private Financial Infrastructure Development Network to help build credit information systems and improve policy frameworks for secured transactions and the use of movable assets as collateral. We also recommend initiatives to promote an enabling environment for trade and supply chain finance and alternative financing mechanisms, and identify best practices for strengthening MSMEs' resilience against unexpected events, disasters and financial crises, in collaboration with the Asia-Pacific Financial Forum.

To help improve micro-enterprises' access to finance, we invite relevant officials and regulators to collaborate with ABAC through our annual Asia-Pacific Forum on Financial Inclusion, to share experiences on policy innovations in promoting financial inclusion and literacy. We propose that efforts be undertaken to harmonize definitions of financial inclusion, develop a regional model framework to help design domestic financial inclusion strategies, and address digital finance issues that impact financial access and their alignment with global and regional efforts.

Finally, on harnessing women's participation in the economy, studies consistently demonstrate significant social and economic costs of women's underrepresentation in APEC economies. While we applaud that steps have been taken to enhance women's economic participation, ABAC urges APEC Ministers to sustain the momentum to build on the gains. In 2015, ABAC is actively engaging the private and public sectors to consolidate best practices for increasing women's representation in the board room, corporate family responsibility, and integration of women-owned businesses into the global supply chain. ABAC looks forward to working with APEC to make continued strides toward a future of full economic inclusion of women.

ABAC believes that these recommendations will encourage, facilitate and support the development of MSMEs, the backbone of virtually every economy in this region. We look forward to participating in your Ministerial Meeting in Iloilo in September to further discuss these recommendations.

Yours sincerely,



Doris Magsaysay Ho
ABAC Chair 2015

Digital Economy Principles

- 1. Vision:** A digital economy is a fully 'connected' economy, enabled by ubiquitous affordable internet access. Progress towards a digital economy therefore calls for governments to be able to state a clear vision for digital advancement, accompanied by equally clear priority areas for economy action and enablement.
- 2. Transparency:** Government policies designed to create an environment that attracts investment and encourages entrepreneurship; need to be transparent; regulations consistent and predictable; and they need to encourage appropriate approaches to technology-neutrality, safety and security.
- 3. Regulatory Alignment:** Recognizing that a key advantage of the digital economy is the access local MSMEs have to global markets, governments need to ensure that local regulations in areas such as payments, security and consumer protection are compatible with other regional economies and trading partners. Alignment efforts not only enable local companies to scale, but also facilitate inward investment into the local market.
- 4. Build the Digital Ecosystem:** Progress towards a fully developed digital economy also requires the emergence of a domestic digital ecosystem, including a focus on the creation or development of auxiliary sectors, such as distribution, and operational and design skills.
- 5. Lifelong Human Capacity Building:** An adaptable focus on human resources is vital if the benefits of a digital economy are to be fully and continuously realized. Education and on-the-job skills and knowledge training need to be reviewed regularly and promoted in light of what the internet can offer online and interactively.
- 6. Simplify Business Processes:** Reviewing and addressing procedures that keep business costs high is fundamentally important if the digital economy is to become pervasive, particularly for start-ups. The greater use of digital technologies and streamlining of processes for business applications, approvals, payments and registrations should be a priority goal.
- 7. Unintended Impacts Minimized:** Regulatory over-reach can have a chilling effect upon investment and innovation in the digital economy. Where regulation is necessary, such as with national security or consumer protection, it should be 'smart' and not create uncertainty or negative unintended consequences.
- 8. Consult and Engage with Industry:** In order to understand the multi-sector impact of the internet, such as in agriculture, health, and education services, government needs to engage directly with industry on two fronts -- first, to assist and inform better the national policy planning process to strengthen a holistic approach to the creation of a digital society; and second, to encourage the widespread adoption of industry standards, safety and security standards/measures, pertinent codes of conduct, and interoperability strategy for the digital economy.



13 August 2015

Hon. Joseph Emilio Abaya

Chair, APEC Transportation Ministerial Meeting
Secretary of Transportation and Communications
Republic of the Philippines

Dear Secretary Abaya:

ABAC members believe that one of the region's highest priorities contributing to productivity, efficiency and competitive success is to build a highly efficient regional transport infrastructure. As such, we commend APEC for introducing clear aspirational targets for the development of our physical transport infrastructure in the recently endorsed APEC Connectivity Blueprint.

At the same time, ABAC believes that a strong and efficient physical transport infrastructure must rely not just on physical road or rail building, or airport and port development, but on strengthening all three pillars of connectivity (physical, institutional, and people-to-people). We believe convenience, efficiency, security, durability, safety, and sustainability are all fundamental to determining the quality of transport. ABAC advocates a comprehensive approach to developing seamless, high-quality transport, and to that end, we urge Ministers consistently to consider all three pillars of connectivity when building the transport plans of the future. Without regionally coherent and consistently applied regulations, without regionally developed and consistently applied practice standards and without strong coordination between the governments of the region, physical construction and connection of infrastructure will not be enough to realize high-quality, seamless transport between APEC economies.

High costs, but big rewards

The value and direct benefits of high-quality physical infrastructure cannot be underestimated. But nor can the financial and logistical challenge of developing necessary infrastructure. A recent McKinsey study projected that globally \$57 trillion in infrastructure investment will be required over the next two decades and transport infrastructure will comprise a significant portion of this spending.

Budget limitations for infrastructure development are a serious issue throughout the region, and cannot be allowed to result in low-quality, cheaply built infrastructure that ends up costing more in the long term. ABAC appreciates that APEC is considering not only the initial cost of procurement, but also the maintenance and operation costs, along with long-term durability, safety, and environmental factors.

The value of embracing the private sector

The private sector – both local and international – is an important source of the investment that is required for infrastructure development. To attract the needed capital and compete globally for investment, 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 should be harnessed through public-private partnerships (PPP). PPP mechanisms can be utilized to create sustainable and attractive infrastructure projects that are funded throughout their life cycle, including through measures to reinvest in existing assets through proper maintenance. ABAC encourages APEC to 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 take advantage of dialogues that include the private sector such as the Asia-Pacific Infrastructure Partnership (APIP) that facilitate additional capacity building.

The value of an infrastructure investment checklist

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. Twelve governments have now completed the Checklist and provided the business community with useful feedback that will inform future discussions.

We invite Transportation Ministers to reinforce APEC's mission of promoting connectivity by encouraging their governments to better understand the private sector's needs by reviewing frameworks such as the Checklist and engaging in partnerships with ABAC.

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

Improving maritime connectivity

We note that Transportation Ministers in their 2013 ministerial statement recognized that improved practices in maritime trade can connect major Asia-Pacific centers in an efficient, resilient, secure and more economically viable manner. Given the consideration of the transformation and development in maritime trade taking place worldwide, ABAC applauds the initiative taken by the APEC Transportation Working Group (TPTWG) to conduct an analytical study and to develop a set of policy recommendations regarding strengthening maritime connectivity.

ABAC would like to be an active partner to TPTWG as the analytical study progresses, providing business sector feedback based on industry expertise. Ultimately, strengthening maritime connectivity will promote mutually beneficial economic development as well as identify priority areas for cooperation, ranging from maritime cooperation to finance, security, environmental protection and people-to-people exchanges.

Strong supply chain connectivity

Rapid infrastructure developments and improvements can confidently be expected to stimulate economic growth, increase productivity, and promote trade connectivity in the Asia-Pacific region. Advances in transportation would shrink time and distance barriers, allowing goods and people to move quickly and efficiently.

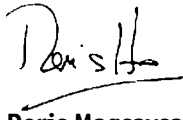
According to a WTO report, if trade costs along a supply chain fall by 10%, trade volumes could potentially increase by 20%. Transportation policies should work to minimize transportation costs, in line with the APEC Leaders' goal of a 10% improvement in the reduction of time, cost, and uncertainty of moving goods and services through the region. ABAC supports a systematic approach to improving supply chain performance, including deeper exploration of supply chain impediments; for example global data standards and interoperability of information systems can play an important role in eliminating supply chain chokepoints.

Private sector support in capacity building

ABAC applauds the APEC Women in Transportation initiative and the development of a data framework which benchmarks conditions for women in the sector and will ultimately provide recommendations and showcase best practices for enhancing women's participation in transportation throughout the Asia-Pacific region.

In addition to existing and highly effective dialogues like those provided by APIP, ABAC urges Transportation Ministers to strengthen public-private dialogues to help promote capacity building and knowledge growth to improve information technology capabilities, transport tracking systems, and warehouse management skills to elevate economies' capabilities to meet current business requirements. Ministers should encourage a dialogue between economies to share advanced logistics operational experience. We encourage APEC to engage with ABAC and the private sector as a source of expertise on targeted, focused, and economy-specific capacity initiatives aimed at building a supply chain toolkit to help economies meet the APEC Leaders' 10% improvement goal by the end of this year.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Doris Ho", with a horizontal line underneath.

Doris Magsaysay Ho
ABAC Chair 2015



13 August 2015

Hon. Zenaida Monsada

Chair, APEC Energy Ministers' Meeting
Secretary of Energy
Republic of the Philippines

Dear Secretary Monsada:

ABAC commends the Energy Ministers for the progress made in enhancing regional energy security by removing barriers to energy trade and investment, facilitating liquefied natural gas (LNG) trade, deploying advanced clean coal technology, promoting energy efficiency, smart communities, and safe nuclear power development, and cooperating on reducing fossil fuel subsidies. We also praise your ambitious commitment to double the share of renewables in the APEC energy mix and agreeing to develop a roadmap to achieve this goal.

Energy security is vital to economic growth and continues to be a regional challenge. APEC's 21 member economies account for over half of global energy production and consumption, and its share can be expected to grow as the Asia-Pacific Energy Research Center (APEREC) forecasts that the supply of primary energy to the APEC region will increase by about 53% by 2035 compared to 2005. We note that APEC's energy scenario includes wide disparities in resource endowment, changing mix of energy exporters and importers, and increased intra-APEC trade in energy. All of these factors highlight the need for collaborative regional policy goals and more integrated energy markets for trade, investment and global supply chains.

It is important that APEC continue to accelerate efforts to remove barriers and promote energy trade and investment. APEC's trade and investment climate is becoming more complex as governments become increasingly involved in the energy sector. We greatly appreciate your acknowledgment in your Beijing Declaration of the important role ABAC has in identifying the barriers to energy trade and investment. As noted by the International Energy Agency, more than ever before business decisions to invest or trade are influenced more by government policy measures than by economic signals from competitive markets. Although there is no single policy formula that will be optimal in promoting trade and attracting investment, ABAC recommends the following key elements in a model framework for trade and investment to include: policy certainty ensuring sanctity of contracts; open and fair competition on a level playing field devoid of local content rules, quotas, tariffs, restrictions on foreign ownership and investment; market-based pricing undistorted by subsidies; relaxed liquefied natural gas (LNG) destination clauses that create favorable conditions for trade and investment; diversified and flexible LNG trading mechanisms; independent government regulation; effective inter-ministerial coordination that is transparent, rules-based, predictable, and allows stakeholder consultation; viable legal systems that resolve commercial disputes on a timely basis and protects intellectual property; and banking systems which allow free transfer of capital.

Energy security will increasingly depend upon policies which support green growth. ABAC commends APEC for its foresight and initiative in this area, breaking new ground with ambitious goals. The agreement to reduce applied tariff rates for 54 environmental goods (EGs) to 5% or less by the end of 2015 prompted 17 members of the WTO to commence negotiation on the Environmental Goods Agreement (EGA). ABAC strongly encourages all APEC economies to meet the end of the year deadline and join the negotiating round of the EGA. Failing to follow through on this commitment will undermine APEC's credibility as well as deter the progress of EGA negotiations.

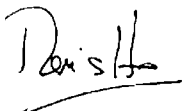
APEC has been a strong advocate of energy and resource efficiency. ABAC applauds APEC's commitment to reduce the aggregate energy intensity by 45% by 2030 from 2005 levels. Wider use of energy-saving equipment and technical innovation will contribute greatly in this endeavor. In particular, energy conservation is a readily available source of energy. In terms of resource efficiency, the APEC Pathfinder on Facilitating Trade in Remanufactured Goods established in 2011 highlights the importance of remanufacturing in creating a circular economy. We also strongly support the Energy Working Group (EWG)'s efforts to address energy resiliency through the development of efficient and reliable electricity grids.

Sustainable economic growth cannot happen without environmental protection. ABAC commends the many initiatives endorsed by APEC to reduce the region's environmental footprint. We welcome the APEC Leaders' ambitious commitment to double the share of renewables, including in power generation by 2030. We encourage ministers to take decisive actions on environmental services, including further identification and elimination of non-tariff barriers to environmental goods and services and support for the development of low-carbon and renewable energy technologies (such as movement from less efficient, sub-critical coal plants to high-efficiency, low-emissions coal-fueled power generation, natural gas for electricity generation, and carbon capture and storage). Many APEC economies will continue to generate power using fossil fuel – including coal – and it is imperative that the best available technology be deployed.

Energy drives economic growth. For business to thrive in rapidly changing times, it is imperative to establish rules and regulations that are predictable. ABAC strongly encourages APEC Energy Ministers, the EWG and the Committee on Trade and Investment to play an important role in helping APEC member economies remove barriers to energy trade and investment to ensure that our region will continue to thrive economically and sustainably.

We are ready to discuss the above recommendations with you at the upcoming APEC Energy Ministers' Meeting in Cebu this October and look forward to engaging with you and your peers on on-going energy initiatives.

Yours sincerely,



Doris Magsaysay Ho
ABAC Chair 2015

APEC Business Advisory Council

Founding and Structure

The APEC Business Advisory Council (ABAC) was created by the APEC Economic Leaders in November 1995 to provide advice on the implementation of the Osaka Action Agenda and on other specific business sector priorities, and to respond when the various APEC fora request information about business-related issues or to provide the business perspective on specific areas of cooperation. It is the sole non-governmental entity that has an official role in the APEC Economic Leaders' Meeting through a formal dialogue.

ABAC comprises up to three members of the private sector from each economy. ABAC members are appointed by their respective Leaders, and represent a range of business sectors, including small and medium enterprises. The economy determines the term of membership of each appointee as well as its own administrative arrangements and staff support.

The ABAC Secretariat based in Manila, the Philippines serves all members and all economies and maintains a website. Funding is provided through a system of annual dues, which are structured to reflect the size of each economy, following the APEC formula.

ABAC in 2015

In 2015, the Philippines took on the Chair of ABAC, with China and Peru as co-chairs, following the APEC order. Co-chairs represent immediate past and future chairs.

ABAC adopted the theme "Resilient, Inclusive Growth: A Fair Deal for All." The 2015 work program seeks to enhance economic growth and prosperity in the region and to strengthen the Asia-Pacific community. It focuses on the following priorities:

- Advancing regional economic integration and services agenda
- Strengthening and facilitating MSME entry into global markets
- Maximizing innovation and human capital potential
- Promoting livable, sustainable cities and resilient communities

In line with the priorities of the ABAC Chair, ABAC established five working groups to carry forward its work during the year, namely:

- Regional Economic Integration Working Group (REIWG)
- Connectivity Working Group (CWG)
- MSME and Entrepreneurship Working Group (MSMEEWG)
- Sustainable Development Working Group (SDWG)
- Finance and Economics Working Group (FEWG)

In addition, ABAC collaborates with key international public and private sector institutions on financial issues affecting the region through the Advisory Group on APEC Financial System Capacity Building. ABAC convened four meetings in 2015: Hong Kong, China (27-30 January); Mexico City, Mexico (20-23 April); Melbourne, Australia (10-13 August); and Manila, Philippines (13-16 November). Four meetings of the Advisory Group were also held: Hong Kong, China (27 January); Mexico City, Mexico (20 April); Melbourne, Australia (11 August); and Manila, Philippines (13 November).

ABAC actively participated in various APEC meetings and related events, among others: Special Senior Finance Officials' Meeting (SFOM) (Clark, Philippines: 21-22 January); First APEC Senior Officials' Meeting (SOM I) and related meetings (Clark and Subic, Philippines: 26 January-7 February); 4th APEC Public-Private Partnership (PPP) Experts Panel Meeting (Tagaytay, Philippines: 4 March); Finance and Central Bank

Deputies Meeting (Tagaytay, Philippines: 5-6 March); APEC FMP Seminar on Disaster Risk Finance (Bacolod City, Philippines: 29-30 April); High-Level Policy Dialogue on Human Capacity Building (Port Moresby, Papua New Guinea: 6-7 May); SOM II and related meetings (Boracay, Philippines: 10-21 May); Meeting of APEC Ministers Responsible for Trade (MRT) (Boracay, Philippines: 23-24 May); APEC Transportation Working Group Meeting (Jeju, Korea: 26-29 May); APEC FMP Workshop on Fiscal Management through Transparency and Reforms (Bagac, Philippines: 9-10 June); Senior Finance Officials' Meeting (Bagac, Philippines, 11-12 June); APEC FMP Workshop on Infrastructure Financing and Capital Market Development (Iloilo City, Philippines: 23-24 July); SOM III and related meetings (Cebu, Philippines: 22 August-6 September); APEC Structural Reform Ministerial Meeting (Cebu, Philippines: 7-8 September); APEC Finance Ministerial Meeting (Cebu, Philippines: 9-11 September); High-Level Policy Dialogue on Women and the Economy (Manila, Philippines: 16-18 September); APEC SME Finance Forum (Iloilo, Philippines: 22 September); 22nd APEC SME Ministerial Meeting (Iloilo, Philippines: 25 September); Policy Partnership on Food Security (Iloilo, Philippines: 2-3 October); High-Level Policy Dialogue on Food Security and the Blue Economy (Iloilo, Philippines: 4-6 October); APEC Transportation Ministerial Meeting (Cebu, Philippines: 8-10 October); 12th APEC Energy Ministerial Meeting (Cebu, Philippines: 12-14 October); Concluding SOM (Manila, Philippines: 13-14 November); and APEC Ministerial Meeting (Manila, Philippines: 16-17 November).

Other events organized and/or participated in by ABAC included: the Asia-Pacific Financial Forum (APFF) Roundtable on Financial Regulations (Hong Kong, China: 27 January); Public-Private Dialogue (PPD) on IT-Business Process Management, Creative Industries, and Research and Development Services (Clark, Philippines: 3 February); Asia-Pacific Forum on Financial Inclusion (Tagaytay, Philippines: 3-4 March); APFF Roundtable on Financing Micro, Small and Medium Enterprises in the Asia-Pacific Region (Mexico City, Mexico: 20 April); APFF Roundtable on Expanding Opportunities for Long-Term Investment in Asian Infrastructure (Toronto, Canada: 15 May); PPD on Manufacturing, Agriculture and Environment-related Services (Boracay, Philippines: 17 May); ABAC-IFC International Conference on Warehousing and Collateral Management (Beijing, China: 19 May); ABAC-SME Finance Forum Workshop on Innovative Financing for MSMEs (Kuala Lumpur, Malaysia: 21 May); CEO Roundtable and MRT-CEO Dialogue (Boracay, Philippines: 23-24 May); APEC Accelerator Network Forum (Atlanta, USA: 8 June); APFF Workshop on The Real Economy, Supply Chain and Finance: The Challenges in Working Together and the Way Forward (Singapore, 28 July); APFF Special Session on Retirement Income and Longevity and the Asia Region Funds Passport and APFF Symposium on Advancing the Agenda for Asia-Pacific Financial Development and Integration (Melbourne, Australia: 10 August); Regional Conference of Services Coalitions (Cebu, Philippines: 7 September); Finance Ministerial-CEO Dialogue (Cebu, Philippines: 11 September); CEO Roundtable and SME Ministerial-CEO Dialogue (Iloilo, Philippines: 24-25 September); CEO Roundtable and Transportation Ministerial-CEO Dialogue (Cebu, Philippines: 8-9 October); CEO Roundtable and Energy Ministerial-CEO Dialogue (Cebu, Philippines: 12-13 October); APEC Voices of the Future (Manila, Philippines: 13-19 November); APEC CEO Summit (Manila, Philippines: 16-18 November); and APEC SME Summit (Manila, Philippines: 17 November).

Studies and Related Work

To form the basis of its contribution to the APEC Collective Strategic Study on Issues Relating to the Realization of the Free Trade Area of the Asia-Pacific (FTAAP), ABAC commissioned research work that sought to identify the issues for achieving FTAAP and make recommendations to suit the future requirements of business in the region and to ensure wide coverage and broad access to its benefits and opportunities.

ABAC partnered with the University of Southern California's Marshall School of Business on a study on Promoting MSME Inclusion through the Digital Economy, in particular by identifying the critical barriers and impediments to cross-border e-commerce and determining where focused effort will produce the greatest improvements.

ABAC worked with the Asian Institute of Management on a study on “Small Business as Part of Big Business Global Value Chains” which sought to document successful cases featuring big business-small business partnerships that have facilitated MSME access to the global value chains. The study also identified the essential policies and regulatory structures, including possible principles and capacity building requirements for MSMEs which would effectively foster sustainable and inclusive business models.

ABAC collaborated with the Foundation for Development Cooperation with the support of Citi Foundation to publish and disseminate the report entitled “Developing the Lending Infrastructure for Financial Inclusion” based on the proceedings of the 2015 Asia-Pacific Forum on Financial Inclusion.

Finally, ABAC commissioned a research project on establishing effective online capacity building programs to support MSMEs’ access to global markets and internet finance.

Outreach

As part of its communications outreach efforts and in line with its economic inclusion agenda, ABAC continued to hold the ABAC Women’s Forum (AWF) which aims to co-develop and promote policies that enhance opportunities for women in business in the region, and APEC SME Summits.

ABAC continued to strengthen its interaction and engagement with APEC Ministers, Senior Officials and APEC fora. It partnered with PECC and the APEC SOM Chair’s Office to organize three Public-Private Sector Dialogues on Services, namely: on Information Technology and Business Process Management (IT-BPM), Creative Industries, and Research and Development Services; on Manufacturing, Agriculture and Environment-related Services; and a Regional Conference of Services Coalitions and Services Industries. ABAC jointly organized with the APEC Mining Task Force a Public-Private Dialogue on Mining. ABAC members also continued to hold meetings with the APEC leadership at the domestic level after each ABAC meeting.

Future Work

ABAC remains fully committed to providing advice to APEC Leaders on business sector priorities and in pushing forward the APEC agenda on trade and investment liberalization and facilitation. Future work will continue to focus on regional economic integration, FTAAP, trade facilitation, infrastructure development and investment, supply chain connectivity and global value chains, regulatory coherence, MSME development, rule of law, energy security, food security, blue economy/oceans-related issues, green growth, and the development and integration of financial markets.

List of Acronyms

A2C2	APEC Alliance for Supply Chain Connectivity	ITA	Information Technology Agreement
ABAC	APEC Business Advisory Council	IT-BPM	Information Technology and Business Process Management
ABTC	APEC Business Travel Card	IVSC	International Valuation Standards Council
ACT-NET	APEC Network of Anti-corruption Authorities and Law Enforcement Agencies	LNG	Liquefied Natural Gas
ADB	Asian Development Bank	LSIF	APEC Life Sciences Innovation Forum
AEO	Authorized Economic Operator	MRT	APEC Ministers Responsible for Trade
APEC	Asia-Pacific Economic Cooperation	MSME	Micro, Small and Medium Enterprises
APERC	Asia-Pacific Energy Research Center	MSMEEWG	Micro, Small and Medium Enterprises and Entrepreneurship Working Group
APFF	Asia-Pacific Financial Forum	MTF	APEC Mining Task Force
AP-FIF	Asia-Pacific Food Industry Forum	MYPIDI	Multi-Year Plan for Infrastructure Development and Investment
APIP	Asia-Pacific Infrastructure Partnership	NCD	Non-Communicable Disease
AP-OIP	Asia-Pacific Open Innovation Platform	NTB	Non-Tariff Barrier
ARFP	Asia Region Funds Passport	OECD	Organization for Economic Cooperation and Development
ASCF	APEC Services Cooperation Framework	PA	Pacific Alliance
AWF	ABAC Women's Forum	PECC	Pacific Economic Cooperation Council
BMG	APEC Business Mobility Group	PPD	Public-Private Dialogue
CBET	Cross-Border E-Commerce Training Program	PPFS	APEC Policy Partnership on Food Security
CEO	Chief Executive Officer	PPWE	APEC Policy Partnership on Women and the Economy
CWG	Connectivity Working Group	PPP	Public-Private Partnership
DRF	Disaster Risk Finance	RCEP	Regional Comprehensive Economic Partnership
EG	Environmental Goods	REIWG	Regional Economic Integration Working Group
EGA	Environmental Goods Agreement	RIAG	Regional Investment Analytical Group
EGS	Environmental Goods and Services	RTA	Regional Trade Agreement
ELR	Earn, Learn, Return initiative	SDWG	Sustainable Development Working Group
EWG	APEC Energy Working Group	SFOM	Senior Finance Officials' Meeting
FDI	Foreign Direct Investment	SME	Small and Medium Enterprises
FEWG	Finance and Economics Working Group	SOM	APEC Senior Officials' Meeting
FIDN	Financial Infrastructure Development Network	STAR	APEC Services Trade Access Requirements
FMP	Finance Ministers' Process	STRI	Services Trade Restrictiveness Index
FTA	Free Trade Agreement	TFA	Trade Facilitation Agreement
FTAAP	Free Trade Area of the Asia-Pacific	TiSA	Trade in Services Agreement
GDP	Gross Domestic Product	TiVA	Trade in Value Added
GDS	Global Data Standards	TPP	Trans Pacific Partnership
GRP	Good Regulatory Practice	UIN	Asia-Pacific Urban Infrastructure Network
GVC	Global Value Chain	USC	University of Southern California
HLM5	5th High-Level Meeting on Health and the Economy	WE-APEC	Women's Entrepreneurship in APEC
HRDWG	APEC Human Resources Working Group	WTO	World Trade Organization
HWHE	Healthy Women, Healthy Economies		
ICT	Information and Communication Technology		
IFC	International Finance Corporation		
IPR	Intellectual Property Rights		
IISS	International Infrastructure Support System		

ABAC Executive Director 2015

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