

13 August 2015

**Hon. Arsenio Balisacan**

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

Dear Secretary Balisacan:

The APEC Business Advisory Council (ABAC) 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 size enterprises.

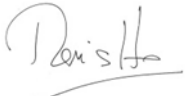
This year, we would like to highlight the importance of reforms which aim to create a more level playing field and seamless commercial environment for businesses operating across multiple jurisdictions in the region. Business models are continuing to evolve and competition between economies is being 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,

A handwritten signature in cursive script that reads "Doris Ho". The signature is written in a dark ink and is positioned above the printed name.

**Doris Ho**  
ABAC Chair 2015

## ABAC Recommendations Relevant to the Structural Reform Agenda

### *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 crowd funding 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 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 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 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 Asia-Pacific Infrastructure Partnership and 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. 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. This is a source of frustration for business. NTBs such as opaque import licensing regimes, 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 securing 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.

### ***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.**