

27 April 2016

Hon. Magali Silva Velarde Alvarez

Chair, Meeting of APEC Ministers Responsible for Trade &
Minister of Foreign Trade & Tourism
Peru

Dear Minister Silva:

On behalf of the APEC Business Advisory Council (ABAC), I am pleased to submit to APEC Ministers Responsible for Trade our views on key issues which we believe will contribute significantly to achieving our common objective of promoting quality growth and human development in the region. We believe strongly that, at this fragile time for the global economy, the APEC vision can only be attained by expanding trade and investment liberalization and by a renewed attention to structural economic reform which promotes good governance and sound regulation and incentivizes further the growth of services and innovation in the region.

First and foremost, we remain firm in our conviction that a free and open environment for global trade and investment is the foundation for achieving this growth path as envisioned by APEC. We urge APEC to take concrete steps towards the realization of a Free Trade Area of the Asia-Pacific (FTAAP). To that end, we encourage economies to accelerate the momentum towards an eventual FTAAP by identifying possible approaches and a future timetable. Prompt ratification of the Trans Pacific Partnership (TPP) by contracting parties and completion of the Regional Comprehensive Economic Partnership (RCEP) negotiations would be welcomed which, together with the Pacific Alliance (PA), provide the pathways to FTAAP. To be effective FTAAP pathways, these must be high-quality, ambitious and comprehensive agreements which provide for accession by additional economies.

The APEC Collective Strategic Study provides a unique opportunity to advance the FTAAP concept. We urge you to pay close attention to the views we have submitted in the context of the study we commissioned as part of this process. We are ready to provide any further perspectives that are required to ensure that an eventual FTAAP remains relevant to business and takes account of constantly evolving circumstances through a process of continuing review.

Second, we continue to emphasize the importance of the World Trade Organization (WTO) as the framework for the global trading system. We welcome the outcomes of the WTO Ministerial Conference in Nairobi, including the historic agreement to eliminate agricultural export subsidies and congratulate the parties on the successful conclusion of the Information Technology Agreement (ITA) expansion. We urge more economies to join the Trade in Services Agreement (TiSA) as well as the Environmental Goods Agreement (EGA) negotiations. These achievements provide significant encouragement for future WTO multilateral negotiations. We urge early implementation of the Nairobi package and prompt ratification of the Trade Facilitation Agreement (TFA) by APEC WTO members.

Third, the region's dynamic services sectors provide the key to a more competitive, efficient and inclusive economy. We view the APEC Services Competitiveness Roadmap as an important initiative

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to promote further services trade liberalization and to pave the way for more coherent, transparent and efficient regulatory environments for services. We call on APEC to press on with the development and promotion of the Services Trade Access Requirements (STAR) database to increase the transparency of services regulation in APEC economies, to seek better ways to produce services-related statistics, and to look at services from a sectoral perspective so that we can address issues on a more focused basis. We will continue to work through the Asia Pacific Coalition of Services Organizations to support regional dialogues and information exchanges on matters critical to the sector's development.

Fourth, we encourage APEC economies to establish policy frameworks that promote foreign direct investment. We support actions that promote coherence in investment agreements affecting the region, including the examination of mechanisms to achieve a broader investment policy framework. In this regard, we will continue the work of the Regional Investment Analytical Group (RIAG) and undertake a study of existing agreements.

Fifth, given the importance of MSMEs as drivers of entrepreneurship and employment, we believe expanding their role in regional trade and investment is an important means for achieving quality growth and reinforcing the benefits of globalization. We call on APEC to expand efforts to promote MSMEs' access to global markets, services, new technologies and finance.

Sixth, recognizing that a fundamental element of inclusive growth is food security, we continue to call for a strong, strategically focused partnership between governments and the private sector on food security. We would welcome robust action to achieve the reduction in trade barriers, including non-tariff barriers that impede market access, investment and efficient flow of food and agricultural goods, as well as practical projects to bring about greater cohesion among regional food markets.

Seventh, we underscore the importance of strong and deep connectivity for regional economic integration. A key component of effective integration is the efficient movement of goods, services and capital, delivered through global value chains, infrastructure investment, global data standards, and digital trade channels. We call on APEC economies to work closely with business to reduce behind-the-border barriers to trade and investment, and develop regulations that are internationally coherent and transparent.

Finally, we believe that upholding the rule of law and promoting good regulatory practices are fundamental to quality growth. We urge governments to address over-regulation and promote regulatory quality through impact assessments, cost-benefit analysis, transparency, public consultation, consistent enforcement and coordination between domestic and international regulators.

A more detailed report on initiatives being developed by ABAC is provided in the attachment.

We look forward to discussing these recommendations with you in greater detail at your meeting in Arequipa.

Yours sincerely,



Juan Francisco Raffo
ABAC Chair 2016

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

1. Concluding pathways towards an FTAAP. ABAC strongly supports the steps taken by APEC towards a Free Trade Area of the Asia Pacific (FTAAP). ABAC is encouraged by the significant progress on the pathways to achieve an FTAAP. ABAC encourages economies to accelerate the momentum towards an eventual FTAAP by identifying possible approaches and a future timetable. Prompt ratification of the Trans Pacific Partnership (TPP) by contracting parties and completion of the Regional Comprehensive Economic Partnership (RCEP) negotiations would be welcomed which, together with the Pacific Alliance (PA), provide the pathways to FTAAP.

ABAC notes that the TPP is attempting to address new issues such as access issues for small and medium-sized enterprises, e-commerce, regulatory coherence, transparency and anti-corruption, labor, environment and competitiveness, among others. As all of these issues are essential to conducting business in an innovative environment, ABAC hopes that participating economies will also negotiate and develop an ambitious, high-quality and comprehensive agreement at the earliest possible opportunity.

2. Enabling an FTAAP. ABAC has long encouraged APEC to incubate the FTAAP and ensure that its development is forward looking and relevant to business over the long term. ABAC recognizes that there are great opportunities in an integrated but remarkably diverse market in the Asia-Pacific region. ABAC notes the opportunity provided by the Collective Strategic Study on Issues Related to Realization of the FTAAP and will continue to contribute to ongoing work.

The current status of the world economy brings renewed imperative for our economies to take concrete steps towards the realization of the FTAAP pathways as soon as possible to contribute to economic recovery and future prosperity.

Business requires a “living”, high-quality, comprehensive and ambitious FTAAP that accommodates change in the modern and innovative business environment, tackles next generation issues, encourages consultation with the private sector and remains open to new members in the longer term.

3. Supporting the WTO. ABAC recognizes the importance of the WTO as the foundation for the global rules-based trading system and as a bulwark against protectionism in all its forms, even as bilateral and regional free trade agreements continue to grow apace. ABAC welcomed the historic agreement at the WTO Ministerial Conference in Nairobi in December 2015 to eliminate all forms of agricultural export subsidies, along with other important outcomes. Conscious of unfinished business, however, ABAC urges APEC economies which are Members of the WTO to accelerate the ratification of the Trade Facilitation Agreement (TFA), to help reduce costs and increase efficiency in the movement of goods and provision of services. ABAC also welcomes progress on other plurilateral efforts to liberalize trade in services and in environmental goods. In this regard, ABAC urges more economies to join the Trade in Services Agreement (TiSA) as well as the Environmental Goods Agreement (EGA) negotiations. ABAC emphasizes that care must be taken to ensure that any new plurilateral, regional and bilateral agreements genuinely complement and support efforts towards eventual global liberalization under the WTO.

4. Facilitating trade and investment liberalization. Recognizing the rise of bilateral investment agreements (BITs) and investment provisions in multilateral trade agreements affecting the region such as the PA, the TPP and the possible RCEP, ABAC wishes to explore the possibility of achieving a more concerted regional investment framework, as a further step in greater regional

economic integration. ABAC will undertake an analysis of investment treaties and investment clauses in regional trade agreements, in order to better understand their impact on investment and business practices in the APEC region, and to understand the overall picture of the current regional investment framework.

The Regional Investment Analytical Group (RIAG), including representatives of the World Bank, the OECD, UNCTAD, ASEAN and the APEC PSU, is considering gaps in existing investment indicators, exploring ways to enhance indicators to support investment flows in the region, including sectoral FDI statistics and analysis. Its preliminary recommendations will include the implementation by all APEC economies of IMF and related standards on the recording of sectoral investment flow data.

As the counterpart to the flow of goods and services, direct investment and freer financial capital flows, when prudently managed in support of financial stability, raise the productivity of labor and economic output overall. To that end, ABAC requests Ministers work to reduce barriers to both domestic and cross-border investment, including capital controls and restrictions on foreign participation in domestic capital markets where feasible and safe to do so. ABAC further urges them to promote greater connectivity, increased transparency in laws and regulations governing financial transactions, and equal access to reliable and comparable financial market information.

5. Pursuing the new services agenda. Services trade and investment continues to be of critical importance to APEC economic growth. Further liberalization and facilitation of the services sector will be important to facilitate further growth in trade in goods, as many services are embedded in or related to manufacturing value chains. Micro, small and medium enterprises (MSMEs) can also rely on services to access wider markets.

ABAC regards the APEC Services Competitiveness Roadmap as an important piece of work. The Roadmap, which will pave the way for more coherent, transparent and efficient regulatory environments for services, will serve to benefit all economies.

In this regard, ABAC calls on APEC to press on with the development and promotion of the Services Trade Access Requirements (STAR) database, to increase the transparency of services regulation in APEC economies. ABAC also calls on APEC to seek better ways to produce services-related statistics and increase the number of APEC economies with indices for measuring the regulatory environment in services, taking into account, as appropriate, existing indices maintained by other fora such as the OECD. ABAC calls on APEC to look at services on a sectoral basis so that it can address issues on a more focused basis.

ABAC welcomes and supports the establishment of an Asia Pacific Coalition of Services Organizations to achieve greater strengthening and advocacy for services industries. Meanwhile, ABAC continues to organize the Public-Private Dialogues on Services to facilitate the development of the sector.

6. Promoting the internet and digital economy. ABAC encourages continued private sector engagement with the Ad-Hoc Steering Group on the Internet Economy. ABAC also promotes ongoing cross-fora communication and partnerships on the internet and digital economy.

Since 2014, ABAC has been building a digital economy work stream in the Connectivity Working Group, which provides a unique, private sector perspective to APEC's work on the digital economy. ABAC encourages APEC to continue to promote MSME inclusion and a continued focus on policies that enable a strong internet and digital economy such as the Internet of Things, big data and data analytics, broadband developments, and STEM education, including ABAC's APEC STEM challenge to increase each economy's respective Hour of Code participation in 2016.

Finally, ABAC encourages digital policies that continue to bridge the digital divide, such as supporting the growth of digital trade both regionally and globally. ABAC will work to identify potential barriers to digital trade.

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

ABAC welcomes the progress made in areas such as the Model E-Port Network along with its operational center in Shanghai and Green Supply Chain along with its pilot center in Tianjin, 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 encouraged by the good progress made by member economies in pilot projects on global data standards (GDS), recognizing the contribution that this work can make to the more efficient, timely and secure functioning of global supply-chains. Five APEC-funded and six APEC economy self-funded pilot projects focused on food, beverages and pharmaceutical products are currently underway. These pilots will aim to identify and measure the benefits of end-to-end application of GDS, including the efficiency gains in using GDS in international supply chains and cross-border government processes. On pharmaceutical products, ABAC is piloting a project with two economies to demonstrate the ability to verify serialized pharmaceutical products from various scan locations to source data stored in distributed databases using GDS. On food and beverage, pilots are examining the efficiency gains in using GDS for durian, asparagus, wine, tequila, furs, deer velvet and boxed meat. Ultimately, the results of these pilots will aim to inform policymakers on how best to implement operationally coherent GDS along cross-border supply chains.

8. Promoting good regulatory practice. In recent years, there has been an emerging recognition of the need to tackle behind-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. 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.

9. Improving food security and reducing non-tariff barriers. Food security is a critical underpinning for an inclusive, healthy and integrated regional economy. Open trade and investment can help to link food supply with food demand, and is an important component of a future food-secure APEC region, one that ensures inclusive and equitable access to safe, nutritious and sustainably-produced food.

To that end, ABAC underscores the need for a true partnership between governments and the private sector to create food security. ABAC supports the Policy Partnership for Food Security (PPFS) and its

“Roadmap towards 2020”. A well-functioning PPFs should help to improve understanding of the economic and commercial context for food, address supply chain connectivity and promote the participation of MSMEs in food trade. ABAC continues to be concerned, however, at the low level of engagement by both governments and the private sector in PPFs. ABAC is encouraged by private-sector involvement in its Asia-Pacific Food Industry Forum as a means for business to coordinate its views for PPFs. But more needs to be done. ABAC is currently considering ways that PPFs might be strengthened to help to deliver a deeper level of strategic engagement and dialogue between the private sector and governments. It hopes to put specific proposals to APEC economies later in the year.

ABAC urges the continued reduction in trade barriers that impede market access for investment in and the efficient flow of food and agricultural goods. ABAC is particularly concerned at the increasing prevalence of non-tariff barriers affecting food trade in the region. The private sector has an important role to play in seeking to identify the most harmful non-tariff barriers affecting food trade, and in engaging in dialogue to develop possible solutions. ABAC encourages APEC economies to seek to address such barriers effectively and promptly, including as part of the negotiations for a possible FTAAP, with input from the private sector as appropriate.

10. Promoting healthy and productive workforces. Economic growth and prosperity depends on healthy workforces. Demographic shifts such as ageing populations and increases in non-communicable diseases (NCDs) have significant fiscal and economic impacts. NCDs cause 60% of all deaths globally (35 million deaths a year), increasing to 75% by 2030, with 80% of these deaths occurring in low and middle-income economies. A 2014 ABAC study of six APEC economies estimated that the annual cost in terms of lost gross domestic product (GDP) could be as much as 6.1% of GDP by 2030 due to NCDs. A 2015 study commissioned by ABAC showed an average of an additional 2% in lost GDP from early retirement due to ill-health, with NCDs as the main contributing factor. This is putting pressure on public sector and corporate pension and health schemes. The fiscal implications of health are significant. ABAC encourages coordination in the policy dialogue between health, finance and economic ministers to achieve proactive investment in healthy workforces and collaboration with the private sector to develop innovative solutions.

11. Accelerating green growth. As APEC continues to explore paths towards low-carbon economies, ABAC recommends studying the use of alternative and renewable energy sources. Hydrogen, one such example, is a secondary source of energy which does not emit CO₂ at use. Hydrogen produced by renewable energy is carbon-free and once this technology becomes viable, it will contribute greatly to lowering the carbon footprint and enhancing energy security in the region. ABAC encourages APEC economies to introduce policies that will promote the utilization of energy sources that minimize the emission of CO₂, facilitate research and development, demonstrate commercial viability and promote information sharing.

In addition, ABAC applauds APEC’s efforts to address barriers to trade in environmental goods and services and urges APEC economies to accelerate their efforts to lower the applied tariff rates of EGS to 5% or lower as committed by APEC Economic Leaders.

12. Improving energy security. Dramatic shifts in the energy sector will have serious repercussions for public and private sectors. In such times of uncertainty, there is increasing need for policymakers to introduce transparent and predictable policies to bolster investment in the energy sector.

ABAC encourages APEC to take up the recommendations ABAC made in 2015 relating to barriers to trade and investment in energy: i) Create policy certainty ensuring sanctity of contracts; ii) Establish open and fair competition on a level playing field devoid of local content rules, quotas, tariffs, restrictions on foreign ownership and investment; iii) Ensure market-based pricing undistorted by subsidies; iv) Establish independent government regulation; v) Promote effective inter-governmental

coordination that is transparent, rules-based, predictable, and allows stakeholder consultation; vi) Establish viable legal systems that resolve commercial disputes on a timely basis and protect intellectual property; and vii) Promote banking systems which allow free transfer of capital.

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

ABAC applauds APEC's decision to maintain an effective venue for public and private sector collaboration on mining by extending the mandate of the Mining Task Force (MTF). Building on the success of public-private dialogues in 2014 and 2015, ABAC looks forward to ongoing engagement with the MTF in the areas of investment-related matters, sustainability and community engagement. To that end, ABAC calls on APEC economies to monitor and report on the key performance indicators for the 10 mining principles agreed to by APEC Mining Ministers in 2007.

14. Strengthening the rule of law and regulatory quality. ABAC has continued its work on the rule of law in 2016 with the aim of strengthening the business environment in APEC by focusing on regulatory quality reform as a source of growth. Over-regulation has been a major barrier for growth globally and most APEC economies see regulatory risk as rising. Upholding the rule of law and promoting good regulatory practices promote trade and investment. Consistent and transparent regulation could drive investment and trade strategies in the coming years. Therefore, regulatory quality reform must be assessed by measuring the quality of cost-benefit analysis of existing and new regulations; implemented in consultation with, and the engagement of, stakeholders and with transparency in the process; enforced equally; and coordinated both among regulators internally and amongst regulators internationally. Lastly, new concerns must be addressed in areas such as the digital economy on peer-to-peer trading, cybersecurity, digital currency, etc. by providing market solutions and avoiding over-regulation in these new areas.

15. Connecting MSMEs to global markets and new technologies. MSMEs are, and will continue to be, the engine of growth and innovation for APEC economies. For these enterprises, gaining access to the interconnected global environment and adopting new technologies are important for their competitiveness and further development.

Advances in e-commerce in particular have been a major factor in facilitating information flows and expanding the market potential of smaller firms. MSMEs' participation in e-commerce is not without its challenges. Based on the study by ABAC and the USC Marshall School of Business, cross-border e-commerce, quality of laws and regulations as well as customs and foreign market access were the largest problems facing MSMEs. ABAC calls for a stronger APEC agenda incorporating these key enablers for MSMEs to engage in cross border e-commerce: (i) extensive and reliable Information and Communications Technology [ICT] infrastructures, (ii) widespread and low cost internet access, (iii) business-friendly regulations and legislation (iv) the existence of e-commerce intermediaries to lower barriers to entry for MSMEs, (v) access to efficient e-payment infrastructure, and (vi) hands-on e-commerce expertise and training similar to Cross-Border e-Commerce Training (CBET) developed by ABAC to increase capacity of MSME to expand markets beyond their borders.

ABAC recognizes the vital role of MSMEs in bringing new ideas to the market and in fostering innovation in the 21st century. Partnerships and networking among innovation systems and MSME knowledge centers, including those involving large and small businesses, the academe, and the public sector need to be supported as part of a strategy that promotes innovation, cross-border collaboration and commercialization of new innovations and cutting-edge technologies in more effective ways.

16. Enhancing economic opportunities for women. ABAC applauds the creation of the Women and the Economy Dashboard and encourages Ministers and policymakers to utilize the 80 various data points to identify gaps and best practices. ABAC is working to champion a Science, Technology, Engineering and Mathematics challenge 2016 and the adoption of other new disruptive technologies with a gender lens. ABAC also encourages Ministers to intensify their efforts in reducing barriers that disproportionately impact MSMEs so that they can access and benefit from the opportunities created by international trade. These barriers include inadequate access to capital and lack of ownership of land and resources.

17. Improving MSME access to finance, including trade finance. ABAC urges Ministers to collaborate with the Financial Infrastructure Development Network (FIDN) in modernizing member economies' credit information, secured transactions and insolvency systems to expand MSMEs' access to finance. ABAC encourages Ministers to foster financial inclusion, including through public-private collaboration to develop digital finance. ABAC asks Ministers to support the work of the Asia-Pacific Financial Forum (APFF) in expanding insurance coverage among MSMEs to improve their access to loans by reducing risks, as well as in developing disaster risk financing mechanisms to facilitate post-disaster recovery and business continuity, especially for MSMEs in supply chains.

ABAC notes that many MSME exporters face serious trade financing hurdles in benefiting from regional FTAs. The International Chamber of Commerce's 2015 Global Survey of Trade Finance reports that 53 percent of trade finance transactions submitted by MSMEs were rejected, as compared to only 21 percent for large corporates. In the same survey, 68 percent of banks report that MSMEs are the most negatively impacted by more stringent Anti-Money Laundering and Know Your Customer (AML/KYC) compliance requirements. ABAC therefore seeks Ministers' collaboration with the ongoing work of APFF in helping member economies address these hurdles, including through harmonization of AML/KYC compliance standards among member economies, as well as promoting wider use of cross-border digital trade finance and electronic payments.

18. Facilitating infrastructure finance. ABAC asks Ministers to support efforts to facilitate infrastructure finance. These include dialogues under the Asia-Pacific Infrastructure Partnership (APIP), cooperation with the G20 Global Infrastructure Hub to develop an APEC Knowledge Portal, and the Urban Infrastructure Network. ABAC urges Ministers to collaborate with APFF in expanding insurers' and pension funds' investment in infrastructure through regulations encouraging long-term business, reforms to build the pension industry, and development of innovative financial instruments and capital markets. ABAC also asks Ministers to support the establishment of an Islamic Infrastructure Investment Platform (I3P) to promote harmonization of standards for compliance of infrastructure and financial instruments across the region with relevant guidelines and help expand Islamic institutions' cross-border infrastructure investment.