



APEC Business Advisory Council

DIGITIZATION AND INNOVATION ADVANCING SOCIAL HARMONY

Report to APEC Economic Leaders
Papua New Guinea 2018

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Report to APEC Economic Leaders



APEC Business Advisory Council



His Excellency Peter O'Neill

Chair, Asia-Pacific Economic Cooperation
Prime Minister of Papua New Guinea

Your Excellency:

We are honored to present our recommendations to achieve our shared goals of deeper regional integration, sustained economic growth and rising living standards for all in the Asia-Pacific region. Our accompanying report for 2018 contains detailed recommendations.

We believe there are three issues of greatest importance to our region.

First is the rising trade tensions and the critical need to head them off before they descend into a debilitating round of protectionism that jeopardizes the basis on which economies and their businesses have flourished for decades. They disregard the experience of the last thirty years that closer economic integration and adherence to rules derived from international structures, preeminently the World Trade Organization (WTO), as well as plurilateral agreements governing trade of goods and services and investment flows, are key to shared prosperity.

Additionally, economies must do more to fulfill their trade commitments individually and through the WTO. Economies should pursue remedies and any reforms to the system through the WTO system itself. Such steps are far more effective than taking tariff measures to address non-tariff concerns, which are likely to lead to counter-measures by others. The combined impact threatens growth, jobs and prosperity for all in the region and globally.

In order to sustain and deepen regional economic integration, trade agreements among APEC economies must uphold openness, high standards and inclusiveness that represent progress towards the realization of a Free Trade Area of the Asia-Pacific (FTAAP). To meet the future needs of business, we urge Leaders to pursue regional arrangements covering trade, services, investment and next generation trade and investment issues that can lay the ground work for a comprehensive, high-quality, and mutually beneficial FTAAP.

ABAC welcomes progress on regional economic arrangements, in particular the ongoing process towards the full ratification of the Comprehensive and Progressive Agreement for Trans Pacific Partnership (CPTPP), and positive developments relating to the Regional Comprehensive Economic Partnership (RCEP) and the Pacific Alliance. These pathways towards the eventual FTAAP underscore Leaders' confidence in the principles that underpin the Bogor Goals and the benefits to be derived from them.

ABAC stands ready to engage in detail on the work of the APEC Vision Group and to give our voice to the priorities and concerns of business as outlined in this letter and in the attachment, and in particular to see the realization of a seamless, dynamic, resilient, inclusive and sustainable region post-2020.

ABAC recommends that APEC Leaders continue support for the integrity and purpose of the international trading system, avoid reliance on tariff actions and instead work within the WTO framework to seek redress of perceived damages and, as necessary, seek reforms to the system to achieve outcomes that do not inhibit trade and investment growth. Leaders should also commit to actions that lead to the eventual realization of the Free Trade Area of the Asia-Pacific and to an ambitious vision for a seamless, dynamic, resilient, inclusive and sustainable region post-2020.

Second is the growing need for broader distribution of the benefits of globalization throughout all economies by actively fostering inclusive growth and ensuring that underserved populations can fully engage in the global economy.

While APEC seeks increased economic integration to create inclusive growth, we have had only partial success. In developed and developing APEC economies, income growth has stagnated for far too long, contributing, alongside other factors, to a sense of exclusion from the benefits of global trade and investment and growing opposition to the concept of globalization. Economies and business have complementary roles in addressing these deep-seated issues.

ABAC recommends that economies more actively engage with civil society and business on explaining the benefits of trade liberalization and the need for complementary policies to ensure that the benefits are more widely shared by our communities. There should be focus on the implementation of initiatives on productivity growth aimed at achieving sustained real income growth of low and middle income groups in order to achieve durable improvements in consumption and investment, recognizing that these will contribute to achieving sustained higher living standards and prosperity.

Third is tackling ways that APEC economies can benefit from and adjust to the digital and innovative revolution now impacting all aspects of human activity. The digital economy offers numerous possibilities to advance the common good, in terms of sharing the benefits and providing greater opportunities for women-owned businesses and micro, small and medium-sized enterprises (MSMEs).

While there have been concerns about the digital economy's effect on traditional business and societal practices, ABAC encourages economies to work closely with the private sector to address these challenges. All of society should have the ability to harness and leverage digitization and innovation, and economies should, through policy and regulatory means and together with industry, enable such technologies to flourish and avoid overregulation. In addition, for APEC to stay relevant as the digital economy speeds forward, it is imperative that Leaders encourage APEC to move substantive work forward on the internet and digital economy through the implementation of the APEC Internet and Digital Economy Roadmap, and not get mired down in process.

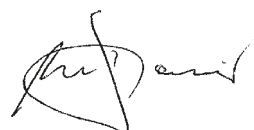
To allow the benefits of the digital economy to reach all APEC citizens, economies should ensure that the infrastructure needed to facilitate the internet and the free and secure flow of data and information across borders is sufficient in both access and price. We see this as a priority requirement for all economies and particularly for developing members of APEC. In this respect, we urge the full implementation of the APEC Connectivity Blueprint for 2015-2025. Access to broadband is key.

ABAC believes more must be done to ensure that citizens are equipped to adapt to the digital revolution. This involves addressing challenges, in partnership with the private sector and the education sector, including on matters such as worker re-skilling and re-training, and pipelines of a Science, Technology, Engineering, and Mathematics (STEM) workforce and education curricula.

ABAC recommends that economies adopt a policy environment that enables their businesses and communities to meet any challenges and operate successfully in the digital age, ensure adequate investment in effective infrastructure to deliver efficient, reliable and affordable broadband internet access and review educational systems to adapt to the challenges of the digital revolution.

We look forward to discussing these matters with you in our Dialogue in November.

Yours sincerely,



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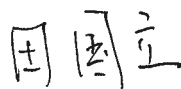


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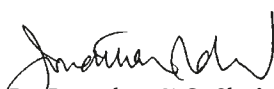


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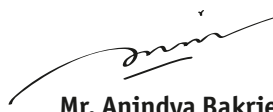


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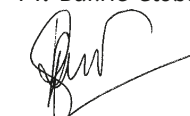


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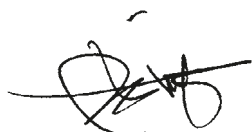
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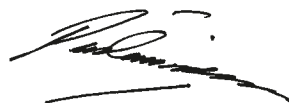


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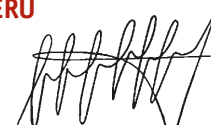


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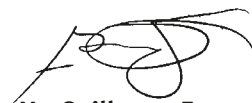


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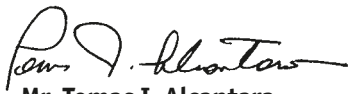


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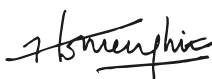


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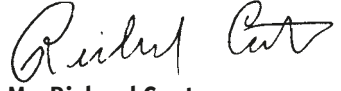


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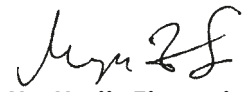
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EXECUTIVE SUMMARY

Executive Summary

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

1. Support the WTO and the multilateral trading system. The global rules-based, non-discriminatory, open and transparent multilateral trading system, as embodied in the World Trade Organization (WTO), has provided predictability and underpinned sustained growth, prosperity and stability in our region and the world. It is of particular importance to smaller economies, providing the greatest opportunity to distribute the benefits of trade more equitably, and offering a secure predictable trading environment. Its integrity is paramount and it offers all Parties the framework and tools to resolve trade disputes; accordingly, economies should pursue trade disputes and any reforms to the WTO system through the system itself. ABAC urges APEC Leaders to demonstrate their full support for and commitment to the rules-based, non-discriminatory, open and transparent multilateral trading system and its dispute settlement mechanism. ABAC further urges APEC economies to avoid taking tariff measures to address non-tariff concerns. The combined impact of such actions threatens to severely disrupt supply chains and trade, affecting jobs, growth and investment. We congratulate all APEC economies for fully ratifying the WTO Trade Facilitation Agreement (TFA) and look forward to the swift implementation of the commitments therein.

2. Resist protectionism and eliminate non-tariff barriers. The risk of reverting to protectionism and closed markets for trade and investment remain very real, and jeopardizes the long-established stability and prosperity of the region. We call on Leaders to renew their support for more open markets for trade and investment by: resisting protectionism in all its forms; working to eliminate non-tariff barriers on the basis of ABAC's WTO-consistent Cross-Cutting Principles for Non-Tariff Measures (NTMs)/Non-Tariff Barriers (NTBs); championing ongoing efforts to liberalize trade through the WTO and other agreements; and engaging more actively with civil society on both the benefits of trade liberalization and the need for complementary policies to ensure that the benefits can be more broadly shared among our communities. We propose further consideration be given to the

economic, trade and other policy elements that will underpin sustained and inclusive growth, taking into account stakeholder views.

3. Enhance regional investment flows. A priority for APEC is the need to address the concerning slowdown in regional investment flows and to create a secure investment environment for both domestic and foreign investors. ABAC calls for more clarity and guidance on foreign investment screening. Dialogue between public agencies and the private sector could assist in finding a regulatory balance between the legitimate security interests of economies and investor needs for predictability and transparency. ABAC recommends that economies work to promote investment attraction, retention and linkages with domestic suppliers as well as broader policies to improve infrastructure, human capital and financial systems.

4. Progress pathways towards the realization of FTAAP and the Lima Declaration. ABAC encourages Leaders to prioritize work towards the Free Trade Area of the Asia-Pacific (FTAAP) by developing further APEC's understanding of how FTAAP might provide for a more seamless environment for trade and investment in the region and identifying priorities and concerns for business while also considering the elements that will underpin sustained and inclusive growth. We acknowledge the contribution that the timely conclusion, ratification and implementation of comprehensive, high-quality and mutually beneficial pathways such as the Comprehensive and Progressive Agreement for Trans Pacific Partnership (CPTPP), Regional Comprehensive Economic Partnership (RCEP) and the Pacific Alliance will make to this effort. To that end, we encourage CPTPP parties to ratify the agreement at the earliest opportunity and likewise we urge RCEP participating economies within APEC to conclude negotiations.

5. Advance the implementation of the APEC Services Competitiveness Roadmap. ABAC calls on APEC to make progress on the implementation of the APEC Services Competitiveness Roadmap, which was endorsed by APEC Leaders in 2016. In particular, we call for the speedy development of the

APEC Index on Measuring the Regulatory Environment in Services Trade, which aims to identify the common regulatory barriers to services trade at the sectoral level, and measure the progress of each economy in reducing these barriers within the region. ABAC is committed to supporting APEC in the successful implementation of the Roadmap by providing timely and relevant business inputs in collaboration with other relevant organizations.

6. Develop the post-2020 Vision for APEC. ABAC recognizes the value of seeking to develop a shared future vision for the region. We applaud the creation of the APEC Vision Group (AVG) and we look forward to providing input as APEC develops a post-2020 Vision. While good progress has been made on the Bogor Goals, APEC is still some way from full free and open trade and investment in the region. Efforts to meet the Bogor Goals should be intensified. The Vision should reflect the spirit of the Bogor Goals and integrate the long-term goal of achieving an FTAAP, while seeking to realize a seamless, dynamic, resilient, inclusive and sustainable region post-2020.

7. Enhance MSMEs' participation across borders and in global value chains. The low levels of engagement of micro, small and medium enterprises (MSMEs) and women-owned enterprises in cross-border activity and global value chains need to be increased to achieve sustained economic growth of the region. ABAC urges Leaders to adopt approaches that assist MSMEs to overcome structural impediments to greater cross-border participation, including through enhancing access to finance, information and digital economy channels; by investing in more accessible communications infrastructure, by helping to build business skills and trade readiness, including capacity building to meet trade requirements and to protect against the dangers linked with cross-border business disputes; by raising awareness of trade opportunities under trade agreements; and by seeking to remove other barriers, such as tariffs and non-tariff barriers to trade and barriers to trade in services, including services that support goods trade. ABAC also recommends increasing reliable and affordable access to broadband, leveraging digital

technologies to promote access to finance and to value chains, and updating education systems and skills training through collaboration between the public and private sectors. ABAC calls on Leaders to put in place the five pillars identified in the APEC Cross-Border E-Commerce Facilitation Framework, and work with the private sector to address the emerging and cross-cutting issues identified by ABAC, looking at principles and recommendations on e-payments, border management, taxation, competition, the sharing economy, and digital security.

8. Enhance energy security and tackle climate change. To achieve a balance between sustainable development and economic growth and competitiveness, ABAC recommends that economies leverage low-carbon energy sources, which diversify energy supplies and enhance energy security. We urge APEC economies to expand the use of renewable fuel sources while addressing the need to achieve economic growth. ABAC strongly encourages investment in high-quality energy infrastructure. To move steadily towards a low-carbon society, consideration should be given to introducing policies and institutions that transform not only energy supplies but also ways in which society as a whole consumes energy.

9. Enhance food security. ABAC encourages strategies that promote long-term revenue flows and investment into the primary sectors, encourages the productive use of land, fisheries and their effective management, including through supply chains, as vital renewable resources, through the utilization of technology, digitization and innovation, and encourages – for fisheries – downstream value add and effective monitoring of fisheries stocks. ABAC urges APEC Leaders to address barriers that impede the flow of food and agricultural goods, and in particular to prioritize action on non-tariff barriers that affect food trade, in accordance with our WTO-consistent Cross-Cutting Principles for Non-Tariff Measures/Non-Tariff Barriers. ABAC also urges APEC Leaders to minimize food loss and waste; and to promote the participation of MSMEs and smallholders in food production and trade in a non-trade-distorting manner.

10. Promote sustainable development of the mining and energy sectors. ABAC calls for measures that promote the continuous flow of investment into resources exploration and use, recognizing risks and returns to investors and to economies and communities, the use of best innovative practices, technology and infrastructure and the need to deepen participation in global markets and the widening of benefits from MSME inclusiveness in the resources sectors. Further, we encourage APEC to continue dialogue with the private sector on inclusiveness in the resources sector, such as through the Mining Task Force and other APEC channels.

11. Grow real income of low/middle income group. ABAC encourages the implementation of initiatives focused on productivity growth aimed at achieving sustained real income growth of low and middle income groups in order to achieve durable improvements in consumption and investment, recognizing that these will contribute to achieving sustained higher living standards and prosperity for all.

12. Strengthen financial systems. ABAC recommends that economies give thought to the impact of fiscal policies on the business environment with a particular focus on policies that encourage private sector innovation and development.

13. Expand infrastructure financing. The infrastructure needs in APEC economies are as vast as they are critical to advancing economic growth. Of particular importance to many economies is the need for telecommunications infrastructure investments, including efforts suggested in the APEC Connectivity Blueprint for 2015-2025. ABAC calls on relevant officials and regulators in APEC economies to develop bankable infrastructure projects by reducing red tape, establishing greater regulatory certainty, and fostering green finance markets. ABAC also calls for the encouragement of infrastructure financing by supporting the work of multilateral development banks – both global and regional – and by supporting private sector co-financing by institutional investors such as insurance firms, pension funds, and Islamic financial institutions.

14. Encourage financial technology. Financial technology provides broad benefits to both developed and developing economies, ranging from financial inclusion, diversified financial services, and enabling digital societies. Innovative financial technologies require the free and secure flow of data and information while continuing to protect individual privacy and promote cyber resilience, which in turn require coordinated legal, policy, regulatory and institutional reforms within and across economies. ABAC calls on relevant officials and policymakers to create a level playing field among financial service providers by applying activity-based regulation, promoting digital authentication and use of digital documents, introducing open banking and application programming interfaces (APIs) and encouraging regional public-private platforms and regulatory sandboxes, as an example the ASEAN Financial Innovation Network (AFIN), for financial innovation that are coordinated across jurisdictions. ABAC also calls for the development of open, interoperable and efficient financial market infrastructure, including electronic payment systems that leverage and enable utilization of technological developments, strengthen data security, and review cyber resilience frameworks and industry best practices in each jurisdiction. ABAC invites economies to use our *Roadmap for a New Financial Services Data Ecosystem*¹ as a tool to enable the wider use of data within and across jurisdictions and our *Strategy for the Digitalization of Trade and Supply Chain Finance*² as a guide in promoting efficient digital access to working capital especially for MSME exporters.

15. Promote inclusive finance. Sustained and strong economic growth requires a broad consumer base, which in many economies requires broadly shared income growth and access to finance. ABAC calls for the expansion of financial inclusivity by implementing structural reforms that enable low-income households and individuals to access a broad range of financial instruments. To expand the access of MSMEs to finance, ABAC encourages economies to continue improving their credit information and secured transactions ecosystems, as well as to review and, where needed,

reform their personal insolvency frameworks using as tool our *Essential Elements of an Effective Personal Insolvency Regime*.³ Further, ABAC recommends cost effective financial services delivery and the reduction of transaction costs.

16. Harness the benefits of digitization and innovation for all. The number of restrictions to cross-border data flow and data storage is growing rapidly which impact on highly integrated global value chains. To benefit from the present and emerging digital and innovative opportunities, ABAC urges APEC Leaders to commit to a policy framework of openness and the exploration of opportunities arising from digitization and innovation; foster the implementation of technological advances; ensure a consistent regulatory and policy environment through the elimination of barriers that impede the adoption

of digital technologies; broaden affordable access to all communities to the internet and broadband communications through competition and investment in facilitating infrastructure; enhance human resources adaptation to modern digital technology on inter- and intra-economy basis; and ensure the free and secure flow of data and information throughout the region, while continuing to protect individual privacy and promote cyber resilience. ABAC recognizes the importance of the APEC Cross-Border Privacy Rules Framework (CBPR), a voluntary mechanism whose participants seek to expand participation. These recommendations were discussed at the ABAC-organized Digital Innovation Forum and APEC China CEO Forum 2018 in July.

1. https://www2.abaonline.org/assets/2018/AGFSCB_Key_Documents/Attachment_A_An_APEC_Roadmap_for_a_New_Financial_Services_Data_Ecosystem.pdf
2. https://www2.abaonline.org/assets/2018/AGFSCB_Key_Documents/Attachment_B_A_Strategy_for_the_Digitalization_of_Trade_and_Supply_Chain_Finance.pdf
3. https://www2.abaonline.org/assets/2018/AGFSCB_Key_Documents/Attachment_C_Essential_Elements_of_an_Effective_Personal_Insolvency_Regime.pdf



MAIN REPORT

Outline of Recommendations

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- B. Enhancing regional investment flows
- C. Progressing pathways towards the realization of FTAAP and the Lima Declaration
Developing the APEC Vision beyond 2020
- D. Advancing the implementation of the APEC Services Competitiveness Roadmap
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- A. Enhancing energy security and tackling climate change
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- C. Promoting sustainable increase in low and middle income growth
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- F. Fostering green growth
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- A. Enhancing the ability of MSMEs to participate successfully across borders and in global value chains
- B. Expanding MSME innovative capabilities and global presence through internet and digital economy and e-commerce platforms
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V. Strengthening financial systems to secure stable growth, investment and inclusiveness

- A. Strengthening financial systems
- B. Encouraging financial technology
- C. Expanding infrastructure finance
- D. Enhancing inclusive finance
- E. Supporting sustainable finance transparency
- F. Promoting capital market development

VI. Breaking barriers to enrich society by advancing technology

- A. Harnessing the internet and digital economy to promote inclusion
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VII. Conclusion

I. Introduction

While global economic growth has been on the upswing, the prospects of a return to trend growth witnessed prior to the global financial crisis are seriously jeopardized by rising trade tensions. Trade disputes of the nature now being witnessed between major economies are deeply troubling to the region and globally. Together with the prospect of decline in economic growth, there is also the prospect of sharp contractions in financial markets marked by rising borrowing costs and a tightening of credit conditions. More broadly, there remain questions over weakening support for global economic integration. These are deeply troubling times for APEC businesses, and urgent action is needed on a number of fronts to address them.

Our key recommendations are first, that APEC responds to the concerns of regional businesses arising from trade tensions by persuading those involved to desist from actions that could further deepen the impact of rises in tariff and non-tariff barriers (NTBs) and to seek to redress perceived imbalances in the global trading system through the World Trade Organization (WTO) dispute settlement mechanism, uphold and, if necessary, strengthen the WTO processes for the settlement of disputes. APEC economies must do more to fulfill their trade commitments individually and through the WTO. We further recommend APEC accelerate progress towards the realization of the Free Trade Area of the Asia-Pacific (FTAAP) as a key goal in attaining regional economic integration. Second, APEC economies should more actively engage with civil society in explaining the benefits of trade liberalization and the need for complementary policies to ensure that the benefits are more widely shared by our communities. Third, APEC economies should embrace digital innovation, encourage an open and receptive policy and regulatory environment so that the revolution now emerging can benefit all communities.

Against this background and recognizing the huge potential of the internet and digital economy to contribute to bolstering economic growth and overall prosperity in the region, ABAC adopted the theme "Digitization and Innovation – Advancing Social Harmony." The 2018 work program focused on the following key priorities:

- accelerating regional economic integration
- sustaining, developing and deepening inclusive growth opportunities
- creating opportunities for micro, small and medium enterprises (MSMEs) to prosper

- strengthening financial systems to secure stable growth, investment and inclusiveness
- breaking barriers to enrich society by advancing technology

In the succeeding sections of this report, we outline ABAC's recommendations in each of these key areas aimed at promoting sustainable and inclusive economic growth and helping deliver on APEC's collective vision for a dynamic, harmonious and prosperous Asia-Pacific community.

II. Accelerating regional economic integration

Fostering economic integration in the region, thereby ensuring that goods, services and capital move easily across borders is at the core of APEC's work. This is key to unleashing the growth potential of the Asia-Pacific region and increasing prosperity. It also offers a means to promote resilience and sustained economic growth even as economies adapt to the new business realities, created in part by the digital revolution. While APEC has made good progress in moving towards its goal of free and open trade and investment in the region, more work needs to be done to address the remaining barriers and new challenges to trade and investment as well as to deepen connectivity and accelerate regional economic integration.

A. Promoting trade and investment; removing non-tariff barriers

More open markets for trade in goods and services and investment will help to deliver sustainable and inclusive growth, enhance food security, assist in unlocking the full potential of the internet and digital economy, and offer opportunities to MSMEs and women in the economy. Resisting protectionism, and reducing and eliminating non-tariff barriers to goods and services trade in accordance with ABAC's WTO-consistent Cross-Cutting Principles for Non-Tariff Measures (NTMs)/NTBs, would deliver concrete benefits to business, consumers, communities and economies. Likewise, ongoing support for trade liberalization through the WTO and through plurilateral, regional and bilateral agreements assists to create the right enabling environment for trade, business and our communities to flourish.

Trade liberalization contributes to raising living standards and reducing poverty in aggregate. However, it is clear the benefits of trade and of deeper economic integration have not always been widely shared, including with the most vulnerable. Unequal access to

the opportunities and benefits of trade will remain a source of friction and instability unless it is effectively addressed. While linked to trade, these issues are primarily a matter for domestic policy-setting. Approaches should be carefully designed to ease the process of adjustment to more open and competitive markets, and should seek to enable individuals and communities to seize the new opportunities that are being created, including through enhancing job mobility, education and skills training. ABAC believes that this should be a policy priority for APEC economies.

It is equally important to tell the story of the benefits of trade more compellingly. ABAC recognizes that economies and business have complementary roles to play in better communicating the benefits of trade for our communities, but this has not always been done effectively. ABAC is collaborating with the Pacific Economic Cooperation Council (PECC) this year to gather data and develop robust arguments about the benefits of trade at the level of individual businesses. This research will allow us to better articulate how trade serves to benefit firms and households, and why deeper economic integration remains a core priority for the Asia-Pacific region. This will complement the broader research on globalization that ABAC commissioned last year from the University of Southern California's Marshall School of Business.

Recommendations:

- Demonstrate full support for and commitment to the rules-based, non-discriminatory, open and transparent multilateral trading system and its dispute settlement mechanism. This is the critical underpinning of sustained and inclusive prosperity and stability in our region and the world.
- Show support for more open markets for trade and investment, including by resisting protectionism in all its forms; by working to eliminate non-tariff barriers on the basis of ABAC's WTO-consistent Cross-Cutting Principles for NTMs/NTBs; by championing ongoing efforts to liberalize trade through the WTO and other agreements; and by engaging more actively with civil society on both the benefits of trade liberalization and the need for complementary policies to ensure that those benefits can be more widely shared by our communities.

B. Enhancing regional investment flows

The important link between investment and economic growth and prosperity is firmly established. Enhancing investment flows around the region is critical to economic development. ABAC is concerned that investment in APEC economies has substantially decreased in recent years, and urges governments to make efforts to restore confidence in regional investment. Recent reports by the United Nations Conference on Trade and Development (UNCTAD) reveal that global foreign direct investment (FDI) flows have fallen by 23% in 2017 with sharper contractions in developed economies while developing economies remained stable. Mergers and acquisitions (M&A) and greenfield investments have also fallen by 15% to 20%. Due to enhanced screening of foreign investment, over ten cross-border M&A deals were blocked or withdrawn in 2017, amounting to a gross value of \$35.3 billion worldwide.

To address the concerning and substantial slowdown in regional investment, and to create a secure investment environment, ABAC urges APEC economies to commit to operate within the rules-based multilateral trading system. The imposition of ad-hoc tariffs threatens to severely disrupt supply chains, affecting jobs, growth and investment.

Surveys of investor confidence highlight concerns over political stability, legal and regulatory environments, geopolitical uncertainties and rising trade tensions. Investors remain concerned over political disruptions to global value chains, which increase risk and reduce efficiency and effectiveness of FDI. Provision by economies of more clarity and guidance on foreign investment screening would assist in addressing these concerns. Greater dialogue between public agencies and the private sector may help find a regulatory balance between the legitimate security interests of economies and investor needs for predictability and transparency.

Creating an investment-friendly environment over the medium to long term will require economies to promote investment attraction, retention and linkages with domestic suppliers as well as broader policies to improve infrastructure, human capital and financial systems. We acknowledge the balance that must be struck between allowing foreign investment and preserving public policy objectives. We also note the role of investment agreements and regional trading arrangements (RTAs)/ free trade agreements (FTAs), including investment provisions, as important in providing some of the

certainty that investors seek. To the extent that these agreements encourage parties to establish stable and predictable domestic policy environments and provide rules for determining disputes, they are of significant value.

ABAC urges APEC economies to take concrete steps to restore the confidence required to enhance regional investment flows.

ABAC will contribute to work initiated in the APEC Investment Experts' Group aimed at further enhancement to APEC's Investment Facilitation Action Plan and to new generation investment principles.

Recommendation:

- Commit to operate within the rules-based, non-discriminatory, open and transparent multilateral trading system in order to address the concerning and substantial slowdown in regional investment, and to create a secure investment environment, including greater clarity around foreign investment policies. Over the medium term, work towards creating a favorable investment environment by promoting investment attraction, retention and linkages with domestic suppliers as well as broader policies to improve infrastructure, human capital and financial systems.

C. Progressing pathways towards the realization of FTAAP and the Lima Declaration

The achievement of an FTAAP is ABAC's preeminent priority, and of particular focus as APEC considers its future vision, as the Bogor Goals deadline of 2020 approaches.

We are committed to free and open trade and removal of protectionist measures in the region as the best option to deliver sustainable and inclusive growth and prosperity to all our economies and lift our peoples to higher standards of living. While we recognize that it is a long-term vision, we believe that FTAAP is a central element in achieving those goals, along with other elements that will underpin sustained and inclusive growth.

ABAC notes that the pathway agreements offer different models, have different coverage and contribute in different ways towards achieving FTAAP. We urge parties to these agreements to ensure that they are compatible, that they do not compete with one another

and allow the prospect of expanded membership, ultimately furthering the path to convergence. The Comprehensive and Progressive Agreement for Trans Pacific Partnership (CPTPP) provides a template with coverage of many issues prioritized by business. The Regional Comprehensive Economic Partnership (RCEP)'s common framework of rules, which takes into account the different levels of development and variation in ambition and coverage of existing FTAs in the region, provides an inclusive approach. The Pacific Alliance has demonstrated the impact of strong political will and determination to achieve greater economic integration within a short timeframe and an openness to progressive expansion of membership. All of these provide valuable lessons for an eventual FTAAP.

ABAC supports the direction provided by Leaders in the Lima Declaration and asks APEC economies to stay the course in working progressively towards the realization of FTAAP, despite the challenges confronting global trade at present.

ABAC urges continued commitment to work to address issues of divergence and convergence in RTA/FTA practice, to conduct a stocktake of how next generation trade and investment issues are dealt with in existing FTAs and RTAs in the region, and to develop initiatives to close the gap between different treatment of these issues, all to enable a clear pathway to FTAAP. We support work focused on measures affecting the achievement of the Bogor Goals, including but not limited to tariffs, NTMs, services, investment and rules of origin.

ABAC has commissioned the Consultants who assisted in our 2015 study on the opportunities offered by FTAAP, to update their analysis, taking into consideration changes to the trading environment in recent years. The authors have noted that in recent years, populism coupled with nationalism in the members of the Organization for Economic Cooperation and Development (OECD) and elsewhere, underpinned by anti-globalization sentiments, have dampened the enthusiasm for economic integration in general and free trade agreements in particular. They have also recognized that some economies have suggested the need to improve the depth and quality of free trade agreements, and that the benefits of trade must be more fairly spread both within and across economies.

The high expectations of deepening cooperation via pathways towards the FTAAP have been tempered by new political realities. Structural adjustment and a

range of other policies are needed to alleviate negative impacts on individual workers and communities, and to ensure that opportunities to gain access and enjoy a share in the economic benefits that derive from enhanced trade and investment flows, new business models, the internet and digital economy, new services made possible by the information and communications technology (ICT) revolution, and artificial intelligence (AI) are more widely distributed. Moreover, there is the risk that some economies themselves may be left behind and a greater digital divide may emerge between advanced and developing economies.

ABAC applauds member economies of the CPTPP that have reached an important milestone by signing the agreement on 8 March 2018, and encourage them to ratify and implement the agreement as soon as possible. ABAC hopes that additional economies will accede to the CPTPP in the future, given that the agreement represents a comprehensive coverage of trade and investment issues, and is a significant movement towards sharing the benefits of free trade more widely within the APEC region.

ABAC welcomes the commitment of the RCEP member economies to intensify efforts to conclude the negotiations in 2018. ABAC strongly supports the commitment to achieve a modern, comprehensive, high-quality and mutually beneficial economic partnership agreement as soon as possible.

ABAC appreciates the progress of the Pacific Alliance at its new stage of negotiations, with the addition of four APEC economies as Associate States. ABAC supports the prompt conclusion of the negotiations, maintaining a consistent level of ambition. ABAC welcomed the outcomes of the Pacific Alliance Summit in July 2018.

ABAC also acknowledges the contribution that other regional initiatives and arrangements have made towards freeing up trade and investment and creating a trade liberalization-supportive environment, including the ASEAN Economic Community and the Eurasian Economic Union, among others.

ABAC is updating its own positions on substantive FTAAP elements, taking into consideration the increasing importance of the internet and digital economy and the significantly changed trade policy environment since the Lima Declaration. This will be a multi-year effort, not only considering what a 21st century trade agreement should be, but also focusing on new and emerging areas of trade policy, identifying key issues in a bottom up exercise. We acknowledge that while the pathway

agreements are critical building blocks towards FTAAP, the process of convergence will likely mean that each will contribute constituent elements to an eventual FTAAP. This approach might assist in advancing the Lima Agenda and moving to consideration of new issues of trade policy, necessary for an agreement equipped to deal with the needs of business in the future. ABAC will shortly commence a research project which will provide analysis from a business perspective, of Next Generation Trade and Investment Issues (NGeTI), including those in relevant clauses of pathways agreements, to assist in establishing priorities for inclusion in FTAAP. We intend to report results from such research to the APEC forum early in 2019.

ABAC is committed to playing its part in shaping our collective vision for the region post-2020. We are developing ideas for that vision and will share them through high-level dialogues with the APEC Vision Group on this critical topic. We encourage APEC to discuss in particular how to integrate FTAAP as a core element in the post-2020 Vision. We want to see the realization of a seamless, dynamic, resilient, inclusive and sustainable region post-2020.

Recommendation:

- Prioritize work towards the Free Trade Area of the Asia-Pacific, by developing further our understanding of how FTAAP might provide for a more seamless environment for trade and investment in the region and identifying priorities and concerns for business while considering the elements that will underpin sustained and inclusive growth. We acknowledge the contribution that the timely conclusion, ratification and implementation of comprehensive, high-quality and mutually beneficial pathways including CPTPP, RCEP and the Pacific Alliance will make to this effort. To that end, we encourage CPTPP parties to ratify the agreement at the earliest opportunity and to invite other economies to join the trade agreement. We urge RCEP participating economies within APEC to conclude negotiations, ensuring that the agreement is comprehensive, high-quality, and mutually beneficial.

Developing the APEC Vision beyond 2020

The Bogor deadline is imminent, and while good progress has been made, economies are still some way from full free and open trade and investment in the region by 2020. Efforts to meeting the Bogor Goals should be intensified.

Equally, ABAC recognizes the value in looking ahead to our shared vision for the region in the decades ahead. ABAC is concerned to ensure that growth is sustainable and inclusive, enables business activity within and across borders, and integrates a future Free Trade Area of the Asia-Pacific as a core element of the Vision. ABAC seeks a resilient, dynamic, seamless and market-oriented Asia-Pacific region, in which an individual or firm can connect, do business and find success with equal ease in any part of the region. To achieve this, economies must be capable of and committed to improving equity and inclusion, and supported by structurally-sound, responsive, predictable, business-friendly and innovation-friendly behind-the-border ecosystems.

Recommendation:

- Continue to shape a collective vision for a sustained, prosperous and inclusive APEC region post-2020 in line with the Bogor Goals and in particular to discuss how to integrate a future Free Trade Area of the Asia-Pacific as a core element in the Vision.

D. Advancing the implementation of the APEC Services Competitiveness Roadmap

The importance of trade in services is highlighted by the fact that it accounts for almost 50 percent of world trade today, therefore, significantly contributing to the global economy. Also, many studies have shown that trade in services plays an increasingly crucial role in an economy's development, including poverty reduction. Furthermore, services trade is considered as the new frontier for enhancing participation of most economies in international trade, thus, promoting sustainable and inclusive growth. Given the multifaceted contribution of services to the global economy and trade, it is critically important to design and implement a services-driven development strategy within a coherent and comprehensive policy framework, ensuring linkages with other policy areas and overall development objectives.

ABAC welcomes the development of a matrix to keep track of the implementation of the APEC Services Competitiveness Roadmap (ASCR). ABAC reconfirms its commitment to support APEC in ensuring the successful implementation of the Roadmap by providing timely and relevant business inputs, in collaboration with other relevant organizations, such as the Asia-Pacific Services Coalition (APSC), to the ASCR implementation matrix on an ongoing basis.

Moreover, ABAC commits to help APEC identify areas of focus for ASCR implementation that are practical and relevant for businesses, taking into consideration the fast and constantly evolving structure of economic production. ABAC will also continue to organize relevant public-private sector dialogues in order to increase awareness on business needs and put forward policy recommendations in specific services sectors that would support the implementation of the ASCR.

Overall, ABAC calls for APEC to make progress on the implementation of the Roadmap, including the speedy development of the APEC Index to Measure the Regulatory Environment in Services Trade which aims to analyze each APEC economy's services trade restrictions in order to identify common regulatory barriers to services trade at the sectoral level. We encourage the adoption and implementation of indicators aimed at reducing or eliminating barriers to services trade within the region.

Recommendation:

- Make progress on the implementation of the APEC Services Competitiveness Roadmap. In particular, we call for the speedy development of the *APEC Index on Measuring the Regulatory Environment in Services Trade*.

E. Furthering the implementation of the APEC Connectivity Blueprint for 2015-2025

ABAC notes that connectivity is one of the priorities this year, and welcomes the progress achieved by APEC economies in implementing the APEC Connectivity Blueprint for 2015-2025 during the past year, including the report of Case Studies on Addressing Connectivity Challenges in APEC Economies. We reiterate that strengthened connectivity will contribute to opening new sources of growth, fostering inclusive and interconnected development, advancing regional economic integration and bringing APEC economies closer as a community.

ABAC welcomes economies' initiatives and the work done by various APEC fora and working groups in advancing connectivity in the region. To enhance cooperation in this area, ABAC encourages further collaboration on the initiatives raised by APEC member economies to achieve better regional economic integration and comprehensive connectivity.

Recommendations:

- Further implement the APEC Connectivity Blueprint for 2015-2025.
- Encourage further collaboration on the initiatives raised by APEC economies in order to achieve regional economic integration and comprehensive connectivity.

III. Sustaining, developing and deepening inclusive growth opportunities

Sustained economic growth is necessary for the prosperity of the Asia-Pacific region and needs to be inclusive for the wellbeing of the population. APEC should contribute more to fully implementing the United Nations 2030 Agenda for Sustainable Development. Accordingly, this year, ABAC has focused on developing and deepening inclusive growth opportunities in areas such as energy security and climate change; low and middle income groups; food security, sustainable agriculture and fisheries; urban infrastructure; and mining.

A. Enhancing energy security and tackling climate change

To balance sustainable development and economic competitiveness, ABAC recommends actions towards utilizing low-carbon energy, which diversify energy supplies and increase energy security, in a way that minimizes impact on trade.

ABAC urges APEC economies to deepen the level of engagement on expanding and stimulating renewables and emphasize efforts to shift to more environmentally-friendly fuel sources and adopt high-quality energy infrastructure, so as to improve energy access and connectivity.

ABAC recommends: i) promoting energy management with digitization that allows for the smart adjustment of energy supply and demand, and the reinforcement of the grid infrastructure that enables energy interchange in wide areas to overcome challenges of output fluctuation and maldistribution of suitable sites to expand renewable energy (wind/solar); and ii) optimizing liquefied natural gas (LNG) management and transactions, as natural gas, including LNG, accounts for the smallest amount of CO₂ emissions among fossil fuels when combusting.

Furthermore, in order for the APEC region to move steadily towards a low-carbon society, it is necessary to consider introducing policies and institutions that transform not only energy supplies but also society as a whole, including industries, economics, and finance. Climate change is an urgent issue with serious ramifications for many business sectors in APEC economies. Business ventures, regardless of size, are facing weather-related disruptions, as well as operational, regulatory and societal pressures. As economies work to move towards a low-carbon economy, we encourage Leaders to bolster their use of innovative tools, such as carbon pricing mechanisms, to incentivize emission reduction across the region.

Recommendations:

- Expand the use of renewables by: i) promoting energy management that adjusts energy supply and demand; and ii) introducing and enhancing the grid to accommodate energy interchange in wide areas, subject to a proper assessment of the regulatory and technical operating regime and requirements of each electricity system.
- Develop natural gas infrastructure and optimize LNG management, as well as reduce barriers in energy trade and investment to increase investment in the energy sector and enhance its resilience and sustainability.

B. Encouraging sustainable development of communities

Smart Cities empowered by information and communication technology are essential to solve issues of urbanization, such as public safety, unequal distribution of educational and healthcare resources etc. Smart Cities drive new economic potential and sustainable growth. Developing a top-down Smart City agenda with one or more focus areas based on specific economic structure of each APEC economy is key to success.

Recommendations:

- Encourage relevant agencies to explore Smart Cities as a solution to specific sustainability challenges.
- Develop Smart City agenda that starts with top-down design, but with bottom-up involvement from public and private enterprises.

C. Promoting sustainable increase in low and middle income growth

ABAC has commissioned a report from the Royal Melbourne Institute of Technology (RMIT) University to conduct a quantitative assessment of the drivers of low and middle income growth and to identify policies that contribute to sustained real income growth of low and middle income groups within APEC economies. The report finds that improvements in institutional quality is the most significant factor driving average income growth of low, middle and upper middle income groups.

Recommendation:

- Engage further with ABAC on ways to improve institutional quality in order to promote sustained real income growth of low and middle income groups within APEC economies.

D. Securing assets in the agricultural and fisheries sectors

ABAC convened a Food Security Summit in Port Moresby in conjunction with the APEC Food Security Week of meetings. Experts from both the agricultural and fisheries sectors reviewed the expected long-term trends of production and consumption, measures to increase productivity and the application of digital innovation and technology as they will impact on agriculture from “farm to plate”, measures to reduce and eliminate food wastage and to improve processing, and value creation downstream in fisheries. Importantly, the Summit considered opportunities for investment and impediments to investment in the sectors. ABAC recommends the securing of assets in both sectors through sound domestic strategies that promote long-term revenue flows and investment to and in the sectors where this makes good economic sense, their effective management as vital renewable resources through the utilization of technology, digitization and innovation and the promotion of access to markets.

ABAC urges APEC Leaders to address barriers that impede the flow of food and agricultural goods, and in particular to prioritize action on non-tariff barriers that affect food trade, in accordance with our WTO-consistent Cross-Cutting Principles for Non-Tariff Measures/Non-Tariff Barriers. ABAC also urges APEC Leaders to minimize food loss and waste; and to promote the participation of MSMEs and smallholders in food production and trade in a non-trade distorting manner.

Recommendations:

- Prioritize economy-based strategies that promote long-term revenue flows and investment from and into the primary sectors where this makes economic sense and is sustainable to do so, encourage the productive use of land and fisheries, their effective management as vital renewable resources through the utilization of technology digitization and innovation, in a non- or minimally trade-distorting manner.
- Continue to prioritize inclusive and equitable access to safe, nutritious and sustainably-produced food, inter alia, by reducing and eliminating barriers to food trade, including non-tariff barriers, in accordance with our WTO-consistent Cross-Cutting Principles for NTMs/NTBs.

E. Promoting sustainable development in the mining and energy sectors

ABAC convened a Resource Industry Development Summit in Port Moresby involving business leaders, visionaries, financial specialists and officials to develop recommendations on the long-term outlook for the mining and oil and gas sectors, the investment needs into the future, including infrastructure, the application of digitization and technological innovation and strategies for empowering and including MSMEs in pre, current and post mining phases.

Recommendations:

- Promote measures to secure long-term investment flows into mining, oil and gas sectors, recognizing the risks and returns to investors and to economies.
- Develop measures that encourage the best use of technology and innovation in the sectors and in the required infrastructure.
- Facilitate the development of efficient global markets and access to them for mining commodities and oil and gas.
- Promote centers of excellence in the region to encourage and promote policies that ensure MSME inclusiveness in the resources sectors.

F. Fostering green growth

ABAC supports climate-oriented initiatives within the region and urges to create conditions for business involvement and effective dialogue between industry and economies on the issue, e.g. within the framework and the relevant APEC bodies through close cooperation with them.

Recommendation:

- Elaborate green production standards as an important element in the joint effort to tackle climate change.

G. Supporting economic development and integration of remote areas

To attain sustainable industrial growth and connectivity in the region, it is important to strengthen cooperation in the field of economic development and integration of remote areas, that can contribute to an increase in productive capacity and rational use of human and natural resources. ABAC supports the APEC Policy Support Unit Study on remote areas in the APEC region and suggests paying special attention to the improvement of the investment climate, supporting MSMEs and promotion of public-private partnerships, creation of favorable conditions for development of new competitive industries, and development of transport, energy and telecommunications infrastructure in remote areas.

IV. Creating opportunities for MSMEs to prosper

The development of MSMEs and their increased direct participation in regional and global trade is one of the key drivers to making growth more inclusive in the region. This year, ABAC convened an MSME Innovation Summit in Port Moresby to advance MSMEs in the region and has sought to further strengthen MSMEs' participation in global trade by focusing on the following priorities:

A. Enhancing the ability of MSMEs to participate successfully across borders and in global value chains

MSMEs make up a very significant share of the APEC business community and play a substantial role in

employment, but they are not sufficiently engaged in cross-border trade and in global value chains. This is sub-optimal for the sustained and inclusive economic growth of the region. Research shows that small firms that export employ more people; pay higher wages; enjoy higher productivity; are more innovative; and expand faster. It is accordingly important for APEC economies to reduce barriers to MSME engagement across borders and in global value chains.

MSMEs face structural challenges around information, capacity and the domestic regulatory and business environment, and are disproportionately affected by barriers to trade such as non-tariff barriers. The areas of focus should include building capacity for both basic business skills and trade readiness including the ability to meet trade requirements and to anticipate challenges related to cross-border trade disputes; enhancing access to information about market opportunities and trade requirements; helping MSMEs to engage better with foreign networks; and seeking to lower barriers to trade including tariffs, non-tariff barriers and barriers to trade in services, including those that support trade; and access to trade-related finance. The internet and digital economy, and in particular e-commerce and digitally-provided services can help to reduce costs and improve connectivity for MSMEs in trade, but there can be specific barriers for MSMEs in accessing/providing these platforms and services, and this likewise needs to be a focus for APEC economies.

ABAC has commissioned research this year on how to enhance the ability of MSMEs to participate successfully across borders and in global value chains. The results of this research will be shared with Leaders and more broadly in APEC economies later in the year.

Recommendation:

- Prioritize work to help MSMEs participate more successfully in global value chains and across borders, including by assisting them to overcome structural impediments through enhancing access to finance, information and internet and digital economy channels; by helping to build business skills and trade readiness, including capacity building to meet trade requirements; and by seeking to remove other barriers, such as tariffs and non-tariff barriers to trade and barriers to trade in services, including those that support goods trade.

B. Expanding MSME innovative capabilities and global presence through internet and digital economy and e-commerce platforms

Across the region, MSMEs account for more than 95 percent of all enterprises and generate more than 50 percent of domestic employment. Supporting the integration of MSMEs in internet and digital economy and e-commerce platforms would open opportunities for them to engage in cross-border trade, grow into multinational sellers, and craft their own global supply chains. MSMEs, however, tend to have limited awareness and capability of harnessing these gains which largely depend on an adequate infrastructure and on supportive policies at domestic and international levels. As a result, they are often less productive and competitive than their larger counterparts.

We commend APEC's adoption of the APEC Internet and Digital Economy Roadmap which we believe is an important living document that will advise APEC economies and related fora, including ABAC, on important areas of contribution to further promote the development and growth of the internet and digital economy and to assist with the development of domestic digital plans among APEC economies.

An important part of the various visionary domestic digital plans is to reduce the costs of doing business and remove frictions in the market, such as excessive red tape, not least for start-ups which are often the most innovative.

Recommendations:

- Continue to develop and expand capacity building programs that improve skills in information and communications technology similar to ABAC's Cross-Border E-Commerce Training which was launched in 2014 in China and has since been organized in Brunei (2015), Papua New Guinea (2016), Chile (2016), Malaysia (2017), Peru (2017), Brunei (2017) and Thailand (2017) and participated in by more than 10,000 MSMEs.
- Continue to promote and implement the APEC Cross-Border E-Commerce Facilitation Framework, and utilize ABAC's work in identifying cross-cutting e-commerce issues to help MSMEs utilize the full potential of e-commerce and the internet and digital economy. In addition, encourage public-private collaboration to tackle the principles and recommendations identified, which cover the

key issues of e-payments, border management, taxation, competition, the sharing economy, and digital security.

- Encourage domestic plans to include measures to cut red tape to reduce the costs of doing business, and to promote local start-ups.
- Promote adoption and use by MSMEs of digital technologies, such as e-commerce, online payments and crowd funding, etc. by expanding the APEC MSME Marketplace which is an ideal platform to disseminate particularly important information relating to listings of accredited online marketplaces, innovation centers, incubators and accelerators to encourage business networking and matching among these enterprises.

C. Facilitating MSME access to finance

MSMEs are a major driver of the region's economic growth and provide four out of five new jobs especially in emerging economies. However, up to 60% of MSMEs do not have access to financing thus hampering their growth. There are several factors contributing to MSMEs' lack of access to finance, including inadequate legal and institutional infrastructure to support risk-based lending against a broader range of collateral and using non-traditional data, lack of enabling environments for equity-based financing and lack of access of vulnerable MSMEs to risk management tools including insurance.

ABAC calls on APEC economies to consider options including the democratization of financial services by creating new ways to interact with financial service providers, assisting MSMEs in accessing funding and services that were once unavailable, opening up opportunities for the unbanked and underbanked, and facilitating structural change in financial markets.

V. Strengthening financial systems to secure stable growth, investment and inclusiveness

A sound, stable and healthy financial system is fundamental to support the efficient allocation of resources and the distribution of risks across the economy. It reduces transaction, information and monitoring costs, promotes investment and spurs economic growth. ABAC has continued to pursue work in support of strengthening financial systems by putting emphasis on the following areas:

A. Strengthening financial systems

Noting that stable and long-term economic growth is dependent on sound financial system management, ABAC commissioned a report from its Knowledge Partner for 2018 on factors impacting on the business environment. The report noted a number of factors that impact on the business environment – taxation, government expenditure, competition, research and development and that a clear regulatory and R&D framework and competition support private growth, as does stable budget planning, targeted public spending and effective taxation.

Recommendation:

- Consider the impact of fiscal policies on the business environment with a particular focus on policies that encourage private sector innovation and development.

B. Encouraging financial technology

We believe that bringing financial services to the digital age is critical for growth. To promote this, ABAC has provided the following recommendations:

Recommendations:

- Establish domestic regulatory sandboxes and ensure cross-border linkages between them.
- Introduce Open Banking and Application Programming Interfaces (APIs).
- Enable digital authentication via the development of a digital identity system to remove the need for in-person authentication of individuals or documents.
- Ensure payments systems are open and interoperable.
- Promote regional public-private sector platforms, as an example the ASEAN Financial Innovation Network (AFIN), to promote financial innovation.
- Promote the *APEC Roadmap for a New Financial Services Data Ecosystem*.
- Promote the *Strategy for the Digitalization of Trade and Supply Chain Finance*.

- Strengthen data security through the development of a regional long-term strategy and review of cyber resilience frameworks and industry best practices in each jurisdiction.

C. Expanding infrastructure investment

The infrastructure needs in APEC economies are as vast as they are critical to advancing economic growth. By some accounts, the primary challenge stems from a lack of bankable projects, and by other accounts, the main issue is a severe shortage of funding as well as extreme imbalanced development of infrastructure among different economies. To address these concerns, ABAC suggests the following recommendations:

Recommendations:

- Facilitate the development of infrastructure projects through a reduction of red tape and delivering greater regulatory certainty.
- Support the work of Multilateral Development Banks (MDBs) – both global and regional – that help facilitate infrastructure investment through financing.
- Encourage private sector co-financing – including institutional investors such as insurance firms, pensions funds, and Islamic financial institutions – as well as providing technical assistance and fostering green finance markets.
- Support investment to domestic telecommunications infrastructure, including efforts suggested in the APEC Connectivity Blueprint for 2015-2025.

D. Enhancing inclusive finance

Sustained and strong economic growth requires a broad consumer base. Lack of access to finance is a major factor preventing large sections of the region's population and enterprises from contributing to consumption growth. While there have been notable advances, there are several areas where more progress is needed, which are addressed with the following recommendations:

Recommendations:

- Enhance access to finance while balancing the inherent risks of expanding the pool of market participants.

- Encourage more work and progress on the reform of personal insolvency laws using as a tool the *Essential Elements of an Effective Personal Insolvency Regime* and structural reforms to accelerate financial and economic inclusion to enable low-income households and individuals to access a broad range of financial instruments that build inter-generational financial security.

E. Supporting sustainable finance transparency

In March 2018, ABAC sent a letter to the secretariat of the Financial Stability Board's Task Force on Climate-related Financial Disclosure (TCFD) affirming its commitment to support the voluntary recommendations issued by the TCFD by endorsing the following statement of support: *"To enable investors to better assess and price climate-related risk, ABAC members recommend APEC economies support and build on the recommendations of the TCFD, in particular through harmonized metrics endorsed by relevant industries and associations in each economy."*

Recommendation:

- Support and build upon the voluntary recommendations issued by TCFD by encouraging their use within home economies.

F. Promoting capital market development

Development of capital markets is indispensable for achieving the Cebu Action Plan's goals of promoting financial integration, resilience and infrastructure. Many economies, however, face complex challenges, including the lack of liquidity and depth, lack of market players' access to hedging instruments, lack of high-quality and timely information and underdeveloped custody, clearing, settlement and payment systems that keep transaction costs and risks at elevated levels and hinder cross-border portfolio capital flows.

Recommendation:

- Focus efforts on promoting capital market development, including policy and regulatory reforms and capacity building measures that help create deep and liquid markets, supported by a stable macroeconomic environment. This can be fostered by appropriate economic reforms; the creation of sound legal frameworks and efficient financial market infrastructure; and policy measures that ensure the broad availability of information. We also call on more economies to join the

Asia Region Funds Passport, and encourage its interoperability with the Pacific Alliance Funds Passport.

VI. Breaking barriers to enrich society by advancing technology

This fourth industrial revolution, digitization and innovation, challenges all sectors of all societies in many ways and in particular business. ABAC formed a Digital and Innovation Working Group in 2018 to advise APEC on responses – particularly in relation to harnessing benefits, driving inclusiveness, mobilizing resources to widen and deepen access to worldwide internet through investment in infrastructure, and in educational systems to prepare societies and businesses in the application of innovations and technology. These issues were the subject of two major forums.

Digital Innovation Forum (DIF) – Visions and Pathways

The Digital Innovation Forum was convened by ABAC Papua New Guinea and ABAC Chinese Taipei in Taipei on 19-20 July 2018. The key topics discussed during the forum included AI, future jobs, innovation, technology, and human resource development.

A. Harnessing the internet and digital economy to promote inclusion

Our work this year commits to supporting the implementation of the APEC Internet and Digital Economy Roadmap and the APEC Cross-Border E-Commerce Facilitation Framework as well as continuing work to promote the APEC Cross-Border Privacy Rules System (CBPR), a voluntary mechanism whose participants seek to expand participation.

ABAC has welcomed the endorsement by Leaders in 2017 of the APEC Internet and Digital Economy Roadmap. The Roadmap points to the need for decisive action in a range of areas if the inclusive growth benefits of the internet and digital economy are to be realized. ABAC in particular welcomes the fact that the Roadmap is a living document and that new developments can be taken into account as digital technologies progress. At the same time, the challenge now facing APEC is to develop a work program to implement the Roadmap and

a governance mechanism needs to be put in place to allow this to occur. While we are aware that discussions on such a mechanism are taking place, agreement on it is now becoming urgent.

ABAC has provided input into the APEC Economic Committee's report on "Structural Reform and Infrastructure." The report presents several key issues for policymakers to consider including the importance of broadband infrastructure, visionary digital plans, e-government services, privacy and data security, regional harmonization and smart city development.

Our overarching recommendations are that APEC economies commit to a policy framework of openness and the exploration of opportunities arising from the digital innovation revolution, foster the implementation of technological advances in all areas of human activity - with a light touch policy and regulatory approach - and facilitating the free and secure flow of data and information across borders while respecting the needs of economies to safeguard privacy of individuals and cybersecurity.

Recommendations:

- Agree to a governance mechanism to implement the APEC Internet and Digital Economy Roadmap and fully implement the 11 focus areas of the Roadmap.
- Promote a regulatory and policy environment that responds to the rapid change in technology through the elimination of barriers that impede the adoption of digital technologies (and protecting resources and parties to digital economy), which includes enabling the free and secure flow of data and information across borders while respecting the needs of economies to safeguard privacy of individuals and cybersecurity.
- Put in place the five pillars identified in the APEC Cross-Border E-Commerce Facilitation Framework and work with the private sector to address cross-cutting issues critical to the sustainability of cross-border e-commerce. ABAC has identified principles and recommendations for six key cross-cutting issues, which are e-payments, border management, taxation, competition, the sharing economy, and data security. Ensure that cross-border e-commerce succeeds in delivering the end-to-end seamlessness, ease and customer experience that is expected from the internet and digital economy

- Broaden affordable access to all communities to the internet and broadband communications through policies that generate competition and by prioritizing investment in facilitating infrastructure.
- Narrow the digital divide by enhancing human resources adaptation to modern digital technology on inter- and intra-economy basis, through reforms to education systems and skills upgrading through industry, academic and governmental collaboration.
- Encourage economies to highlight to their local business communities the benefits of joining CBPR.

APEC China CEO Forum 2018

The APEC China CEO Forum 2018 was held in Beijing, China on 6-7 July 2018 and attracted over 700 delegates from the around the region. The development of internet and digital economy and technological innovation were discussed extensively during the forum.

B. Fostering innovation development

ABAC participates in activities aimed at formulating inclusive and impactful science, technology and innovation policy recommendations to meet economic goals in the APEC region. ABAC welcomes the work on developing an APEC Blueprint on International Cluster Cooperation and Program on Achieving Greater Coherence among APEC Economies' Policies in the Field of Forming New Technology Markets of the Future. ABAC appreciates the opportunities which the APEC Platform for Economies' Clusters, once it is launched, will present to business via entrepreneurship, investment and employment.

ABAC welcomes the APEC Policy Partnership on Science, Technology and Innovation (PPSTI) projects devoted to high-growth innovative firms' acceleration, innovative clusters' cooperation and forming new technology markets of the future.

ABAC Report on Structural Reform and Digital Infrastructure

This report was commissioned by ABAC and developed in consultation with the APEC Economic Committee (EC) to serve as an annex to the EC report on Structural Reform and Infrastructure where it highlights digital issues. The report is primarily concerned with policies that will enable and maximize the opportunities brought about by digital technologies. Using a framework of governance, markets and technologies, each of which interacts with the other, the report identifies structural reforms that are required in a digital age to keep them relevant. The key recommendations are as follows:

- A well-developed broadband infrastructure is key to enhancing the connectivity of digital economies. APEC economies that lack a good broadband infrastructure should assign a high priority to fixed line broadband. A higher fixed broadband penetration rate has been found to drive the uptake of cloud computing, which enables a whole suite of new digital services and technologies including the Internet of Things (IoT).¹
- Clearly-defined structures of governance are required to produce visionary domestic digital plans, along with policies for their implementation and regulations to make them happen. APEC should do what it can to assist economies that lack a capacity to develop in depth operational planning.
- One driver of digital economy that is in the hands of government is e-government, from online procurement to e-services. APEC could urge member economies to prioritize e-ID as a means of registering populations, widening the scope of digital and financial inclusion, and improving the security of commercial and vital domestic assets. Given the breadth of potential e-government initiatives, priority should be given within government to the establishment of an Office of the Government Chief Information Officer (OGCIO) and the appointment of a CIO to steer cross-department and cross-agency e-government initiatives and to ensure their compliance with related laws, such as personal data privacy laws and cybersecurity and data protection regulations.
- An important part of these visionary statements is to reduce the costs of doing business and remove frictions in the market, such as excessive red tape, not least for start-ups which are often the most innovative. APEC could encourage domestic plans to include measures to cut red tape to reduce the costs of doing business, and to promote local start-ups.²
- Among the most compelling digital issues are data privacy, data protection and cybersecurity. APEC cybersecurity guidelines and assistance with expertise would be helpful, not least for the adoption of cloud computing. Several APEC economies already have 'cloud procurement' and 'cloud first' policies, but for others the sharing of the experience will be necessary, a role APEC can easily play.
- Regional harmonization is a crucial area for the growth of digital economies as cross-border trade in goods and services increasingly depends upon the exchange and transfer of data. APEC should give a strong priority to initiatives on regional harmonization, and examine carefully roadblocks to progress.
- Digital development is closely associated with smart city development, and nothing is smarter than creating a clean environment in terms of the quality of the air we breathe, the water we rely upon, the disposal of waste of all kinds, and creating the jobs and commercial opportunities that can go along with these efforts. APEC has an opportunity to add its voice and support to all its members in developing a green digital economy, probably the most important challenge for the planet.

¹Huawei (2017) Quantifying the Value of Digital Infrastructure Development, http://www.huawei.com/minisite/gci/files/gci_apec_report.pdf

²RMIT (2017) Digital Entrepreneurship Across the APEC Region, <https://www.rmit.edu.au/content/dam/rmit/documents/college-of-business/industry/apec/rmit-apec-digital-entrepreneurship-report.pdf>

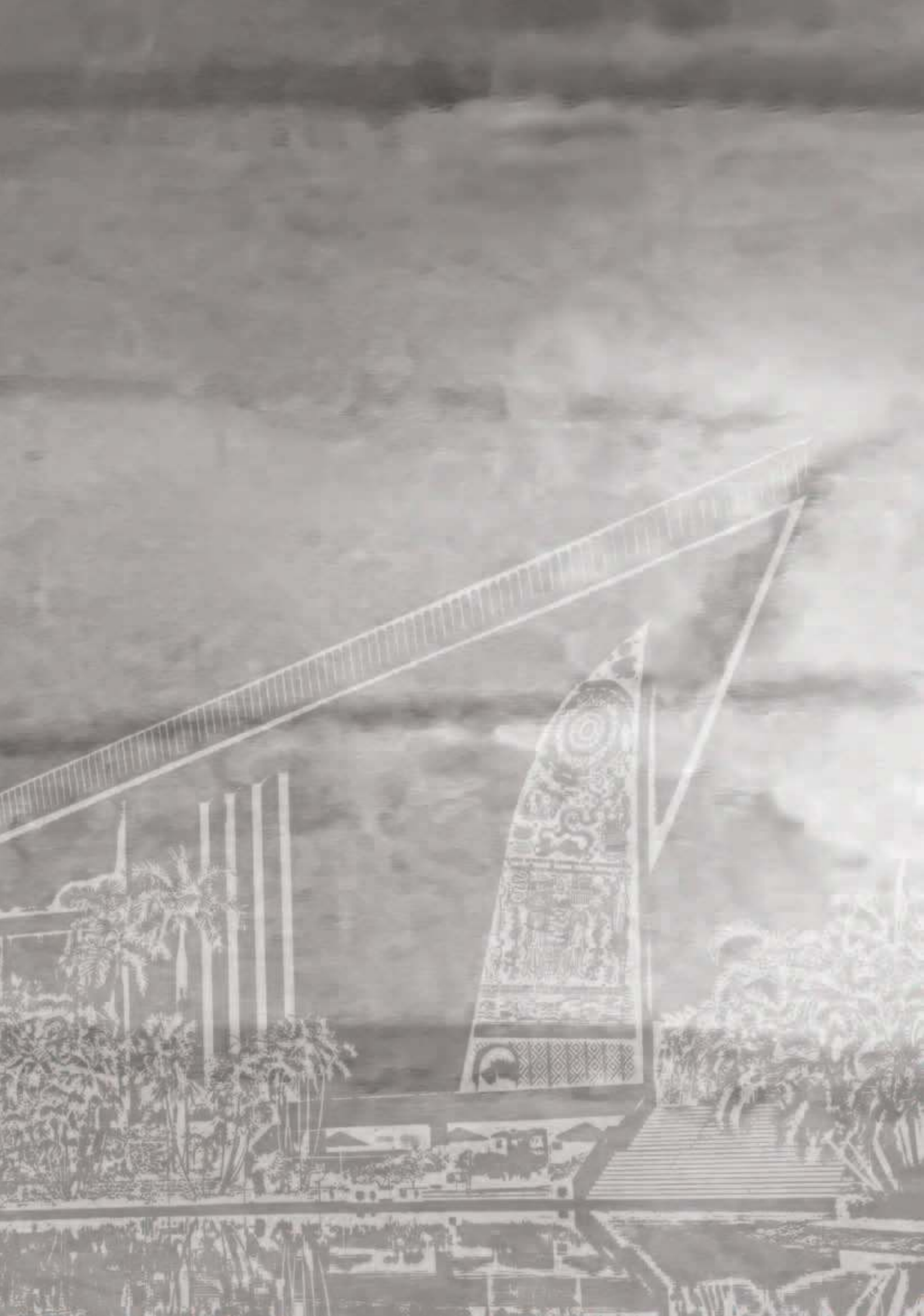
VII. Conclusion

ABAC is deeply concerned about recent trade tensions. Those tensions risk seriously damaging growth, exacerbating unemployment and turning back the great social advances achieved in recent decades.

Our concluding message is simple. APEC economies must reinforce the principles agreed to in the founding of the Bogor Goals. By reinforcement, we mean adherence to open markets to facilitate the flow of goods, services and investment across the region. If we fail to achieve these goals by taking shared actions and commitments developed under the APEC agenda, we will see a descent from prosperity to an environment of slowing growth, job losses, rising costs and one of mistrust and unpredictability, the antithesis of what APEC stands for.

Papua New Guinea has the honor to chair ABAC this year. Under Papua New Guinea's leadership, ABAC has pursued a forward looking agenda with a strong emphasis on the role that digitization and innovation can play in transforming societies and giving effect and meaning to inclusiveness. Our recommendations are aimed at realizing the promise of solid actions that will lead to a shared and prosperous future. Our recommendations are aimed at furthering APEC's principles and work priorities and we have undertaken work with a special but not exclusive focus for the least developed members of APEC.

We commend this report to Leaders. We look forward to discussing our recommendations with you in November.



ANNEX

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, 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 2018

In 2018, Papua New Guinea took on the Chair of ABAC, with Viet Nam and Chile as co-chairs, following the APEC order. Co-chairs represent immediate past and future chairs.

ABAC adopted the theme “Digitization and Innovation – Advancing Social Harmony.” The 2018 work program focused on the following priorities:

- accelerating regional economic integration
- sustaining, developing and deepening inclusive growth opportunities
- creating opportunities for MSMEs to prosper
- strengthening financial systems to secure stable growth, investment and inclusiveness
- breaking barriers to enrich society by advancing technology

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)
- Sustainable Development Working Group (SDWG)
- MSME and Entrepreneurship Working Group (MSMEEWG)
- Finance and Economics Working Group (FEWG)
- Digital and Innovation Working Group (DIWG)

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 2018: Auckland, New Zealand (1-4 February); Tokyo, Japan (16-19 April); Kuala Lumpur, Malaysia (23-26 July); and Port Moresby, Papua New Guinea (13-15 November). Three meetings of the Advisory Group were also held: Auckland, New Zealand (2 February); Tokyo, Japan (16 April); and Kuala Lumpur, Malaysia (23 July).

ABAC actively participated in various APEC meetings and related events, among others: First APEC Senior Officials' Meeting (SOM I) and related meetings (Port Moresby, Papua New Guinea: 24 February-9 March); Finance and Central Bank Deputies Meeting (Port Moresby, Papua New Guinea: 13-16 March); 46th SME Working Group Meeting (Brunei Darussalam: 26-28 March); 55th Energy Working Group and Associated Meetings (Hong Kong, China: 14-18 May); SOM II and related meetings (Port Moresby, Papua New Guinea: 14-24 May); Meeting of APEC Ministers Responsible for Trade (MRT) (Port Moresby, Papua New Guinea: 25-26 May); Senior Finance Officials' Meeting (SFOM) (Madang, Papua New Guinea: 5-8 June); SOM III and related meetings (Papua New Guinea, Port Moresby: 4-20 August); Mining Week and Ministers Responsible for Mining Meeting (MRMM) (Port Moresby, Papua New Guinea: 21-24 August); Women and Economy Forum (WEF) (Port Moresby, Papua New Guinea: 3-7 September); SFOM (Port Moresby, Papua New Guinea: 15 October); Finance & Central Bank Deputies Meeting (Port Moresby, Papua New Guinea: 16 October); APEC Finance Ministers' Meeting (Port Moresby, Papua New Guinea: 17 October); Concluding SOM (Port Moresby, Papua New Guinea: 12-13 November); and APEC Ministerial Meeting (Port Moresby, Papua New Guinea: 16 November).

Other events organized and/or participated in by ABAC included: APEC China CEO Forum 2018 (Beijing, China: 6-7 July); Digital Innovation Forum (Taipei, Chinese Taipei: 19-20 July); Food Security Symposium (Port Moresby, Papua New Guinea: 8-9 August); MSME Innovation Summit (Port Moresby, Papua New Guinea: 10-11 September); and Resources Industry Development Summit (Port Moresby, Papua New Guinea: 18-19 October).

ABAC continued its work through an Advisory Group aimed at measures to better prioritize its work program, including ABAC's letter and report to APEC Leaders. ABAC also convened a group to develop ABAC inputs and recommendations to the work of the APEC Vision Group.

Studies and Related Work

In collaboration with the Pacific Economic Cooperation Council (PECC), ABAC undertook a project on the benefits of trade at a firm and household level. The project sought to articulate more effectively why trade benefits economies and individuals/firms and help with the narrative based on the objective of delivering inclusive growth.

ABAC commissioned work to update the 2015 ABAC FTAAP study, which was the basis of its' contribution to the APEC Collective Strategic Study on a Free Trade Area of the Asia-Pacific (FTAAP), taking into account the new trade policy environment, including developments in regional agreements, the impact of technology and rising anti-globalization and anti-free trade sentiments surrounding FTAAP. ABAC also commissioned a research project which will provide analysis from a business perspective of Next Generation Trade and Investment Issues, including those in relevant clauses of pathway agreements, to assist in establishing priorities for inclusion in FTAAP.

ABAC contributed a chapter to the 2018 APEC Economic Policy Report (AEPR) outlining reforms to regulations and policies impacting favorably and unfavorably on innovation and the development of the digital economy most relevant to business growth, with a structural reform perspective.

To facilitate access to markets and global value chains, ABAC partnered with the University of Southern California's Marshall School of Business to undertake a research project on "Enabling MSMEs and Women to Engage More Successfully across Borders".

ABAC commissioned the Royal Melbourne Institute of Technology (RMIT) University to undertake research and analysis focusing on frontier digital and innovation challenges impacting on human resource development, skills and training needs, with a view to advancing the social absorption of new technologies. ABAC also commissioned work from RMIT on policies to promote sustainable growth in low/middle income groups in regional economies and measures to enhance public financial management.

Outreach

ABAC convened a Food Security Symposium in Port Moresby in August as part of the APEC Food Security Week, which considered the technology and digital impacts on enhancing food and fisheries security and developed recommendations aimed at improving investment and productivity in these primary sectors and increasing value added and downstream processing in fisheries, and increased market access.

In conjunction with the APEC SME Week, ABAC convened a high-level MSME Innovation Summit in Port Moresby in September involving international and regional organizations, policymakers, business, MSME representatives, educators and digital innovators. The Summit recommended, among others, that priority be given to the deepening and broadening of affordable, reliable and efficient access to wifi and communication systems, the mobilization of opportunities in promoting access to finance and to domestic and global value chains, the enhancement of human resource participation through education systems and skills training and by joint mobilization of public and private sector interests to achieve these goals.

A Resources Industry Development Summit was also convened in Port Moresby in October to explore future demand and supply and prices of mining and energy products, and developed recommendations to promote investment, the utilization of innovative practices and technology and infrastructure and the widening of benefits arising from MSME inclusiveness in the resources sectors.

ABAC continued to localize the APEC Cross-Border E-Commerce Training program to assist MSMEs in accessing global markets.

ABAC pursued further work on the ABAC Women Connect project aimed at enabling women, especially young women, realize entrepreneurship through digitalization.

Finally, ABAC further strengthened its interaction and engagement with APEC Ministers, Senior Officials and APEC fora. ABAC members 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, digital economy, MSME development, energy security, food security, structural reform, and the development and integration of financial markets.

List of Acronyms

ABAC	APEC Business Advisory Council	MSMEEWG	Micro, Small and Medium Enterprises and Entrepreneurship Working Group
AEPR	APEC Economic Policy Report	NGeTI	Next Generation Trade and Investment Issue
AFIN	ASEAN Financial Innovation Network	NTB	Non-Tariff Barrier
AI	Artificial Intelligence	NTM	Non-Tariff Measure
APEC	Asia-Pacific Economic Cooperation	OECD	Organization for Economic Cooperation and Development
APEREC	Asia-Pacific Energy Research Center	OGCIO	Office of the Government Chief Information Officer
API	Application Programming Interface	PECC	Pacific Economic Cooperation Council
APSC	Asia-Pacific Services Coalition	PPSTI	APEC Policy Partnership on Science, Technology and Innovation
ASCR	APEC Services Competitiveness Roadmap	R&D	Research and Development
ASEAN	Association of Southeast Asian Nations	RCEP	Regional Comprehensive Economic Partnership
AVG	APEC Vision Group	REIWG	Regional Economic Integration Working Group
CBPR	APEC Cross-Border Privacy Rules System	RMIT	Royal Melbourne Institute of Technology
CEO	Chief Executive Officer	RTA	Regional Trading Arrangement
CIO	Chief Information Officer	SDWG	Sustainable Development Working Group
CO2	Carbon Dioxide	SFOM	APEC Senior Finance Officials' Meeting
CPTPP	Comprehensive and Progressive Agreement for Trans Pacific Partnership	SME	Small and Medium Enterprises
DIF	Digital Innovation Forum	SOM	APEC Senior Officials' Meeting
DIWG	Digital and Innovation Working Group	STEM	Science, Technology, Engineering and Mathematics
EC	APEC Economic Committee	TCFD	Task Force on Climate-related Financial Disclosure
FDI	Foreign Direct Investment	TFA	Trade Facilitation Agreement
FEWG	Finance and Economics Working Group	UNCTAD	United Nations Conference on Trade and Development
FTA	Free Trade Agreement	USC	University of Southern California
FTAAP	Free Trade Area of the Asia-Pacific	WEF	Women and the Economy Forum
ICT	Information and Communications Technology	WTO	World Trade Organization
IoT	Internet of Things		
LNG	Liquefied Natural Gas		
M&A	Mergers and Acquisitions		
MDB	Multilateral Development Bank		
MRMM	Ministers Responsible for Mining Meeting		
MRT	Meeting of APEC Ministers Responsible for Trade		
MSME	Micro, Small and Medium Enterprise		

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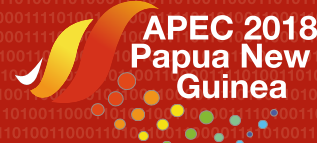
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