



APEC Business Advisory Council

The background of the cover is a blue-tinted photograph of a suspension bridge, likely the Golden Gate Bridge, spanning across a body of water. In the distance, a city skyline with various skyscrapers is visible under a hazy sky. The bridge's cables and towers are prominent in the foreground and middle ground.

EQUITY SUSTAINABILITY OPPORTUNITY

Report to APEC Economic Leaders
United States 2023

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Report to APEC Economic Leaders



APEC Business Advisory Council



APEC Business Advisory Council



His Excellency Joseph R. Biden, Jr.

Chair, Asia-Pacific Economic Cooperation
President of the United States
Washington, DC

Your Excellency:

It is our honor to convey the APEC Business Advisory Council (ABAC)'s key recommendations to Leaders. Our backdrop is one of protracted crisis: a deeply concerning global economic outlook, conflict, and a series of grave challenges – geopolitical, economic, environmental and financial – continue to confront the region. Emerging technologies, and in particular, generative Artificial Intelligence, are raising important new concerns about ethical governance, responsible development and workforce impacts, along with potential economic and productivity gains. Faced with these disruptive forces, the imperative for APEC economies to work collaboratively toward shared goals of promoting equity and sustainability and creating opportunity has never been stronger. ABAC is eager to support these efforts and contribute to the achievement of the Putrajaya Vision 2040.

Expanding equity through well-designed policies and capacity building

We cannot fully realize the Putrajaya Vision unless groups with untapped economic potential, including women, micro, small and medium enterprises (MSMEs), Indigenous peoples and those from remote and rural communities, share in prosperity. MSMEs are particularly vulnerable to the challenges of digital disruption, climate change, pandemics, protectionism, and other destabilizing forces such as inflation and increasing supply chain costs. They need persistent, intentional and tailored support to overcome these challenges.

- We call on Leaders to collect and leverage gender-disaggregated data to guide efforts to increase **women's participation in science, technology, engineering and mathematics (STEM) education, careers** and entrepreneurship.
- **MSME economic success** is enabled through access to finance, and green and digital economy opportunities. ABAC calls on Leaders to implement well-designed support in these areas, including for women and Indigenous-led businesses. ABAC's new Cybersecurity Self-Assessment Toolkit will help MSMEs manage their increasing exposure to cybercrime threats.
- To enhance supply chain resilience and connectivity, including for cross-border e-commerce, APEC should accelerate work on logistics services liberalization, simplification of low-value shipments, and digitalization of business and border processes. Economies should establish a regional cooperation mechanism to prevent future trade and supply chain disruptions. For its part, ABAC has created a **dynamic toolkit** to help MSMEs strengthen supply chain flexibility, visibility, connectivity, robustness and redundancy capabilities.
- APEC should develop an **Environmental, Social, and Governance (ESG) Framework for MSMEs** to avoid their unintended exclusion from supply chains and promote their participation in green trade.



Collaborating to promote environmental sustainability and address climate change

APEC must retake its role as a global trailblazer on trade and the environment. As ABAC made clear through its 2021 Climate Leadership Principles, we must not only accelerate emissions reductions and adapt to a low-carbon economy, but we must also do so through a just transition.

- APEC Leaders should prioritize policies that accelerate emissions reductions and promote financing for a just and affordable transition in the region; **eliminate inefficient fossil fuel subsidies**; adapt to a green and low-carbon economy by fully and quickly liberalizing **trade in environmental goods and services**; develop a regional green economic framework to harmonize relevant trade rules and standards; and achieve a **just, ambitious, realistic and sustainable energy transition**.
- APEC should develop the roadmap that ABAC proposed for **trade and investment in renewable energy**, including on low-carbon materials and technologies to reduce emissions.
- Reflecting on a report we commissioned on the potential regional impacts of **carbon border adjustment mechanisms**, APEC should work collectively to ensure that climate responses, including carbon border measures, do not become tools for disguised protectionism which risk leading to retaliatory measures.

Creating economic opportunity by streamlining regulations and increasing access to markets, technology and capital

Achieving sustained prosperity is a key element of the Putrajaya Vision, but also affords us the resources to find solutions to the major challenges we face. Despite commendable progress, we still fall short of the seamless, open, non-discriminatory and enabling trade and investment environment that this requires.

- We call on APEC to lead meaningful progress in the **World Trade Organization**, at the 13th Ministerial Conference and through open plurilateral initiatives, including ambitious e-commerce and sustainability outcomes; agreement to a permanent moratorium on customs duties on electronic transmissions; restoration of the Appellate Body and necessary reforms in dispute settlement, agriculture and fisheries subsidies.
- Closer to home, we must accelerate progress towards the **Free Trade Area of the Asia-Pacific**; we urge APEC to achieve an early harvest in supply chains, digital trade, climate, and inclusion, as well as creating stronger architecture for prosperity through the full implementation and utilization of existing agreements and coherent next generation trade and investment rules.
- Digital economy governance in the region is increasingly fragmented and restrictive. APEC should facilitate digital economy growth by developing an **APEC Cross-Border Paperless Trade Roadmap and implementation plan**, promoting the interoperability of digital regulations and policies, improving and expanding the uptake of the voluntary Cross-Border Privacy Rules system, agreeing on common principles for Digital Identity, adopting mechanisms to facilitate cross-border data flows, and embedding trust through an enabling environment for technologies and platforms that facilitate and protect trade.

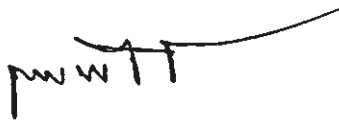
- The emergence of **generative Artificial Intelligence** necessitates a proactive, concerted, and collaborative policy response that takes into account responsible and ethical development and governance, workforce impacts, and the enabling environment that will unlock its full economic potential. APEC and ABAC can make a meaningful contribution to this effort.
- Action is also needed to ensure the interoperability of digital financial services.

We look forward to discussing the above recommendations in greater detail when we meet at our annual dialogue in November.

Yours sincerely,



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ABAC Chair
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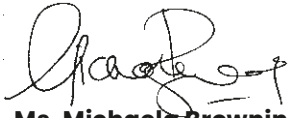


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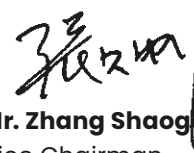


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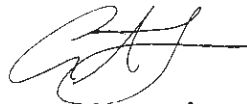
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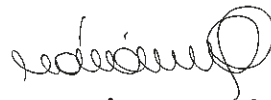
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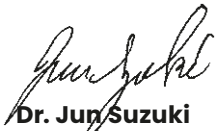
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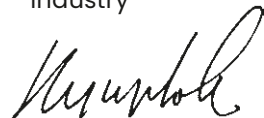


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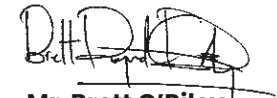


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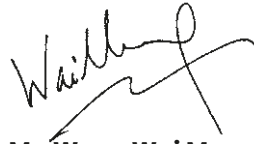




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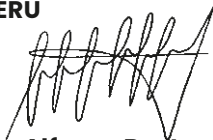
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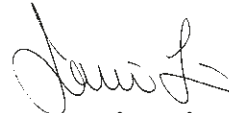
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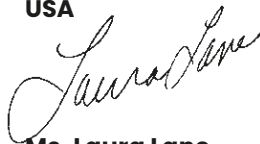


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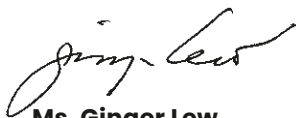


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Executive Summary

Executive Summary

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

Economic Integration

Implementing concrete action towards the Free Trade Area of the Asia-Pacific. The Free Trade Area of the Asia-Pacific (FTAAP) remains ABAC's preeminent economic priority – one more urgent than ever in today's challenging economic, geopolitical, financial and climate context. FTAAP should be grounded in high-quality regional undertakings including the Comprehensive and Progressive Agreement for Trans Pacific Partnership (CPTPP), the Regional Comprehensive Economic Partnership (RCEP) and the Pacific Alliance. ABAC calls for full implementation and utilization of CPTPP and RCEP, as well as ongoing monitoring and improvement over time, through strengthening existing committees and commissions. ABAC recommends gathering data on utilization to inform best practices. New entrants that can meet the agreements' high standards should be encouraged to join.

ABAC also calls for efforts to build up a range of shorter-term FTAAP elements to proceed without delay, through the addition of specific, practical initiatives in the FTAAP Agenda Work Plan, and monitoring progress. ABAC's Statement on FTAAP, annexed to this Report, includes more detailed recommendations for 'early harvest', including on supply chains; paperless trade; an interoperable digital regulatory environment; liberalizing trade in environmental goods and services; and enhancing inclusion in trade, including for micro, small and medium enterprises (MSMEs), women entrepreneurs and Indigenous businesses, through providing persistent, intentional and tailored support.

Supporting the rules-based multilateral trading system. The World Trade Organization (WTO) not only underpins economic security and development, but can also offer powerful solutions to current challenges. ABAC calls on Leaders to shape a strong, credible, relevant and well-functioning WTO through ambitious outcomes at the 13th Ministerial Conference, including on harmful fisheries subsidies; the elimination of distorting agriculture support and inefficient fossil fuel subsidies; liberalizing trade in environmental goods and services; a permanent moratorium on customs duties on electronic transmissions and urgent reinstatement of the Appellate Body, along with necessary reforms to dispute settlement and transparency. ABAC also calls for support for the open plurilateral initiatives on E-Commerce and the Trade and Environmental Sustainability Structured Discussions (TESSD). Business should also have a formal voice in the process.

Enhancing supply chain resilience and connectivity. Recognizing the great disruption to supply chains from the COVID-19 pandemic and other events, ABAC calls on APEC to accelerate its work to enhance the region's physical connectivity, including through investment in infrastructure, liberalization of logistics services, full automation of customs procedures, simplification of clearance for low-value shipments, and digitalization of business and border processes. As APEC considers policy responses to strengthen supply chain resilience, ABAC underscores the need for greater consultation with businesses to ensure policies and measures adopted are well informed by lessons learned. ABAC urges APEC to develop a regional cooperation mechanism for crisis response to ensure trade continuity and future readiness. ABAC has developed a dynamic toolkit to help businesses achieve supply chain resilience, which can be used as a platform to support MSMEs.

Leveraging trade agreements for better climate outcomes. Trade and trade-related measures can give powerful impetus to achieving structural transformation for sustainability and to deliver on climate commitments. APEC economies are frequent participants in regional and bilateral trade agreements, thereby creating opportunities to leverage trade for positive environmental outcomes domestically, regionally and multilaterally. Trade provisions which support the adoption of high-standard, achievable environmental standards can serve the dual purpose of increasing trade in environmental goods and services and low-emissions technologies, and accelerating the achievement of climate goals. APEC should consider developing principles for such provisions, and should also assist developing economies adopt high-standard, achievable environmental standards. ABAC also calls for APEC to develop an *APEC Trade and Investment in Renewable Energy Roadmap*.

At the same time, ABAC cautions that while trade-related measures including subsidies may be aimed at achieving better environmental outcomes, they should also be designed to minimize distortions within and across markets, and to ensure a “just transition”, including for MSMEs and groups with untapped economic potential, such as women and Indigenous communities, which are disproportionately affected by climate change.

Monitoring carbon border adjustment mechanisms and their impact on the APEC region.

ABAC commissioned a report this year on the implications of the European Union (EU) initiative for a carbon border adjustment mechanism (CBAM). The report looked at the effectiveness of CBAMs in reducing emissions, their compliance with WTO rules, and their potential impact on trade in the Asia-Pacific. It found that while the EU CBAM should reduce emissions within the EU, this will largely result from domestic industries losing their exemption from the EU Emissions Trading Scheme, rather than the CBAM itself. There will be minimal impact on the emissions from other jurisdictions. The evidence also suggests that where there are additional costs as a result of CBAM implementation, these will be relatively modest and most will be incurred by economies outside the Asia-Pacific. There is also a risk that some APEC economies may seek to impose retaliatory measures. The study notes that the EU CBAM has been developed without the participation of other economies; those affected may seek to challenge the measures in the WTO.

The report makes a number of recommendations for APEC, including continuing to monitor the development and effectiveness of CBAMs and their costs in terms of trade, investment and supply chains in the Asia-Pacific; and to examine less-costly alternatives to CBAMs.

Liberalizing trade in environmental goods and services. Green trade not only facilitates access to and the availability of products and services that promote environmental protection, but it can also contribute to global economic growth. ABAC research has identified three key impediments to trade in environmental goods and services: (i) unsupportive trade environment and policies; (ii) lack of skilled environmental services professionals; and (iii) need to ensure a “just transition” approach to ensure MSMEs do not get left behind. While ABAC applauds APEC work to date, there is scope to do more. ABAC calls on APEC to boost trade in environmental goods and services by eliminating tariffs and non-tariff barriers, increasing access to skilled environmental services providers, and ensuring a “just transition”. ABAC’s separate report includes detailed recommendations for the development of a workplan, in concert with APEC, to establish a regional green economic framework for environmental standards, rules and policies, and to facilitate the cross-border movement of environmental professionals. ABAC also calls for approaches to ensure a “just transition” for MSMEs, including through green procurement policies, accessible green trade financing, and capacity building undertaken in partnership with leading industry experts.



Promoting cross-border paperless trade. Paperless trade can enhance the visibility, integrity and efficiency of supply chains and border processes. APEC economies are at different stages of maturity in this area and the region still lacks a coherent and ambitious approach overall. ABAC calls for the development of a ten-year APEC Cross-Border Paperless Trade Roadmap and implementation plan which contains mutually agreed actions, targets, and timelines, with flexibility according to economies' level of readiness. The roadmap should be a living document that takes into account global developments, including in international intergovernmental and private sector organizations. APEC should also draw on approaches to paperless trade in free trade agreements and digital economy agreements. ABAC's separate report contains detailed recommendations, including on consistency with relevant United Nations model laws such as the Model Law on Electronic Transferable Records (MLETR), the sharing of experiences with MLETR implementation, the maintenance of databases of relevant documents, data sets and cross-border paperless initiatives and projects, development of principles for interoperability of domestic single windows, expansion of pilot projects for digital trade documents, support for MSMEs to digitalize, and capacity building work.

Progressing trade inclusion for groups with untapped economic potential, including MSMEs, women- and Indigenous-led businesses and others. Empowering MSMEs, including those led by women, Indigenous peoples and those from other groups with untapped economic potential, will have a cascading effect on overall economic prosperity. However, MSMEs face many challenges in trade; Indigenous-led businesses can face disproportionately high barriers and structural impediments. MSME support programs must be designed to deliver persistent, intentional and tailored support, based on analysis of specific needs, including for women, Indigenous businesses and other underrepresented groups with untapped economic potential. FTAAP and trade agreements should also reflect Indigenous business needs and interests, including to deepen Indigenous-to-Indigenous linkages.

Digitalization and Innovation

Advancing alignment on digital economy governance to detangle the “digital noodle bowl”. The McKinsey Global Institute estimates that generative Artificial Intelligence (genAI) could potentially produce an annual economic impact of USD 7.9 trillion, while concurrently reshaping the nature of work by automating up to 50% of current work activities as soon as 2030. These transformative shifts are accompanied by uncertainties and, in some instances, considerable risks, including existential threats. The rapid advancement of these tools, coupled with substantial investments and their widespread adoption, necessitates proactive, concerted, and collaborative policy responses globally. APEC economies should specifically address genAI, large language models, and the advancement towards artificial general intelligence. Investment in research and development and increased cooperation will support risk mitigation.

Facilitating cross-border data flows. The voluntary APEC Cross-Border Privacy Rules (CBPR) system holds immense potential in facilitating data privacy compliance across regions, yet its potential remains underrealized. To increase uptake, ABAC urges APEC economies to expand participation, increase understanding and make the CBPR system more accessible, especially for MSMEs, through a simplified and more accessible certification process, and pursuing greater alignment between the APEC CBPR and all other personal data transfer mechanisms, frameworks and standards to avoid fragmentation, complexity and increased costs associated with compliance.

Improving interoperability of digital identity systems across APEC. Acknowledging the importance of digital identity to the development of the digital economy, the 2022 ABAC report *Digital Identity in APEC: Deepening Trust, Inclusion and Interoperability in the Digital Economy* calls for APEC to adopt ABAC's principles for effective digital identity systems.

Increasing women's participation in STEM. Ensuring women are strongly represented in science, technology, engineering and mathematics (STEM) fields is critical for regional prosperity and growth. ABAC has undertaken a study to identify gaps in women's participation in STEM education and employment, and highlight barriers to their participation. Working with private sector networks and LinkedIn, ABAC has provided a more detailed picture of obstacles for women's engagement in technology-based industries and made a range of recommendations to encourage participation of girls and women in STEM.

Sustainable Growth

Implementing a strong response to climate change. The APEC region is particularly vulnerable to the impacts of climate change, as a consequence of its geography and demography; harmful climate impacts threaten the prosperity, inclusion and the very survival of APEC communities. ABAC urges APEC Leaders to accelerate the effective transition to a low-carbon economy through the adoption of a set of climate principles – consistent with ABAC's Climate Leadership Principles of Reduction and Mitigation, Adaptation and Just Transitions – to drive meaningful action. ABAC restates its longstanding call for the urgent elimination of inefficient fossil fuel subsidies, which undermine emissions reduction goals.

Promoting a just, realistic, ambitious and sustainable energy transition. APEC economies should implement plans for realistic energy transition based on examination of the current and future forecast around energy in each economy. The pathways for transition will be diverse. Such efforts should be coordinated across the region to enable the international financing of projects verified as aligned with their respective economy and sectoral roadmap and development of low-carbon technologies. Interoperable environmental, social and governance (ESG) taxonomies, carbon pricing instruments and interoperable carbon markets should be developed to facilitate further emissions reductions. ABAC encourages APEC economies to embrace digitalization and explore opportunities for collaboration in areas such as smart grids, energy storage, energy management systems, and data analytics.

Recalling ABAC's *Trade and Investment in Renewable Energy Roadmap*, ABAC calls on APEC Leaders to create an enabling environment for private sector investment in renewable energy infrastructure and services and low-emissions technology, including the physical infrastructure to support its use in order to meet climate change goals. Clear and stable policy frameworks, transparent regulatory processes, and market-based solutions are essential to unlock private sector investments and drive technological advancements.

Ensuring sustainable food security. ABAC welcomes APEC's adoption of the bio-circular-green (BCG) economy model, and the implementation of an ambitious digital food strategy through the APEC Food Security Digital Plan which prioritizes region-wide adoption of technology and interoperability throughout the food value chain. Reforms to the food and agriculture trading system, including the elimination of harmful fisheries subsidies and trade-distorting domestic support in agriculture and reduction of tariffs and non-tariff barriers, will create a more sustainable and equitable food system in the APEC region.



Enhancing MSME ESG inclusion. It will be increasingly important for MSMEs to be able to demonstrate their ESG credentials, not only as good business practice, but also to avoid unintended exclusion from global value chain opportunities where ESG approaches are prioritized. ABAC urges APEC to develop and implement an MSME ESG Inclusion Framework, in partnership with ABAC and other stakeholders, that is pragmatic, achievable and accessible to MSMEs and which will drive MSME inclusion in ESG practices.

Achieving a circular economy. Recognizing that the existing linear economic model of “acquisition-production-disposal” depletes natural resources and causes significant systematic damage to the environment, adoption of circular economy approaches could reduce inefficient resource production and consumption in APEC economies. Realization of a circular economy will require the adoption of standards and practices that facilitates the global flow of reusable resources through reverse supply chains while protecting consumers, workers and the environment.

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Main Report

Main Report

Economic Integration

Implementing concrete action towards the Free Trade Area of the Asia-Pacific

The Free Trade Area of the Asia-Pacific (FTAAP) is a crucial foundation for the open, dynamic, resilient, prosperous and peaceful Asia-Pacific community that is envisaged in the Putrajaya Vision. FTAAP accordingly remains ABAC's preeminent trade and economic priority – and indeed, is a more urgent goal than ever, as the region confronts a range of complex and interconnected challenges which threaten to undermine inclusive, sustainable and quality growth.

ABAC welcomed the reaffirmation of APEC's commitment to advance economic integration in the region through work on FTAAP that was given in the Chair's Statement at the 2023 APEC Ministers Responsible for Trade (MRT) meeting. For its part, ABAC continues to hold the highest of ambitions for FTAAP: it should be open; seamless; non-discriminatory; enable strong, resilient, stable supply chains; ensure inclusion and sustainability; and be underpinned by high-quality, high-standard regional undertakings.

The Comprehensive and Progressive Agreement for Trans Pacific Partnership (CPTPP), the Regional Comprehensive Economic Partnership (RCEP) and the Pacific Alliance make a significant contribution to the economic architecture of the region. ABAC calls for full implementation and utilization of CPTPP and RCEP, as well as ongoing monitoring and implementation through strengthening existing committees and commissions, and for participants to improve the agreements over time, including in new areas such as digital trade. ABAC additionally encourages new entrants that can meet the high standards of these agreements to join to strengthen the platform that these agreements provide for economic integration.

ABAC therefore welcomes the MRT Chair's Statement directing the APEC Policy Support Unit (PSU) to review work on FTAAP and prepare a study on areas of convergence and divergence across relevant trade agreements in the region. This will help assess what more is needed to make FTAAP a reality. In a similar vein, ABAC recommends that the APEC PSU be tasked to gather and publish data on CPTPP and RCEP utilization to support a more nuanced understanding of barriers and best practices.

While these architectural elements will be critical, ABAC also stresses that the work to build FTAAP incrementally, from the bottom up, must proceed without delay. ABAC calls on Leaders to bring urgency into this 'early harvest' process, by directing economies to include specific, practical initiatives in the FTAAP Agenda Work Plan, to implement them as quickly as possible, and to monitor and report on progress. ABAC's Statement on FTAAP, annexed to this Report, includes a number of more detailed recommendations in that regard.

Specifically, these areas of 'early harvest' include enhancing supply chain connectivity and resilience; facilitating digital trade, including through universal paperless trade and digital trade finance facilitation; creating a coherent and interoperable digital regulatory environment, including by drawing on existing agreements and dedicated high-quality digital agreements such as the Digital Economy Partnership Agreement and the Singapore-Australia Digital Economy Agreement; leveraging trade measures for climate outcomes, including liberalizing trade in environmental goods and services; and enhancing

inclusion in trade, including for micro, small and medium enterprises (MSMEs), women entrepreneurs and Indigenous businesses, through providing persistent, intentional and tailored support.

Recommendations:

- Encourage members of CPTPP and RCEP to promote full implementation and utilization of these agreements, monitor their operation, and pursue improvements to the agreements, through strengthening existing committees and commissions while also encouraging new entrants that can meet their high standards to seek to join.
- Develop by consensus high-quality rules in new areas including digital trade, drawing where appropriate from dedicated, high-quality digital agreements.
- Gather and publish data regarding the utilization of CPTPP and RCEP to support a more nuanced understanding of the limitations, barriers and best practices in implementing these agreements.
- Develop specific, practical initiatives in the FTAAP Agenda Work Plan, implement them as quickly as possible, and monitor and report on progress, taking into account ABAC's five proposed areas of focus.

Supporting the rules-based multilateral trading system

The rules-based multilateral trading system, with the World Trade Organization (WTO) at its heart, underpins economic security, stability and development; and it is a buttress against trade protectionism. It can also offer a powerful toolbox of solutions to the myriad grave challenges – economic, financial and environmental – confronting the region. ABAC calls on Leaders to support and shape a strong, credible, relevant and well-functioning WTO, including through achieving ambitious outcomes at the 13th Ministerial Conference. APEC can, and must, lead.

ABAC urges Leaders to leverage the spirit of APEC cooperation and collaboration to make progress on priorities such as digital trade and environmental sustainability through WTO-consistent, open plurilateral initiatives. ABAC encourages APEC Leaders to support such initiatives, including the Joint Statement Initiative on E-Commerce and the Trade and Environmental Sustainability Structured Discussions (TESSD), as a pragmatic way to develop new rules that are fit for purpose, WTO-consistent, of benefit to all, and aimed at eventual multilateralization.

Equally important, ABAC urges Leaders to work together to achieve ambitious outcomes across priority areas including sustainability (harmful fisheries subsidies, inefficient fossil fuel subsidies and trade in environmental goods and services); the elimination of distorting agricultural subsidies and meaningful reforms to other subsidies; digital trade (seeking a permanent moratorium on customs duties on electronic transmissions and championing expansion of the WTO Information Technology Agreement); and the urgent reinstatement of the Appellate Body, along with necessary reforms to the dispute settlement system and improved transparency.

ABAC urges APEC Leaders to continue to emphasize publicly and in discussions with partners the importance of effective multilateral rule-making for prosperity, inclusion and sustainability. Business can help in this advocacy; in that regard, ABAC calls on Leaders to support a formal voice for business in WTO processes, just as ABAC contributes to APEC policymaking.

Recommendations:

- Expedite the implementation of the outcomes of the 12th Ministerial Conference, including on fisheries subsidies.



- Work towards consensus at the 13th Ministerial Conference in areas of unfinished business, including agriculture, the next tranche of disciplines on fisheries subsidies, the moratorium on customs duties on electronic transmissions and broader WTO reform.
- Support WTO-consistent open plurilateral initiatives, particularly in areas of high priority and urgency, including e-commerce and the TESSD.
- Support the urgent reinstatement of the Appellate Body and necessary reforms to the dispute settlement system.

Enhancing supply chain resilience and connectivity

Recognizing ongoing disruptions to supply chains, ABAC calls on APEC to accelerate its work to enhance the region's physical connectivity, including through investment in infrastructure, liberalization of logistics services, full automation of customs procedures, simplification of clearance for low-value shipments, and digitalization of business and border processes. APEC work on essential logistics services is also critical and should progress to action. APEC should provide a venue for an open dialogue with business to address potential bottlenecks and work with ABAC to ensure policy responses are informed by lessons learned from the disruptions that occurred during the COVID-19 pandemic. To play its part, ABAC will continue to offer capacity building for MSMEs on Supply Chain Resilience, offering best practice examples. ABAC has also developed a supply chain resilience toolkit available at <https://supplychainresiliencetoolkit.ncapec.org>.

Recommendations:

- Urgently finalize APEC's Non-binding Guidelines on Logistics-related Services and share best practices to keep trade flowing during times of crisis. These should include provisions to facilitate the mobility of essential personnel such as air and maritime crew.
- Establish a platform for regional public-private consultation and cooperation to promote readiness for future supply chain disruptions.
- Accelerate digitization of trade processes and platforms to keep up with the growth of e-commerce and strengthen visibility.
- Strengthen connectivity and transportation linkages across APEC through investment in trade and logistics-related infrastructure.
- Support MSMEs in building resilience so they can meaningfully and reliably contribute to global value chains.

Leveraging trade agreements for better climate outcomes

Trade and trade-related measures, both domestic and international, are powerful tools to assist in achieving structural transformation of the economy to make it more sustainable and deliver on climate commitments. APEC economies are entering into regional and free trade agreements in greater numbers than in any other region, creating opportunities to leverage trade for positive environmental outcomes. These agreements often pave the way for more ambitious future multilateral negotiations and encourage deeper behind the border structural reforms.

The inclusion in trade agreements of provisions which acknowledge the links between trade, the environment and climate change, and reinforce the adoption of high-quality, achievable environmental standards, can serve the dual purpose of increasing trade in environmental goods and services and low-emissions technologies, and accelerate achievement of climate goals.

ABAC also cautions that measures including subsidies should be designed not only to maximize emissions reductions and adapt to a low-carbon economy, but also to minimize distortions within and across markets, and to ensure a “just transition”, including for MSMEs and groups with untapped economic potential such as women and Indigenous communities, who are typically disproportionately impacted by climate change-driven displacement, threats to food security, increased poverty and social tensions.

Recommendations:

- Ensure that domestic trade and environment policies are consistent and support efforts to achieve climate change targets. This includes specific references to the links between trade, the environment and climate change in new or reviewed trade agreements, in both specific chapters and preambular provisions. APEC could develop best practice principles for inclusion of environment-related provisions in regional trading arrangements (RTAs)/free trade agreements (FTAs) and provisions in existing agreements could be upgraded to reflect new developments.
- Cooperate to provide economic and technical assistance to developing economies to adopt high-quality, achievable environmental standards.
- Ensure good design and coordination in climate response trade measures, including subsidies, in order to maximize reduction and adaptation, but also to minimize distortions within and across markets and to ensure a just transition for MSMEs, women, Indigenous communities and developing economies.

Monitoring carbon border adjustment mechanisms and their impact on the APEC region

ABAC has kept close watch on the recent initiative of the European Union (EU) to introduce a carbon border adjustment mechanism (CBAM), aimed at addressing climate change challenges and combatting the redistribution of carbon-intensive industry to jurisdictions with weaker regulations on limiting carbon emissions. Other economies are considering similar approaches.

This year, ABAC has commissioned a report to consider the implications of CBAMs. The report looked at the effectiveness of CBAMs in reducing emissions, their compliance with WTO rules, and the potential impact of CBAMs on trade in the Asia-Pacific region.

The report found that while the EU CBAM should reduce emissions within the EU, this will largely result from domestic industries losing their exemption from the EU Emissions Trading Scheme, rather than the CBAM itself; and that there will be minimal impact on the emissions generated in other jurisdictions. The evidence also suggests that where there are additional costs as a result of implementation of the CBAM, these will be relatively modest and most will be incurred by economies outside the Asia-Pacific region.

The study notes that while the EU CBAM will impact other economies, its development has taken place without their participation, despite the importance of international cooperation in combatting climate challenges. The report proposes a number of potential alternatives to CBAMs which could be agreed internationally, and the role that APEC might play in developing those approaches.



Assessing the Implications of Carbon Border Adjustment for APEC

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Recommendations:

- Continue to monitor the development of CBAMs as well as their effectiveness in achieving the objectives of lowering carbon emissions.
- Monitor any WTO processes that test the consistency of CBAMs with WTO rules and consider the implications for APEC economies.
- Analyze the costs of CBAMs to trade and investment and to the operation of supply chains in the Asia-Pacific region.
- Support the ability of APEC economies and businesses to address the impact of CBAMs in a manner that avoids further costs on trade and investment in the Asia-Pacific region.
- Develop work programs on alternatives to CBAMs which achieve the same objectives but without the costs involved. This could include work on the provisions of model chapters in RTAs/FTAs, discussions on international rules under the WTO, analysis of the various forms of climate clubs, approaches to capacity building in developing member economies and development of global standards for carbon accounting.

Liberalizing trade in environmental goods and services

Green trade plays an important role in ensuring access to and availability of products and services that promotes environmental protection and decrease the carbon footprint of the goods throughout value chains down to finished products. At the same time, it can also help contribute to global economic growth. According to a recent United Nations Conference on Trade and Development (UNCTAD) report¹, trade in green goods has grown by about 4 per cent in the second half of the year with its combined value hitting a record of US\$1.9 trillion in 2022, US\$100 billion more compared to 2021. APEC should consider leveraging this momentum to further facilitate trade in environmental goods and services in the region by providing a conducive trade environment through elimination of tariff and non-tariff barriers, increased access to skilled manpower to execute environmental services, and ensuring a “just transition” approach for all businesses, especially for MSMEs.

ABAC recognizes APEC’s ongoing efforts in facilitating this through expanding the list of environmental goods and reference list of environmental services. However, more can be done beyond these lists. For example, adding the basic raw materials with low carbon footprint would provide a solid basis for introduction of low-carbon technologies and solutions in many areas, in particular, in renewable energy platforms and so on. As a result of various industry engagements², ABAC has identified three key challenges: (i) trade environment and policies in environmental goods and services; (ii) lack of skilled workforce for environmental services; and (iii) need to ensure an inclusive and “just transition” approach to ensure MSMEs do not get left behind in the green transition.

ABAC’s full recommendations to facilitate trade in environmental goods and services are contained in Annex C of this Report.



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to see Annex C.

1 Global trade slows, but ‘green goods’ grow, UNCTAD, 2023 (<https://unctad.org/news/global-trade-slows-green-goods-grow>)

2 An industry consultation on the sidelines of ABAC II, an APEC-wide survey (<http://www2.abaconline.org/content/download/22632701>)

Recommendations:

- Develop a five-year work plan to establish a regional green economic framework aimed at harmonizing environmental standards, rules, and policies through a joint task force comprised of ABAC and relevant APEC sub-fora, drawing upon existing trade agreements and initiatives; and expand the APEC “living list” of Environmental Goods.
- Recognizing the importance of skills for green products and services, seek to facilitate the cross-border movement of environmental professionals through the regular review and expansion, with private sector inputs, of the APEC Reference List of Environmental Services, increased mutual recognition of qualifications, and dedicated educational institutional funding to alleviate workforce gaps in the region.
- Ensure an inclusive and “just transition” approach so that MSMEs do not get left behind in the green transition, including through green procurement policies, making trade financing more accessible for MSMEs participating in green trade, and rolling out capacity building programs in partnership with leading industry experts.

Promoting cross-border paperless trade

Paperless trade can enhance the visibility, integrity and efficiency of supply chains and border processes, significantly reducing transaction costs in trade – with estimated cost savings of between 15 and 45 percent, amounting to billions of dollars annually.³

Lack of common standards for trade documents across economies and lack of interoperability of legal frameworks surrounding digital documents hinder the use of technologies to digitalize and automate on an end-to-end basis the various processes involved in trade finance. In 2022, a Regional Digital Trade Transformation and Connectivity Network was started through a pilot connecting digital platforms of Japan, Singapore and Thailand to help address these issues.

ABAC calls on APEC economies to develop an APEC Cross-Border Paperless Trade Roadmap and implementation plan which contains mutually agreed actions, targets, and timelines. ABAC recommends that the roadmap and implementation plan be living documents that take into consideration the global developments in cross-border paperless trade and be consistent with initiatives developed by international organizations such as the WTO, World Customs Organization, United Nations, and International Chamber of Commerce (ICC). APEC should also take references from existing FTAs and digital economy agreements with detailed approaches to paperless trade.

At the same time, ABAC recognizes that different economies are at different stages of development. Having a roadmap and implementation plan would allow economies to adopt initiatives to meet the targets and milestones according to their level of readiness. The proposed roadmap could have a timeline of ten years, and include a mid-term review at the five-year mark to assess the progress of the implementation plan and determine further actions required. Such a roadmap and implementation plan would not only guide the development of initiatives for cross-border paperless trade in the region, but would also ensure coordination between the relevant APEC fora and sub-fora.

Annex D of this Report sets out ABAC’s full recommendations on Regional Cooperation for Cross-Border Paperless Trade.



Scan QR code
to see Annex D.

³ ‘Analysis and Pathway for Paperless Trade Report’, APEC Sub-Committee on Customs Procedures, March 2022



Recommendations:

- Ensure that legislation is in line with the United Nations Commission on International Trade Law (UNCITRAL) model laws, such as the ones on Electronic Commerce, Electronic Signatures, and Electronic Transferable Records.
- Establish a working group or ongoing agenda at APEC for economies to share their learning experience implementing the Model Law on Electronic Transferable Records (MLETR).
- Develop and maintain an APEC living document detailing a list of documents and data sets to be standardized, harmonized, and exchanged, and work with other stakeholders, like the WTO and ICC, to scale up adoption.
- Develop principles for the interoperability of domestic single window systems.
- Build on pilot projects, work with private sector partners, and leverage technology to secure and ensure the authenticity and verifiability of digital trade documents.
- Develop trade digitalization programs for MSMEs with relevant grant or financing schemes to ensure that they are not left behind in the trade digitalization process.
- Maintain a digital repository of updated information on paperless trade and single window initiatives of APEC economies, including cross-border paperless initiatives and projects.
- Continue sharing of initiatives and experiences through capacity building workshops and profile case studies of successful pilots.
- Encourage participation in the Regional Digital Trade Transformation and Connectivity Network and develop interoperable domestic digital supply chain finance platforms.

Advancing trade inclusion for groups with untapped economic potential, including women and Indigenous businesses

MSMEs are the connective tissue of all APEC economies, making a vital contribution to growth, innovation and living standards across both the formal and informal sectors. Empowering MSMEs – including those led by women, Indigenous entrepreneurs and those from other groups with untapped economic potential – has a cascading effect on the prosperity and wellbeing of communities and economies overall.

At the same time, inclusion in trade remains challenging for MSMEs. Due to their small size, MSMEs are particularly vulnerable to rising costs, uncertainty and disruptive forces in the operating environment, including shocks to supply chains and the rapid digitalization of economies. As the Putrajaya Vision and Aotearoa Plan of Action recognize, MSMEs need help to build the capacity they need to succeed, including making the transition to the formal economy, and engaging in cross-border trade.

The ‘New MSME Economy Report’ that ABAC commissioned from the University of Southern California’s Marshall School of Business in 2022 identified shortcomings such as complexity and a lack of targeting in the design of MSME support programs. The Report found that programs should be designed to provide persistent, intentional and tailored support which responds to identified needs. In designing such support, disaggregated data and analysis is needed to shape appropriate policy responses, including in respect of women- and Indigenous-led MSMEs. APEC economies should take this into account as they design support programs for MSMEs.

Indigenous-led MSMEs face particular challenges in trade. Indigenous communities are often disproportionately economically marginalized and vulnerable to climate change. They can also face structural barriers in relation to legal status, business size, access to capital and financing, capability and market access barriers. In order to achieve greater inclusion of Indigenous businesses in trade, a range of actions must be prioritized, starting with tailored capacity building, including to support

such businesses to leverage their unique cultural attributes and intellectual property to add value in export markets. Support for better access to capital and financing and digital trade are also needed to overcome structural barriers. Specific provisions in trade agreements can be designed to foster greater inclusion and deeper Indigenous-to-Indigenous linkages.

Recommendations:

- Provide persistent, intentional and tailored support for capacity building and access to capital and financing for MSMEs, including those led by women, Indigenous entrepreneurs and other underrepresented groups with untapped economic potential, informed by disaggregated data and analysis to enable a deeper understanding of participation, opportunities and barriers.
- Ensure that FTAAP and trade agreements reflect Indigenous business needs and interests, including in deepening Indigenous-to-Indigenous linkages.

Digitalization and Innovation

Inclusive growth in the AI age: Empowering people, businesses, and economies in APEC

Digital transformation is unleashing unparalleled levels of convenience and efficiency for consumers and businesses, realizing coordinated transformation for digital and green development and contributing significantly to the alleviation of poverty. However, this rapid evolution also presents a mounting challenge to the maintenance of trust in the digital economy. To bolster the digital economy, APEC must focus on establishing Digital Trust to counterbalance the growing erosion of confidence, accelerate digital transformation, and narrow the digital divide.

Digital Trust is defined as the confidence digital participants have to interact safely, securely, in a transparent, accountable and frictionless manner. It is built on three core pillars: people, governance and technology. It is about empowering individuals and businesses to safely participate in the digital economy, advancing harmonized digital economy governance, and facilitating the adoption of technology for trade and sustainability. Considering its cross sectoral significance and capacity to foster innovation, security, and societal wellbeing, APEC must position Digital Trust as a cornerstone of digital economy policy frameworks across the region.

Enhancing women's participation in STEM

As technology increasingly drives every aspect of the economy, ensuring that women are strongly represented in science, technology, engineering and mathematics (STEM) roles is critical for regional prosperity and growth, and of fundamental importance for business to thrive. This year, ABAC has undertaken a study to identify gaps in women's participation in STEM education and employment, and barriers that impact participation.

The ABAC study has revealed that while the proportion of female STEM graduates is increasing slowly over time, there is still work to be done to encourage women and girls to pursue maths and science subjects, including through developing curricula that emphasizes the importance of these subjects, provision of scholarships for those from disadvantaged circumstances, and providing strong role models and mentoring in STEM fields.



Results also indicate that women with STEM degrees do not join the STEM workforce at the same rate as men, and that when they do they earn less, drop out at higher rates and are underrepresented in leadership roles. Even when women join the STEM workforce, their retention in those roles can be a challenge, and policies to incentivize their continuing engagement are necessary. Women's representation on boards in STEM sectors increased by 10% between 2015 and 2021, but at an average of 23%, this remains significantly and unacceptably short of parity.



Advancing APEC Women in STEM

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Recommendations:

Education

- Develop curricula that is gender sensitive and emphasizes the value of math and science subjects for all students, especially girls and students from disadvantaged backgrounds, and provide scholarships in STEM fields for disadvantaged girls and women.
- Collect and report sex-disaggregated data on the proportion of female STEM teachers/professors in secondary, vocational, and tertiary education institutions, and publish data on female enrolment and completion rates (especially vocational).
- Evaluate schools and teachers on their success in encouraging girls to select math and science subjects in secondary school. Promote policies that contribute to parity in hiring and pay for female STEM teachers and faculty.

Workforce

- Set guidelines or quotas for women's leadership in publicly-funded research.
- Consider mandating female representation on corporate boards.

Entrepreneurship

- Require venture capital firms to publish data on the number of female-owned and/or led firms they fund and the value of these deals as a percentage of their portfolios.
- Publish gender-disaggregated data on patent and trademark protection applicants; and target programs to teach women inventors/researchers/business owners how they can apply for intellectual property (IP) protection, including MSMEs.

Enabling Environment

- Advocate parental leave policies which benefit all parents equitably and policies that encourage affordable quality childcare and flexible working arrangements to help women stay in STEM jobs.
- Enact laws and enforce those laws against sexual harassment and discrimination, including for women of diverse backgrounds.
- Promote women as senior managers in government STEM agencies to set an example for the private sector and combat stereotypes.

Encouraging responsible Artificial Intelligence

The world is on the precipice of an unprecedented technological revolution driven by the emergence of generative Artificial Intelligence (genAI). The performance of Artificial Intelligence (AI) tools built using large language models such as OpenAI's ChatGPT-4, Google's LaMDA which powers the "Bard" chatbot, and Baidu's Ernie Bot are redefining machine capabilities and paving the way towards artificial general intelligence (AGI).⁴ The McKinsey Global Institute estimates that genAI could potentially produce an annual economic impact of USD 7.9 trillion, while concurrently reshaping the nature of work by automating up to 50% of current work activities as soon as 2030.⁵ This may result in efficiency gains and productivity growth, but may have significant implications for the transformation of the workforce. Unlike previous technological transformations, the most affected workers are likely to be those engaged in 'knowledge work', which previously had the lowest potential for automation. The impact on some industries will be revolutionary. For instance, Gartner predicts that by 2025, more than 30% of new drugs and materials will be discovered using genAI, up from zero today.

These transformative shifts are accompanied by uncertainties and, in some instances, considerable risks, including the potential for existential threats highlighted by AI luminaries, policymakers, and civil society.^{6,7,8,9,10} The rapid advancement of these tools coupled with substantial investments¹¹ and their widespread adoption¹² necessitates proactive, concerted, and collaborative responses across a range of different policy spheres globally. APEC can lead in this effort and ABAC stands ready to support these endeavors. Policy responses must integrate a range of stakeholder voices. From the business side, it will be important to include a range of perspectives, including women-led businesses and entrepreneurs from other groups with untapped economic potential, smaller businesses as well as multinationals, and those from developing as well as developed economies.

AI remains an area of critical importance for business. ABAC's previous reports and recommendations on AI remain relevant and ABAC calls on APEC economies to redouble efforts and urgency on their implementation with a view to specifically address genAI, large language models, and the advancement towards AGI.^{13,14}

Recommendations:

- Create an enabling, responsible, interoperable, non-discriminatory policy and governance environment for genAI with appropriate guardrails on large language models and other advancements in AI, through a framework that promotes transparency, explainability, accountability, safety and security; protects privacy, trade secrets, and intellectual property rights; promotes fairness and reduces bias; and prepares for workforce transformations.
- Foster a culture of responsible innovation and prioritize ethical considerations in AI development by promoting trust, fairness, accountability, transparency, and respect for the principles of dignity and equality in genAI development.

4 [Sparks of Artificial General Intelligence: Early experiments with GPT-4](#). Bubeck et al. Microsoft

5 [The economic potential of generative AI: The next productivity frontier](#). Chui et al. McKinsey Global Institute

6 [Generative AI: What Is It, Tools, Models, Applications and Use Cases](#). Gartner

7 [Statement on AI Risk: CAIS](#)

8 [Pause Giant AI Experiments: Future of Life Institute](#)

9 [OpenAI's Sam Altman Urges A.I. Regulation in Senate Hearing](#). Kang. NYT

10 [Deep learning pioneer Geoffrey Hinton has quit Google](#). Heaven. MIT Technology Review

11 At the end of May 2023, investments in GenAI reach USD 12bn seeing a growth rate of 74% between 2017 – 2022. McKinsey Global Institute.

12 [ChatGPT sets record for fastest-growing user base - analyst note](#). Hu. Reuters.

13 [Artificial Intelligence in APEC: Progress, Preparedness, and Priorities](#)

14 [Artificial Intelligence in APEC: Overview of the state of AI in APEC economies and the enabling initiatives that will drive further adoption](#)



- Consider industry specific approaches such as in digital health with a view to ensuring consumer protection through informed consent and equity in access.
- Implement regulatory sandboxes to enable genAI innovation and commercial opportunities while also safeguarding against risks and unintended consequences.
- Encourage diversity in genAI development and applications; support initiatives to expand AI access including opportunities for no-code AI; invest in necessary resources, including for minority languages, MSMEs, and other underserved groups, including women and Indigenous communities; establish AI literacy programs, and explore possibilities for technology sharing and joint research initiatives across sectors.
- Invest in and enhance digital infrastructure; and promote digital literacy to ensure broad-based usage and benefits from genAI.
- Promote multistakeholder partnerships and establish an APEC AI Advisory Group to facilitate dialogues on emerging risks and develop risk mitigation strategies through public-private collaborations; form a multistakeholder advisory group to guide the implementation of AI policies and foster cooperation among APEC economies.
- Champion convergence in AI standards and practices by encouraging alignment on principles for responsible development of AI regulations and standards, and avoid technology fragmentation across APEC economies.

To achieve this, APEC Leaders may consider adopting or bolstering policies on AI that explicitly address genAI, large language models, and advancement towards AGI. Policies should be inclusive, prudent, and compatible with responsible development and innovation. APEC economies should also continue investment in research and development and increase cooperation to support risk mitigation.

Facilitating cross-border data flows

Since inception in 2011, APEC's voluntary Cross-Border Privacy Rules (CBPR) system has aimed to protect consumers' personal information during cross-border data transfers, via enforceable commitments. However, according to ABAC's survey, uptake among both economies and companies has been low, largely due to the dominance of the General Data Protection Regulation (GDPR) scheme, a lack of awareness, limited participation, a fragmented regulatory landscape, insufficient client demand, and prohibitive certification costs for MSMEs.

To understand the low uptake and find meaningful solutions, ABAC carried out extensive consultations in 2022 to gather insights and formulate strategies for improving CBPR adoption. The process revealed the necessity for increased government leadership and support for the development of a compelling business case for voluntary certification.

The CBPR system holds immense potential in facilitating data privacy compliance across regions. Yet, its potential remains underrealized due to the concerns detailed above.

Recommendations:

- Expand CBPR participation by encouraging more APEC economies to participate in and implement the CBPR system to enhance its value and impact.
- Enhance awareness and education by increasing understanding of the CBPR system, its merits and economic value among governments, regulators, and businesses.
- Make the CBPR more accessible, especially for MSMEs, through simplification of the certification process, provision of training and support, facilitation of financial assistance, and development of alternative certification models tailored to their needs.

- Pursue greater interoperability between the APEC CBPR and all other personal data transfer mechanisms, frameworks and standards to avoid fragmentation, complexity, and increased costs associated with compliance.

Developing interoperable open data systems

Open data and payment systems need to be designed and implemented in a way that best fits the specific conditions in each market. However, they also need to be based on commonly agreed principles in order to avoid the region's fragmentation. ABAC developed guiding principles that can help achieve interoperability, promote trusted and secure data sharing, provide an enabling governance and regulatory framework, build the needed infrastructure, and foster education.

Recommendation:

- Use the Guiding Principles for the Development of Interoperable Open Data Systems in the Asia-Pacific Region¹⁵ as a reference in the design and implementation of open data systems.

Promoting the development of interoperable wholesale CBDCs

The uncoordinated adoption of wholesale central bank digital currencies (wCBDCs) across the region carries the risk of fragmentation, increasing barriers to cross-border business transactions. ABAC developed Common Principles that can assist member economies in designing interoperable wCBDCs. These include foundational principles for interoperability and design principles that can help promote consistency across jurisdictions. (<http://www2.abaonline.org/content/download/22629711>)

Recommendation:

- Consider using the Common Principles for the Development of Interoperable Wholesale Central Bank Digital Currencies¹⁶ proposed by ABAC as a reference in the design and implementation of their respective wCBDCs.

Expanding cross-border data sharing and privacy enhancing technologies

Fragmentation of rules governing the cross-border flow of data poses a major challenge for businesses, especially MSMEs. Given the slow progress toward data adequacy arrangements, the region will need to develop practical interim solutions. Privacy enhancing technologies (PETs) can also be harnessed to enable the processing of data in ways that comply with privacy and data protection rules.

Recommendations:

- Explore the coordinated adoption of a toolbox of business-level mechanisms supporting the goal of secure and trusted sharing of data in the region. These could include interoperable contractual safeguards, binding corporate rules, certification, codes of conduct or privacy codes, and harmonizing exemptions currently granted under existing legal or administrative frameworks.

15 *Guiding Principles for the Development of Interoperable Open Data Systems in the Asia-Pacific Region*
<http://www2.abaonline.org/content/download/22632171>

16 *Common Principles for the Development of Interoperable Wholesale Central Bank Digital Currencies*
<http://www2.abaonline.org/content/download/22632181>



- Develop common core principles for data protection that promote data sharing and address uncertainties arising from data restrictions.
- Foster innovation in relation to PETs. This can be achieved through measures such as supporting research and development, providing secure data processing platforms, certification of trusted PETs, innovation contests, regulatory sandboxes and digital identity management, among others.

Improving interoperability of digital identity systems across APEC

Acknowledging the importance of digital identity to the development of the digital economy, the 2022 ABAC report *Digital Identity in APEC: Deepening Trust, Inclusion and Interoperability in the Digital Economy* calls for APEC to adopt coherent principles for effective digital identity systems and/or regimes.

Recommendation:

- Adopt the following set of principles on digital identity:
 - User-centric for individuals and businesses (portable, seamless, transformative in services/ experiences offered, verifiable, integration of Legal Entity Identifiers)
 - Inclusive and resilient (multilingual, accessible, responsive, adaptive, free from discrimination ensuring alternative channels are available; basing approaches on strong trust anchors, revocation frameworks and binding approaches.)
 - Secure, sustainable, and scalable within the network and external to the network
 - Builds trust (bi-directional, administrative, legal frameworks, definitions)
 - Integrates interoperability and mutual recognition (cross-platform, cross-border, cross-sectoral)
 - Incorporates robust privacy, use rights, and cybersecurity protections
 - Technologically neutral, open technology standards and market-driven, with network/scheme-level recognition based on resilience and competitive within the digital identity ecosystem
 - Takes a coherent approach throughout the levels of assurance, information and authentication of the scheme.

Sustainable Growth

Implementing an ambitious response to climate change

ABAC is gravely concerned about the existential threat of climate change. The March 2023 report of the Intergovernmental Panel on Climate Change concluded that the viability of humanity continuing to live within planetary boundaries rests on the actions that are taken in the next seven years. Substantial reductions in greenhouse gas emissions will be critical to avoid the tipping point of irreversible catastrophic impacts, requiring substantial reduction in fossil fuel use along with complementary approaches such as carbon capture and storage, where necessary, in any remaining fossil fuel infrastructure. Adaptation through a rapid transition to low-carbon technologies, assets and approaches will also be crucial.

The APEC region is particularly vulnerable to the impacts of climate change, as a consequence of its geography and demography; harmful climate impacts threaten the prosperity, inclusion and very survival of APEC communities. Accelerating an effective transition to a low-carbon economy must be a critical element of FTAAP and is vital to the realization of the Putrajaya Vision.

Business stands ready to lead this effort alongside policymakers, leveraging APEC's longstanding practice of both innovation and cooperation. ABAC's Climate Leadership Principles of Reduction and Mitigation, Adaptation and Just Transitions provide a powerful lens through which to shape priorities and take action at the level of individual businesses and the business community as a whole.

This approach is consistent with the 2022 APEC Leaders' Declaration, which made clear that more intensive efforts must be made to respond to climate change, and that deeper collaboration with stakeholders will be needed for progress. ABAC urges Leaders to adopt a similar set of climate principles to drive meaningful action in the period ahead.

This principled approach should be complemented by well-designed policies in other areas, including in particular trade policy, as is discussed above in the section on Leveraging Trade for Climate. In this connection, ABAC restates its longstanding call for the urgent elimination of inefficient fossil fuel subsidies, which work against emissions reduction goals.

Recommendations:

- Develop a set of Climate Leadership Principles, along similar lines to ABAC's, to shape priorities and action.
- Act with urgency to eliminate inefficient fossil fuel subsidies, as APEC has already agreed to do.

Promoting a just, realistic, ambitious and sustainable energy transition

Against a backdrop of increasing energy demand, frequent extreme weather events, heightened risk of geopolitical conflicts, and the increasingly urgent task of climate governance, APEC economies should also implement plans for a realistic energy transition based on examination of the current and future forecast around energy in each economy. The pathways for transition will be diverse with options including, renewable energy; hydrogen/ammonia; energy-saving technologies; biomass; carbon capture, usage and storage (CCUS); carbon recycling; natural gas; and nuclear power. Successful just and affordable energy transition will require leveraging existing initiatives to assist in the preparation of bankable energy infrastructure projects. Also, currency risk is a key challenge for developing economies accessing sufficient hard currencies to finance just and affordable energy transition.

These efforts should be coordinated across the region to enable the international financing of projects verified as aligned with their respective economy and sectoral roadmap and development of low-carbon technologies. Interoperable environmental, social and governance (ESG) taxonomies, carbon pricing mechanisms and interoperable carbon markets should be developed to facilitate further emissions reductions.

Recommendations:

- Implement meaningful actions to reduce greenhouse gas emissions, including through the development of agreed global standards and the elimination of inefficient fossil fuel subsidies.
- Adapt energy, assets, systems and production practices to a green and low-carbon economy, including by leveraging trade and digital technologies.
- Implement plans for an ambitious and realistic energy transition based on examination of the current and future forecast around energy in each economy. Economies should develop clear and credible transition roadmaps for high-emitting and hard-to-abate sectors based on realities



on the ground. These efforts should be coordinated across the region to enable the international financing of verified projects, including infrastructure projects, that are aligned with the respective economy's sectoral roadmap and development of low-carbon technologies.

- Pursue a diverse range of transition pathways, including renewable energy, hydrogen/ammonia, energy-saving technologies, biomass, CCUS, carbon recycling, natural gas, and nuclear power, while reducing unnecessary energy consumption and avoiding new carbon lock-ins as economies develop.
- Promote the sharing of decarbonization technology and energy transition pathways within the APEC region. ABAC underscores the importance of public-private capacity building initiatives and the sharing of decarbonization technology to enable APEC economies, particularly developing economies, and MSMEs to adopt clean and sustainable energy solutions.
- Prioritize efforts to enhance reliable energy access, particularly in remote and rural areas as well as other areas with untapped economic potential, to empower communities to benefit fully from a just and realistic energy transition.
- Mitigate the impact of frequent extreme weather on the new energy system pragmatically, encourage and support enterprises to build energy storage systems, and improve energy resilience.
- Increase support for research on technologies related to energy security and transition while also actively creating better conditions for enterprises for the effective promotion of relevant technological research and business model innovation.
- Promote investment in projects that support environmental sustainability by enhancing transparency of economy specific sustainability goals. APEC economies should collate information on their sustainability goals in easily accessible databases.
- Leverage existing and ongoing initiatives to promote the development of a pipeline of energy transition projects that can attract private sector financing, while providing a common platform to facilitate the use of blended finance to attract financing for just energy transition projects.
- Explore the issuance of fixed rate long-term bonds in which servicing and repayment obligations are indexed to a basket of major international currencies. This should be designed to reduce borrower and lender risk from swings in the exchange rate of the currency of issue and thereby enable broader financing options.
- Develop the *APEC Trade and Investment in Renewable Energy Roadmap* proposed by ABAC in 2022.

Promoting MSMEs' participation in sustainable development

While there is much to do to drive MSMEs towards the full opportunities of digitalization, particularly within the informal economy segment of MSME, the inevitable uptake of digitalization will result in shifts in cross-border trade and the movement of goods and services. The MSME sector represents more than 95% of all businesses in all APEC economies serving hundreds of millions of consumers daily, yet they are largely invisible in the ESG agenda. They have generally low awareness of, and no formal obligation to adopt and practise, ESG policies and principles. Collectively, their consumption footprint is vast and often as suppliers to large corporates, MSMEs contribute to indirect trade relations but where those inputs to global commerce and trade are not adequately understood or reported from an ESG perspective.

Without an ESG framework in place, there will be limited means by which the flow of information, finance, workforces and logistics will support environmentally and/or socially sound and sustainable trade and commerce practices and there will be no consolidated means by which to measure such practices, nor responsibly govern them through policy, incentives and through the imposition of restrictions/penalties on unsound practices.

The development and dissemination of the MSME ESG framework to MSMEs would serve as an important step forward for APEC to achieve a consistent view of MSME ESG engagement and activity across its member economies. However, the bigger advantage is that, by virtue of its implementation, it signals to MSMEs the growing importance of ESG practices across this segment and the need for MSMEs to turn their attention to ESG requirements.

Recommendations:

- Develop an MSME ESG Inclusion Framework with APEC economies that is pragmatic, achievable, and accessible to MSMEs and will drive MSME inclusion in ESG practices.
- Work with ABAC and other stakeholders to understand the barriers to and requirements for a consistent MSME ESG framework and to support its development and implementation.

Ensuring sustainable food security

ABAC encourages the adoption of modern agriculture which is more intelligent, sustainable and inclusive, and promotes innovations in agricultural technology, models and policies to increase yields and production without jeopardizing the environment. ABAC welcomes APEC's embrace of the bio-circular-green (BCG) economy model, and the implementation of an ambitious digital food strategy through the APEC Food Security Digital Plan which prioritizes region-wide adoption of technology and interoperability throughout the food value chain. Reforms to the food and agriculture trading system, including the elimination of harmful fisheries subsidies and trade-distorting domestic support in agriculture and reduction of tariffs and non-tariff barriers will create a more sustainable and equitable food system in the APEC region.

Water management is a key element of a range of global sustainability challenges including food security, which requires access to clean water. Poor water management affects all pillars of food security – availability, access, utilization and stability. Internationally, as focus on microplastics grows, it remains largely unexplored in the food security and freshwater contexts. Current lack of alignment between water quality standards of neighboring economies, and lack of international monitoring mechanisms, results in cross-border pollution.

Recommendations:

- Implement climate-smart and modern agriculture approaches and technologies to improve productivity, reduce post-harvest losses, efficiently use resources, reduce greenhouse gas emissions, and improve resilience against climate change. This includes capacity building efforts to support farmers and MSMEs in agriculture value chains.
- Explore and adopt the BCG economic model in alignment with the Bangkok Goals on BCG Economy, which will drive agricultural transformations, reduce food loss and waste, and encourage regenerative agricultural practices.
- Promote sustainable land management practices, including reforestation, conservation agriculture, and integrated water resource management, to mitigate the impact of climate change on food production.
- Utilize Artificial Intelligence, data analytics, precision farming, and other digital technologies to support greater efficiency, higher yields, and lower environmental impacts of agricultural and food value chains.
- Encourage the growth of future food, such as alternative protein, plant-based protein, and insect-based protein.



- Enhance freshwater management strategies to ensure greater food safety through increased quality monitoring, promote coherence of transboundary water standards, regulation of wastewater management, protection of freshwater resources from plastic pollution, and expanded awareness of impacts of microplastics on food safety and quality.
- Ensure that trade can play its part in sustainable food security through elimination of harmful fisheries subsidies and trade-distorting domestic support in agriculture, and also reduction of market access barriers.

Creating a collaborative framework for financing sustainable transition

Financing sustainable transition will require concrete, science-based and credible climate finance transition roadmaps for each economy and each key sector, with robust verification mechanisms. However, these roadmaps will need to be comparable, consistent, credible and interoperable across the region and supported by robust and high-quality disclosure.

Recommendations:

- Provide a common platform for member economies to coordinate the development of climate finance transition roadmaps for each economy and for each key sector. This common platform should assist in the establishment of transition bonds and loans as a new asset class and in the development of interoperable emissions trading systems. It should also assist in the coordination of complementary fiscal incentives and regulatory approaches that can facilitate the financing of transition projects from across the region.
- Establish climate disclosure consortia within their respective jurisdictions. These consortia should promote domestic and regional coordination in promoting robust and standardized disclosure across the region. They should also facilitate active engagement in the ongoing efforts of the International Sustainability Standards Board to develop and promote disclosure standards.

Financing sustainable innovation

Achieving the net zero goals will require a rapid reduction of carbon emissions, which at present remain at unsustainably high levels. Reaching these goals will require faster innovation to lower the costs and accelerate the transition toward a green future. For this to happen, economies need to develop enabling ecosystems for financing innovations that focus on needs especially of the region's developing economies.

Recommendations:

- Collaborate with multilateral institutions and the private sector to design enabling ecosystems for financing sustainable innovation. Initial efforts could focus on fostering voluntary carbon market exchanges and prioritize incentives for technologies most needed in developing economies.

- Promote legal and regulatory reform to enable IP financing. As a first step, ABAC recommends that member economies collaborate with relevant international organizations and the private sector in initiating a pilot project on reforms to enable the use of IP supporting sustainable innovation.

Achieving a circular economy

Recognizing that the existing linear economic model of “acquisition–production–disposal” depletes natural resources and causes significant systematic damage to the environment, adoption of circular economy approaches could reduce inefficient resource production and consumption in APEC economies.

Further, circular economy approaches promote environmental protection and support economies and companies in gaining long-term competitive advantages. Enhanced collaboration between economies and key players can help develop solutions to complex challenges and drive the next round of innovation. Realization of a circular economy will require the adoption of standards and practices that facilitate the flow of reusable resources through reverse supply chains while protecting consumers, workers and the environment. Closing resource loops and maintaining the value and quality of materials in the cycle is the most effective way to achieve this objective.

Recommendations:

- Strengthen circular economy approaches in resource-intensive industries, such as the chemical industry.
- Develop common, globally consistent circular economy terminology, metrics and modeling standards across the APEC region.
- Improve the recyclability of products and develop technology and processes that improve separation and recycling.
- Provide training programs to support business development and educate stakeholders through publicity activities.
- Enhance communication among stakeholders throughout value chains and recovery systems to facilitate greater coordination, information sharing and feedback loops.



Annexes

Annex A

ABAC Statement on FTAAP

The realization of the Free Trade Area of the Asia-Pacific (FTAAP) remains ABAC's foremost trade and economic priority – one that is more pressing than ever as the region confronts a range of complex and interconnected challenges which threaten to undermine inclusive, sustainable and quality growth.

ABAC sees FTAAP as both a destination and a journey. As a destination, FTAAP should be seamless, enabling, inclusive and sustainable to create the necessary foundation for an open, dynamic, resilient, prosperous, and peaceful Asia-Pacific community by 2040. Along the way, integration elements should be built up progressively to 2040, responding to the dynamic and evolving global business environment and the pressing challenges of our communities. Below are ABAC's recommendations for the eventual FTAAP overall, and for five specific shorter-term initiatives that can serve as inputs to the multi-year FTAAP Agenda Work Plan which is currently under development.

The eventual FTAAP

In the Beijing Roadmap, APEC Leaders launched a comprehensive and systematic process towards the eventual realization of the FTAAP. In the Lima Declaration, APEC Leaders agreed that the eventual FTAAP should be of high quality, comprehensive in scope, and incorporate next generation trade and investment issues. In the Putrajaya Vision, Leaders reaffirmed their commitment to economic integration, including through work that contributes to high-standard and comprehensive regional undertakings. These commitments form our launching point:

- First, on **high-quality, high-standard regional undertakings**, ABAC underscores the significant contribution of the Comprehensive and Progressive Agreement for Trans Pacific Partnership (CPTPP), the Regional Comprehensive Economic Partnership (RCEP) and the Pacific Alliance, to the region's economic integration architecture, and welcomes recent ratifications.
 - ABAC encourages remaining participants to promptly ratify and fully implement CPTPP and RCEP as soon as possible. ABAC recommends that participants strengthen their efforts to monitor and implement these agreements through existing committees and commissions, and to seek improvement over time.
 - ABAC encourages economies that can meet the high standards of the agreements to join.
 - Robust data and evidence are key to good policy and decision-making. ABAC proposes that the APEC Policy Support Unit be tasked to gather and publish trade data on the utilization of CPTPP and RCEP to identify limitations and barriers to their use and best practices in implementation.
- Second, on **next generation trade and investment issues**, bearing in mind the need for the business and trade environment to remain responsive and fit for purpose, ABAC calls for the development of rules for next generation issues.
- Third, on comprehensive regional undertakings, ABAC calls on economies to adopt approaches that address holistic policy concerns, including sustainability and inclusion, by fully embedding these objectives into economic integration and trade policymaking.

Building towards the eventual FTAAP

ABAC welcomes the decision by APEC Ministers in 2022 to establish the FTAAP Agenda Work Plan, as ABAC had recommended. This is an effective and efficient way to build towards the eventual FTAAP. We urge economies to finalize the first tranche of the Work Plan and to implement it without delay and with a measurable progress approach.

ABAC recommends the following five initiatives for the FTAAP Work Plan, organized under the three pillars of the Aotearoa Plan of Action. These initiatives build towards our overarching goals for FTAAP noted above and are not only timely and impactful, but also achievable in the short term. Fuller detail on these initiatives may be found in our Report to Ministers Responsible for Trade.

Trade and Investment

Initiative #1: Enhancing supply chain connectivity, building resilience: Supply chain disruption increases costs and contributes to inflation, market uncertainty, greater carbon emissions and other destabilizing factors, as well as creating barriers to micro, small and medium enterprise (MSME) inclusion. Given this, ABAC calls on economies to enhance supply chain connectivity to build additional resilience through:

- Promoting investment and trade, transportation and supply chain services and infrastructure, full automation of customs procedures and digitalization of trade documents to support seamless movement and end-to-end visibility.
- Rejecting protectionism and regulatory practices that disrupt supply chains.
- Enabling the participation of MSMEs in supply chains by building their capabilities.
- Maintaining an open dialogue with business to address potential bottlenecks as they emerge, and work with ABAC to ensure that policy responses are informed by the lessons learned from the supply chain disruptions during the COVID-19 pandemic.

Innovation and Digitalization

Initiative #2: Facilitating digital trade: Cross-border paperless trade and digitalized trade finance improve efficiency, reduce transaction costs, increase financial inclusion, and enhance the security, visibility, resilience, inclusiveness, and sustainability of the supply chain for businesses. ABAC recognizes that APEC has several initiatives related to paperless trade underway but would like to see more prompt and coherent action across the region. Accordingly:

- ABAC calls on economies to develop an overarching Roadmap for Cross-Border Paperless Trade, with a clear implementation plan, targets, and timelines to facilitate monitoring and evaluation. The roadmap could incorporate a range of elements aimed at establishing interoperable paperless trading systems across the region through harmonizing data, regulatory procedures, and legal requirements.
- ABAC also calls on APEC economies to join the ongoing pilot project with participants from Australia, Japan, New Zealand, Singapore and Thailand to standardize and digitalize trade documents, promote alignment of legal frameworks with the UNCITRAL Model Law on Electronic Transferable Records (MLETR) and develop interoperable domestic digital supply chain platforms.

Initiative #3: Creating a coherent digital regulatory environment: The full potential of the digital economy can only be realized through an enabling environment that allows for smooth, secure, trusted, interoperable, and inclusive cross-border digital trade. However, the digital regulatory environment in the region is increasingly complex and fragmented. To address this:



- ABAC recommends that policymakers prioritize digital interoperability and trust, by establishing greater digital regulatory coherence in the region that draws on best practices from existing relevant free trade agreements and digital agreements, such as the Digital Economy Partnership Agreement, the Singapore–Australia Digital Economy Agreement and others.

Strong, Balanced, Secure, Sustainable and Inclusive Growth

Initiative #4: Leveraging trade for climate: Environmental challenges including climate change are among the most urgent and complex threats that the world faces. Trade can play a powerful role in support of climate objectives. For example, increased trade in environmental goods and services, sustainability provisions in trade agreements, and other trade tools at and behind the border can all be used to strengthen the climate response – but care needs to be taken to ensure that measures are at most minimally distorting and do not constitute disguised protectionism. Cooperation and coordination are critical. ABAC calls on economies to leverage trade tools for climate across all three dimensions of ABAC’s Climate Leadership Principles of reduction, adaptation and just transitions. Specifically, ABAC recommends that economies:

- Expand, update and leverage APEC’s reference list of environmental services and list of environmental goods, and eliminate tariff and non-tariff barriers.
- Participate in the WTO Trade and Environmental Sustainability Structured Discussions (TESSD), including seeking to revitalize the WTO Environmental Goods Agreement negotiations in that forum.
- Seek to include specific provisions on sustainability and the climate change response in trade agreements, drawing on best practices from around the region, and cooperate to support capacity building among developing economies in this area.
- Develop the APEC Trade and Investment in Renewable Energy Roadmap proposed by ABAC in 2022 as a reference for negotiating trade agreements and formulating domestic policies.
- Assess the impact of carbon border measures on business and trade in the region.
- Ensure that trade measures for environmental goals are non-discriminatory and do not distort trade or competition.

Initiative #5: Enhancing inclusion in trade: Barriers to accessing opportunities and sharing in the benefits of economic integration can be formidable for MSMEs, women, Indigenous peoples and other groups with untapped economic potential. These barriers work against our overarching goals of inclusive growth. Accordingly:

- ABAC calls on economies to empower these groups to participate in supply chains and trade, by reducing key barriers and providing persistent, intentional, and tailored support, with a particular focus on access to trade financing and participation in digital trade.

ABAC looks forward to collaborating with policymakers on finalizing and implementing the FTAAP Agenda Work Plan, including the initiatives above. We emphasize that progress should be measurable to ensure accountability and enable effective monitoring and evaluation. We also underscore that these initiatives should be seen as only the first tranche of the Work Plan, and we remain eager to participate in subsequent iterations, working in close partnership with APEC.

Annex B

ABAC Statement on the WTO

Against the backdrop of conflict and a deeply concerning global economic outlook, as well as a series of grave challenges – geopolitical, economic, environmental and financial – the rules-based multilateral trading system, with the World Trade Organization (WTO) at its heart, has never been more vital. It underpins stability, economic development and prosperity for all – but importantly, it can also help unlock effective solutions to these myriad challenges.

ABAC calls on APEC economies to spearhead cooperative approaches to shape a strong, credible and relevant WTO. The momentum of the 12th Ministerial Conference in 2022 must be translated into ambitious, concrete outcomes at the 13th Ministerial Conference (MC13) next year. APEC can, and must, lead on this.

- APEC economies should intensify coordination by the APEC Caucus in Geneva, and engage with ABAC, including later this year when ABAC plans to visit the WTO, on ideas to strengthen the system and deliver commercially-meaningful outcomes. APEC Leaders, Ministers and policymakers should also continue to emphasize, both publicly and in discussion with partners, the importance of effective multilateral rule-making for regional prosperity and sustainability.

In some cases, collaborative approaches are being developed in open **plurilateral initiatives** rather than by the full WTO membership. These approaches are a practical way to develop operative new rules that are fit for purpose, WTO-consistent, intended to benefit all Members, and advanced with a view to their eventual multilateralization. Efforts to stymie such approaches only jeopardize fair outcomes for all.

- ABAC urges APEC economies to welcome, actively participate in and defend open plurilateral initiatives as a pragmatic way to achieve greater sustainability, equity and opportunity in trade.

Humanity's most urgent and daunting collective challenge is **sustainability**. Trade rules must empower good management of the global commons, by responding effectively to the existential threat of environmental challenges including climate change. WTO Members have agreed to eliminate harmful fisheries subsidies; implementation must now be quick and effective, and the second tranche of disciplines agreed. The elimination of inefficient fossil fuel subsidies must likewise be undertaken without delay, including to advance green development. Trade can also be leveraged to boost other aspects of the low-carbon transition, including via rapid liberalization of trade in environmental goods and services and through innovative solutions in the Trade and Environmental Sustainability Structured Discussions (TESSD).

- APEC economies should fully and promptly implement the outcome on fisheries subsidies and negotiate the next tranche of disciplines; and support ongoing negotiation efforts in other areas including environmental goods and services and the TESSD, drawing on APEC's own work and ABAC's Climate Leadership Principles of mitigation, adaptation and just transitions.



The polycrisis also points to the need to shore up **stability, agility resilience and inclusion** in the trading system. Elimination of trade-distorting domestic support to agriculture will enhance global food security while also reducing harmful environmental impacts. Open, undistorted and non-discriminatory markets, including rules for both goods and services that facilitate trade and effectively discipline non-tariff barriers such as subsidies, will help make supply chains more agile and resilient. Initiatives that enable micro, small and medium enterprises, women and Indigenous peoples to trade more successfully will pay dividends for all.

- APEC economies should champion elimination of distorting agricultural subsidies and meaningful reforms to other subsidies, and support initiatives that bolster resilience and inclusion for groups with untapped economic potential.

The accelerating fragmentation of the global digital economy works directly against inclusion, resilience, sustainability and prosperity. APEC must champion **coherent global digital trade rules** that maintain enabling, inclusive, open, fair and non-discriminatory markets. Furthermore, APEC's advocacy should enable interoperability and opportunity, while safeguarding trust and other legitimate policy objectives, avoiding disguised protectionism and minimizing trade barriers.

- ABAC calls on APEC economies to seek a permanent Moratorium on Customs duties on electronic transmissions at MC13;
- ABAC encourages all APEC economies to participate constructively in the Joint Initiative on E-Commerce, with a view to conclude negotiations on digital trade rules this year.
- ABAC calls on APEC economies to champion the expansion of the scope of, and participation in, the WTO Information Technology Agreement.

Lastly, the system must be reformed to shore up its effective functioning and credibility. Unenforceable rules and disguised protectionism undermine the common good; enhanced transparency and monitoring mechanisms will help rebuild confidence.

- ABAC calls on APEC economies to support the **reinstatement of the Appellate Body** and agree on necessary reforms to the dispute settlement system.
- ABAC further calls on APEC economies to advocate for improved transparency.

Business, including ABAC, must also be given a formal voice in the process, to help shape outcomes and reinforce a shared sense of endeavor, just as ABAC contributes to APEC policymaking.

In sum, APEC economies must step up and act now to buttress a relevant and enduring WTO system. Our businesses, communities, and planet deserve nothing less.

Annex E

The APEC Business Advisory Council

Founding and Structure

The APEC Business Advisory Council (ABAC) was created by the APEC Economic Leaders in November 1995 to provide the business perspective on specific areas of cooperation to APEC Leaders, Ministers and Senior Officials. 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 2023

In 2023, the United States took on the chair of ABAC, with Thailand and Peru as co-chairs, following the APEC order. Co-chairs represent immediate past and future chairs.

This year, ABAC adopted the theme "Equity. Sustainability. Opportunity". The 2023 work program focused on the following priorities:

Economic Integration Working Group

- Accelerating towards the realization of FTAAP
- Supporting the WTO and advocacy for the rules-based multilateral trading system
- Improving trade resilience
- Advancing trade and sustainability

Sustainable Growth Working Group

- Addressing climate change
- Ensuring energy security and sustainability
- Fostering sustainable food systems

Digital and Innovation Working Group

- Empowering people and businesses to participate fully and securely in the digital economy
- Advancing alignment on digital economy governance to detangle the "digital noodle bowl"
- Enabling the adoption of technology to facilitate trade and sustainability



Finance Task Force

- Facilitating cross-border digital financial services
- Supporting just and affordable transition
- Financing sustainable innovation
- Promoting interoperable central bank digital currencies

Inclusion Task Force

- Advancing women's inclusion through renewed focus on digitalization, services and formalization
- Accelerating capacity building to drive inclusion for underserved MSMEs

In addition, ABAC collaborates with economies in implementing previous ABAC recommendations that have been endorsed by the Finance Ministers through the Asia-Pacific Financial Forum (APFF), the Asia-Pacific Financial Inclusion Forum (APFIF) and the Asia-Pacific Infrastructure Partnership (APIP). These are policy initiatives established by the APEC Finance Ministers, which ABAC oversees through the Advisory Group on APEC Financial System Capacity Building.

ABAC convened four meetings in 2023: Auckland, New Zealand (12-14 February); Bandar Seri Begawan, Brunei Darussalam (27-30 April); Cebu, Philippines (27-30 July); and San Francisco, California, USA (11-13 November).

ABAC actively participated in various APEC meetings and related events held virtually or in-person, among others:

- First APEC Senior Officials' Meeting (SOM1) and related meetings (Palm Springs, California, USA, 14-28 February)
- Finance and Central Bank Deputies' Meeting (Palm Springs, California, USA, 25-26 February)
- SOM2 and related meetings (Detroit, Michigan, USA, 14-26 May)
- Meeting of Ministers Responsible for Trade (MRT) (Detroit, Michigan, USA, 25-26 May)
- Senior Finance Officials' Meeting (SFOM) (Seattle, Washington, USA, 29-31 July)
- SOM3 and related meetings (Seattle, Washington, USA, 29 July – 21 August)
- Food Security Ministers' Meeting (Seattle, Washington, USA, 3-4 August)
- High-Level Meeting on Health and the Economy (Seattle, Washington, USA, 6 August)
- Energy Ministers' Meeting (Seattle, Washington, USA, 15-16 August)
- Women and the Economy Forum and related meetings (Seattle, Washington, USA, 15-20 August)
- SME Ministerial Meeting (Seattle, Washington, USA, 21 August)
- Finance Ministers' Meeting (San Francisco, California, USA, 12-13 November)
- APEC Ministers' Meeting (San Francisco, California, USA, 14-15 November)
- ABAC Dialogue with Leaders (San Francisco, California, USA, 16 November)

Other events organized and/or participated in by ABAC included:

- ABAC-APFF Seminar on Facilitating End-to-End Cross-Border Digital Trade Finance (27 January)
- ABAC-APFF-EPAA Workshop on Open Data and Digital Payment Transactions (Auckland, New Zealand, 10 February)
- ABAC-APFF-NCAPEC Roundtable on Toward Freer, Safe and Trusted Flow of Data in the Asia-Pacific Region (Washington, DC, USA, 22 February)
- ABAC-APFF-NCAPEC Roundtable on Toward Interoperable Central Bank Digital Currencies in the Asia-Pacific Region (Washington, DC, USA, 23 February)

- APFF 2023 China Conference on Openness and Cooperation for Inclusive Development (Beijing, China, 17-18 March)
- ABAC Industry Roundtable on Trade in Environmental Goods and Services (Bandar Seri Begawan, Brunei Darussalam, 27 April)
- ABAC-APFF-SFDN-RMIT Roundtable on Financing Just and Affordable Energy Transition in the Asia-Pacific Region (4/5 April)
- ABAC-ADB-APFF-SFDN Roundtable on Strategizing an Approach to Transition Finance in the Region (13 April)
- ABAC-APFF-SBF Roundtable on Toward Freer, Safe and Trusted Flow of Data in the Asia-Pacific Region (Singapore, 25 April)
- ABAC-APFF-IFC-SBF Roundtable on Financing Sustainable Innovation in the Asia-Pacific Region (Singapore, 25 April)
- Briefing on the Digital Trade Transformation and Connectivity in APEC and ASEAN (26 May)
- Do AI Yourself Workshop (7/8 June)
- Public-Private Dialogue (PPD) on Regional Cooperation for Cross-Border Paperless Trade (20/21 June)
- Public-Private Dialogue on Trade in Environmental Goods and Services (Singapore, 30 June)
- ICC-ABAC-APFF-Thailand Ministry of Digital Economy and Society - ASEAN BAC Roundtable on Accelerating Benefits of Digital Trade Connectivity through Alignment of Legal Framework and Interoperability Tools (27 June)
- ABAC-ADB-APFF-SFDN Roundtable on Developing a Framework for Credible Transition Finance (16 June)
- Webinar on Powering the Future: Exploring Nuclear Energy and Emerging Technologies in APEC (30 June)
- ABAC-ADB-APFF-SFDN Roundtable on How Asia Should Promote Sustainable Finance (Tokyo, 24 July)
- Roundtable on Central Bank Digital Currencies Interoperability (Hong Kong, China, 26 July)
- Supply Chain Resilience: MSME Capacity Building Workshop (Cebu, Philippines: 26 July)
- ABAC-DPS Joint Workshop on Privacy Enhancing Technologies (Seattle, Washington, USA, 8 August)
- APFF-IFC-GDFC Virtual Open Data Webinar (18 August)
- ABAC-APFF-FCI-Landscape Roundtable on Promoting Digital Supply Chain Finance in APEC Economies: Market Growth and Risk Control (Singapore, 7 September)

Studies and Related Work

ABAC commissioned work to produce a policy report that examines current carbon border adjustment mechanism (CBAM) proposals in detail and consider their impact on APEC economies and regional business. ABAC also commissioned research to track participation of women in science, technology, engineering and mathematics (STEM) education and careers across APEC and identify barriers to women's equitable representation, including making recommendations for policy responses to address those barriers.

Outreach

ABAC continued to strengthen its interaction and engagement with APEC Ministers, Senior Officials and APEC fora, including through the annual ABAC-SOM Dialogue, a stronger presence in APEC meetings and by holding 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 helping build a dynamic, resilient and prosperous Asia-Pacific community. Future work will continue to focus on implementation of the Putrajaya Vision and the Aotearoa Plan of Action, regional economic integration, support for the WTO and FTAAP, trade facilitation, infrastructure development and investment, supply chain connectivity and global value chains, digital economy, MSME development, economic empowerment of women, youth and the underrepresented, food security, climate change and renewable energy, structural reform, and the development and integration of financial markets.

List of Acronyms

ABAC	APEC Business Advisory Council	GDPR	General Data Protection Regulation
ADB	Asian Development Bank	genAI	Generative Artificial Intelligence
AGI	Artificial General Intelligence	ICC	International Chamber of Commerce
AI	Artificial Intelligence	IFC	International Finance Corporation
APEC	Asia-Pacific Economic Cooperation	IP	Intellectual Property
APFF	Asia-Pacific Financial Forum	MC13	13 th WTO Ministerial Conference
APFIF	Asia-Pacific Financial Inclusion Forum	MLETR	Model Law on Electronic Transferable Records
APIP	Asia-Pacific Infrastructure Partnership	MRT	Ministers Responsible for Trade
ASEAN	Association of Southeast Asian Nations	MSME	Micro, Small and Medium Enterprise
ASEAN BAC	ASEAN Business Advisory Council	NCAPEC	National Centre for APEC
BCG	Bio-Circular-Green	PETs	Privacy Enhancing Technologies
CBAM	Carbon Border Adjustment Mechanism	PSU	Policy Support Unit
CBPR	Cross-Border Privacy Rules system	RCEP	Regional Comprehensive Economic Partnership
CCUS	Carbon Capture, Utilization and Storage	RTA	Regional Trading Arrangement
CEO	Chief Executive Officer	SBF	Singapore Business Federation
CPTPP	Comprehensive and Progressive Agreement for Trans-Pacific Partnership	SFDN	Sustainable Finance Development Network
COVID-19	Coronavirus Disease of 2019	SFOM	Senior Finance Officials' Meeting
DPS	Data Privacy Sub-Group	SME	Small and Medium Enterprise
EPAA	Emerging Payments Association Asia	SOM	Senior Officials' Meeting
ESG	Environmental, Social and Governance	STEM	Science, Technology, Engineering and Mathematics
EU	European Union	TESSD	Trade and Environmental Sustainability Structured Discussions
FCI	Factors Chain International	UNCTAD	United Nations Conference on Trade and Development
FTA	Free Trade Agreement	wCBDCs	Wholesale Central Bank Digital Currencies
FTAAP	Free Trade Area of the Asia-Pacific	WTO	World Trade Organization
GDFC	Global Digital Finance Center		



Annex C

ABAC Recommendations on Facilitating Trade in Environmental Goods and Services

Introduction

Climate change impacts almost all aspects of human life socially, environmentally, and economically. The onset of natural disasters, as one of the consequences of climate change, would severely disrupt trade flows in the global supply chain and result in increased trade costs. In addition, the depletion of natural resources such as fossil fuels has also accelerated the need to tap on renewable resources such as wind, water, and solar energies.

Businesses are increasingly recognizing the business case for sustainability to be at the core of strategy. A sustainability-centric strategy not only has the potential to aid in cost reduction and operational efficiencies, but also generates revenue uplift and improves access to investment and financing.¹ In the longer term, the prospect of devastating impact climate change can have on the global economy has prompted businesses to prioritize business models that can withstand future shocks in times of emergencies such as natural disasters, wars, and pandemic. There are also many green economy opportunities for businesses to tap on, including developing green solutions to meet the growing demand, as economies work towards green transition and achieve decarbonization.

However, driven by the urgency to meet global sustainability targets, there has also been a worrying trend of economies introducing various unilateral responses that could be perceived as disguised protectionist policies. A collaborative approach among economies to address this global challenge, including towards facilitating trade in environmental goods and services, would reap better results given the global interdependence on trade.

APEC, as a multilateral forum and an incubator of ideas, is well-positioned to demonstrate how such collaboration can result in tangible outcomes for both businesses and the environment. Trade facilitation is one example APEC can work collectively on to improve access to environmental goods and services, which can promote environmental and climate change protection goals, such as generating clean and renewable energy, improving energy and resource efficiency, controlling air pollution, managing and treating waste, and monitoring services.

ABAC, as a result of its various industry engagements² with over 240 business representatives and policymakers across APEC economies, has identified three key challenges businesses face when engaging in green trade, and the accompanying private sector recommendations to address these challenges.

1 Businesswire reported a study showing that consumers are not only willing to spend 6% more on products from companies with sustainability commitments and programs in place but are also 64% more likely to recommend companies with sustainable practices to friends and 63% more likely to try new products from these companies. Large investment holding companies such as Blackrock and Temasek have also incorporated sustainability assessment matrices in making investment decisions.

2 ABAC conducted an industry roundtable on the sidelines of ABAC II, a survey, and a public-private dialogue on trade in environmental goods and services from April to June this year.



Challenge 1: Unconducive trade environment and policies for trade in environmental goods and services

In 2022, global trade reached a record of US\$32 trillion, but with negative growth in the last half of the year and is set to stagnate in the first half of 2023 amidst deteriorating economic conditions and rising uncertainties. However, defying the downward trend, trade in green goods grew by about 4 per cent in the second half of the year. Their combined value hit a record US\$1.9 trillion in 2022, \$100 billion more compared to 2021. How can this momentum be leveraged to further drive green trade?

A region-wide survey³ and industry engagements conducted by ABAC this year showed that the top challenges faced by businesses when engaging in trade in environmental goods and services are the difficulty of navigating through the unclear, complex and differing rules in a “spaghetti bowl” of trade agreements, as well as inconsistent definitions of environmental goods and services. In particular, to facilitate the movement of environmental goods and services across borders, there is a need for more deliberate efforts to identify and eliminate tariffs and non-tariff barriers. Businesses suggested the need for a more coherent regional framework specifying trade facilitative rules to provide stronger guidance, alignment, and certainty for both regulators and businesses.

Recommendations

- 1.1 Develop a five-year work plan to establish a green economic framework to harmonize environmental standards, rules, and policies through a joint task force with relevant APEC sub-fora.
- 1.2 Eliminate tariffs through expansion of the existing APEC List of Environmental Goods⁴.
- 1.3 Leverage and draw references from existing trade agreements and initiatives, while leading discussions in other international platforms, including the World Trade Organization (WTO).

Recommendation 1.1: Develop a green economic framework to harmonize environmental standards, rules and policies as well as reduce compliance costs

APEC should consider launching a five-year work plan, through a joint task force of the relevant APEC sub-fora, and in consultation with the business community, to develop a regulatory framework.

The proposed task force could include relevant APEC committees and groups such as the APEC Committee of Trade and Investment, Market Access Group, Group on Services and ABAC to encourage greater coordination among the various groups in developing an APEC-wide framework given the inherent linkages between the trade of goods and services.

This framework will boost the cross-border flow of environmental goods and services in the region. Possible elements of the framework could include:

- A consistent and agreed taxonomy on environmental goods and services, including creating appropriate Harmonized System (HS) codes to categorize and facilitate the movement of products that are identified as “environmental goods” across borders. Examples include wind-powered water pumps, pollution-control devices, electric-powered vehicles, and more.⁵

3 ABAC Survey Results on Trade in Environmental Goods and Services: <https://www2.abaconline.org/assets/2023/Quick-Links/Infographics-on-Survey-on-Trade-in-Environmental-Goods-and-Services.pdf>

4 The APEC List of Environmental Goods is a commitment endorsed by leaders in 2012 to reduce tariff rates of 54 goods to 5 percent or less by the end of 2020, with the intention to improve access to environmental technologies and contribute to green growth and trade liberalization. The list includes solar panels, wind turbines, bamboo flooring, as well as environmental monitoring, analysis and assessment equipment, among others: https://www.apec.org/meeting-papers/leaders-declarations/2012/2012_aelm/2012_aelm_annexc

5 Source: Code Shift: The environmental significance of the 2022 amendments to the Harmonized System by the International Institute for Sustainable Development, 2020: <https://www.iisd.org/system/files/publications/code-shift-2022-harmonized-system.pdf>



- Harmonizing standards and trade rules for imports and exports of environmental goods will help businesses have greater clarity when navigating through the “spaghetti bowl” of agreements and help reduce compliance costs.
- A report mechanism for businesses to provide direct and timely feedback on trade restrictive policies.
- Drawing references from existing trade agreements as well as ABAC initiatives such as the Trade and Investment in Renewable Energy Roadmap.

Recommendation 1.2: Eliminate tariffs through the expansion of the existing APEC List of Environmental Goods

ABAC supports APEC’s Environmental Goods Work Plan to explore the possibility of expanding the existing APEC List of Environmental Goods, a commitment endorsed by leaders to reduce tariff rates of 54 goods to 5 percent or less by the end of 2020. The launch of the list in 2012 provided significant economic benefits with the growth of exports and imports of the products increasing by 5.7 per cent and 13.5 per cent, respectively. ABAC stands ready to participate in these important discussions with APEC, including the development of a discussion framework as instructed by APEC Ministers Responsible for Trade, to identify environmental goods that can be included in the expanded list.

ABAC’s recent survey results revealed that businesses are keen to include the following product categories into the list to take into account newer technologies that may have emerged since the list was developed in 2012: (i) latest technologies or products that generate renewable energy (e.g. solar panels, wind turbines, and water turbines), (ii) circular economy products (e.g. products that are recycled, recyclable or reusable); and (iii) waste management and treatment products (e.g. pipes and tanks, drains).

Example: Promoting a sustainable electric vehicle ecosystem to build a resilient regional supply chain

The transportation sector is one of the greatest contributors to greenhouse gas (GHG) emissions and air pollution due to the heavy reliance on fossil fuel-based vehicles and inefficient logistics practices in the region. With the growing recognition of climate change and its impact on the environment, this has necessitated a shift towards implementing more sustainable practices in the transport sector through electric vehicles, which aims to mitigate environmental risks and promote a greener and more resilient supply chain.

It is recognized that there needs to be strong regional cooperation to further develop a sustainable electric vehicle ecosystem through establishing common standards, streamlining customs procedures, and facilitating the movement of goods across borders.

Recommendation 1.3: Leverage and draw references from existing trade agreements and initiatives

The proliferation of bilateral green economic agreements, frameworks and ambitious environmental chapters in free trade agreements sends a promising signal that economies are increasingly recognizing trade as an important tool in tackling climate change and accelerating green transition. However, to avoid creating yet another set of standards and guidelines, and to ensure alignment for the region, APEC should aim to leverage and draw references from these agreements to develop a possible regional green economic framework. For example, Australia and Singapore had launched the Singapore–Australia Green Economy Agreement in 2022 as the first-ever green economy agreement to accelerate the transition to a net-zero emissions economy and foster economic growth in green sectors through establishing common rules and standards⁶. This agreement, which adopted and expanded on the APEC List of Environmental

6 Source: Singapore Australia Green Economy Agreement, Ministry of Trade and Industry Singapore and Ministry of



Goods, serves as a good example of how APEC plays a useful role as an incubator of ideas, and brings together like-minded economies to achieve common green economic goals.

In addition, APEC economies should also aim to lead and contribute to negotiations at other multilateral platforms, such as at the WTO Trade and Environmental Sustainability Structured Discussions (TESSD), to scale up the regional framework globally or even incorporate it as part of a multilateral trade agreement.

Challenge 2: Lack of skilled manpower for environmental services

Environmental services should not be treated separately from goods as both goods and services are interdependent on each other to drive green growth. The growth in trade in environmental goods and services worldwide with the aim to achieve global sustainable goals has increased the demand for workers that are skilled in supporting the production of environmental goods and providing services for environmental protection⁷.

The environmental services sector, which was traditionally defined and limited to waste management services, has evolved over the years through continued innovation and advancement of technologies. ABAC therefore welcomes APEC's work in reviewing the 2021 Reference List of Environmental and Environmentally Related Services⁸ this year to reflect the latest services that could contribute to achieving our environmental goals. Examples of environmental protection related services that should also be covered in the list include producing renewable energy, manufacturing equipment needed to generate renewable energy such as wind turbines and photovoltaic cells, manufacturing energy efficient equipment, research and development activities, and installation, consultancy, and management services.

With the recognition of these new environmental services and professions that could contribute to environmental protection, APEC should also work to ensure that policies enable greater cross-border movement of workers that are categorized under these identified environmental services through facilitative immigration laws and mutual recognition agreements (MRAs). In the longer term, governments should also work to prevent manpower gaps through close collaboration with institutes of higher learning to ensure future generations of workers are equipped with the relevant knowledge and skillsets.

ABAC welcomes the ongoing work to liberalize environmental services in the region through the development and review of the APEC Reference List of Environmental and Environmentally Related Services as well as the Environmental Services Action Plan under the APEC Services Competitiveness Roadmap (ASCR) 2015-2025⁹. However, ABAC also recognizes that there is scope to do more beyond these initiatives.

Sustainability and the Environment Singapore, 2022 (<https://www.gea.gov.sg/sagea/>)

7 As supported by results from the 2022 ABAC Survey on Trade in Environmental Goods and Services.

8 APEC Reference List of Environmental and Environmentally Related Services was established in 2021 as part of APEC Economic Leaders' commitments to work on environmental services and contribute to global discussions on environmental services. (Source: <https://www.apec.org/meeting-papers/annual-ministerial-meetings/2021/2021-apec-ministerial-meeting/annex-2---reference-list-of-environmental-and-environmentally-related-services>)

9 Source: APEC Services Competitiveness Roadmap Mid-Term Review, APEC Policy Support Unit, 2021 (https://www.apec.org/docs/default-source/publications/2021/10/apec-services-competitiveness-roadmap-mid-term-review/221_psu_apec-services-competitiveness-roadmap-mid-term-review.pdf?sfvrsn=861e0b45_1)



Recommendations

- 2.1 Expand the APEC List of Environmental and Environmentally Related Services with sufficient consultation with the private sector.
- 2.2 Mutual recognition of environmental professions to facilitate cross-border movement of workers and professionals.
- 2.3 Increase funding and collaboration with institutes of higher learning to build workforce capabilities.

Recommendation 2.1: Expanding the APEC List of Environmental and Environmentally Related Services through industry consultation

ABAC welcomes the first review of the APEC Reference List of Environmental and Environmentally Related Services in 2023. Recent ABAC survey results show that businesses would like to see an expansion of the list to include waste management and recycling services, environmental research and development services, consultancy services to incorporate environment and sustainability considerations into business activities, climate monitoring services, and biodiversity and environment conservation.

Recommendation 2.2: Mutual recognition of environmental professions to facilitate cross-border movement of workers and professionals

MRAs on licensing, qualifications and accreditation of professionals are important economic tools to facilitate trade in services. ABAC acknowledges APEC's commitment on "supporting cross-border mobility for professionals, building on initiatives such as the APEC Architects and Engineers Register to facilitate mutual recognition arrangements" through the ASCR.

The cross-border movement of environmental professionals in the region will help to fill manpower gaps, especially for economies experiencing skilled manpower shortages to provide environmental services. At the same time, this will also promote knowledge and skills transfer between economies.

Recommendation 2.3: Increase funding and collaboration with institutes of higher learning to build workforce capabilities

APEC economies should also take active steps to build the capabilities of their workforce by equipping them with the relevant skills and knowledge for employment in the environment sector. This can be done through early introduction of sustainability in schools, increased funding for institutes of higher learning to skill and re-skill workers, and partnerships with industry to provide on-the-job training and internship placement opportunities.

Challenge 3: Increased risk for MSMEs to get left behind in green transition

Micro, small and medium enterprises (MSMEs) form the backbone of supply chains and play a critical role in greening supply chains. However, as MSMEs are typically further down the value chain, they may not be aware of the demand for green goods and services, resulting in differing speeds of green transition among businesses. While larger businesses are already leading the efforts to green the global supply chains, there is a risk of leaving behind MSMEs in the transition to the green economy. Recognizing this, active steps should be taken to ensure an inclusive and "just transition" for MSMEs in green transition.

Despite encouraging trade statistics from the United Nations Conference on Trade and Development (UNCTAD) on the growth of green goods and services, the survey results reflected that one of the businesses' top concerns for embarking in green trade is the low market demand for these goods and services, as well as the lack of awareness of their benefits to the environment. This is especially so for smaller businesses which make up the majority of the respondents.



Recommendations

- 3.1 Drive demand through green procurement policies in global supply chains.
- 3.2 Make trade financing more accessible for MSMEs participating in green trade.
- 3.3 Roll out capacity building programs for MSMEs in partnership with leading industry experts.

Recommendation 3.1: Drive demand through green procurement policies in global supply chains

According to a 2016 report by McKinsey, it was estimated that 90 per cent of a company's environmental impact and more than 80 per cent of their emissions come from their supply chains.¹⁰ There has also been a recent shift in consumer preference to purchase goods that are made from sustainably sourced materials and produced in an environmentally friendly manner. Businesses will therefore have more economic interest in greening their supply chains and operations to retain and attract new customers, while at the same time, reducing their GHG emissions output. For example, large consumer brands such as Coca-Cola and Nike have made conscious efforts to ensure that their end-to-end supply chains are green and sustainable using eco-friendly materials and recyclable packaging.

Besides driving consumer demand in business-to-consumer (B2C) transactions, both governments and larger businesses with higher purchasing power should drive and articulate demand for green goods and services through adopting green procurement policies by including sustainability considerations when procuring services or supplies. Demand drivers should also make a deliberate effort to ensure that their green procurement policies apply not just to their direct supplier, but their supplier's own supply chain as well. This will generate greater demand in transactions for smaller businesses, suppliers, and logistics providers in the supply chain downstream to provide eco-friendly goods and services. With sufficient demand, businesses will also be able to achieve economies of scale. ABAC recognizes APEC's ongoing efforts in greening supply chains through the Supply Chain Connectivity Framework Action Plan (SCFAP)¹¹, and looks forward to contributing to these discussions.

Case study: Taiwan Mobile's green supply chain management initiative

Since 2014, Taiwan Mobile (TWM) has been active in advocating for environment sustainability value through implementing sustainable supply chain management initiatives. The two main pillars of TWM's sustainable supply chain management include:

- Sustainability Performance Assessment: TWM distributes an annual Environmental, Social and Governance (ESG) Self-Assessment Questionnaire to assess prospective suppliers' sustainability performance and carbon emissions inventory with a third-party verification, thereafter, implement ESG threshold for major tenders to allow those who meet these requirements to participate in the bid, and proactively assist non-qualified suppliers with guidance and support by providing recommendations for improvement.
- Provision of Education and Training: TWM organizes annual forums around circular economy and carbon reduction topics where experts, industry front-runners and exceptional small and medium enterprises (SMEs) are invited to share their knowledge and expertise on emerging sustainability trends such as biodiversity conservation and Science Based Targets initiative (SBTi), and how they can incorporate corporate sustainability practices in their businesses.

¹⁰ Source: Greening the supply chain to beat climate change, Forbes, 2021 (<https://www.forbes.com/sites/fedex-express/2021/11/22/greening-the-supply-chain-to-beat-climate-change/?sh=403a69424b90>)

¹¹ The APEC Supply Chain Connectivity Framework Action Plan III (SCFAP) aims to develop resilient and efficient global supply chains through addressing five identified chokepoints which includes green supply chain management practices (http://mddb.apec.org/Documents/2022/CTI/CTI3/22_cti3_012.pdf)



Over 400 suppliers participated in the document review of the ESG self-assessment questionnaire in 2022, a 60% increase since 2017, while the participation of suppliers in the ESG sustainability on-site review has demonstrated a consistent annual increase since 2017. At present, TWM has successfully conducted on-site audits for a total of 45 suppliers. The annual budget allocated for supporting suppliers' sustainability management has also significantly increased by 50% compared to previous years. By providing guidance and support, suppliers are not only able to meet TWM's sustainability requirements but also enhance their sustainability performance to align with the expectations of other clients.

Recommendation 3.2: Make trade financing more accessible for MSMEs participating in green trade

MSMEs make up more than 90% of businesses in most APEC economies and contribute between 40% to 60% of the gross domestic product (GDP). However, the total share of MSMEs participating in exporting goods is very low across the APEC region, with typically less than 2%¹². Similarly, this trend is the same for trade in environmental goods and services.

There are several non-tariff barriers that have hindered MSMEs from engaging in trade, such as the lack of access to trade finance. Over half of trade finance requests by MSMEs are rejected, compared to just 7 per cent for multinational companies¹³.

Both governments and regulators need to take active steps to reduce the financing gap by enhancing trade finance facilitation programs, maintaining an open dialogue with businesses to understand their trade financing needs for environmental trade, and improving the monitoring of trade finance provisions for MSMEs participating in green trade. This can be done through enhancing existing multilateral programs and strengthening partnerships with multilateral development banks.

Recommendation 3.3: Roll-out capacity building programs for MSMEs

ABAC believes that there is scope to generate trade growth in the environmental sector. MSMEs, which are also the greatest source of innovation, need to be equipped with the relevant knowledge, skills and tools to trade sustainably and facilitate the cross-border movement of eco-friendly products and services. This can be done through the development of capacity building programs tapping on the expertise of leading industry leaders and regulators. These businesses, equipped with the right tools, have the potential to transition to a green economy with long-term investment.

Case study: UPS capacity building program for SMEs (Green Exporters Program)

The Green Exporters Program is a new international program that UPS launched in 2022 to provide capacity building for SMEs to accelerate their sustainability transition, incorporate sustainability in their supply chain, and boost their access to new markets for sustainable products. The Green Exporters Program was first launched in Mexico and the United Kingdom, where UPS and its local partners trained 160 small business owners in 2022.

¹² Source: Overview of the SME Sector in the APEC Region: Key Issues on Market Access and Internationalization: APEC Policy Support Unit (PSU), 2020 (https://www.apec.org/docs/default-source/publications/2020/4/overview-of-the-sme-sector-in-the-apec-region---key-issues-on-market-access-and-internationalization/220_psu_sme-market-access-and-internationalization.pdf)

¹³ Source: Trade finance and SMEs: Bridging the gaps in provision, World Trade Organization (WTO), 2016 (https://www.wto.org/english/res_e/booksp_e/tradefinsme_e.pdf)



Earlier this year, UPS partnered with the Singapore Business Federation to launch the Green Exporters Program in Singapore, which trained more than 160 participants from over 70 companies on incorporating sustainability into business practices, measuring environmental impact, exporting sustainably, and greening supply chains and sustainable packaging. As part of UPS's global partnership with the International Chamber of Commerce and GIST Impact, UPS also sponsored close to 50 Singapore SMEs which completed the entire program to obtain the International Chamber of Commerce's SME360X – a user-friendly digital assessment tool businesses can use to measure and evaluate their impact on the environment – to enable their sustainability journey. The Green Exporters Program Singapore 2023 was the first time UPS brought the Green Exporters Program to the Asia-Pacific region.

The Green Exporters Program is a testament to UPS's commitment in supporting SME development, and providing the capacity building required for SMEs to not only better participate in international trade but also thrive and prosper in a sustainable manner.

Conclusion and Next Steps

ABAC believes that there is scope for APEC to take additional steps to boost trade in environmental goods and services in the region. ABAC recognizes that achieving global sustainable development goals through trade requires collective and coordinated effort from both public and private sectors across all APEC economies. ABAC looks forward to regular and open dialogues to discuss these recommendations and stands ready to work with APEC and its relevant sub-fora to contribute to the work in implementing the APEC Work Plan on Environmental Goods, Framework of Discussions for Producing an APEC Reference List of Environmental Goods, and beyond.

Proposed Five-year Implementation Timeline

Possible mid-term outcomes (2-3 years):

- Eliminate tariffs through the expansion of existing APEC List of Environmental Goods in consultation with industry stakeholders.
- Facilitate cross-border trade in environmental services through the expansion of APEC Reference List of Environmental and Environmentally Related Services in consultation with industry stakeholders.
- Mutual recognition of environmental professions to facilitate cross-border movement of workers and professionals.
- Drive demand through green procurement policies in global supply chains.

Possible short-term outcomes (1-2 years):

- Establish a joint task force involving relevant APEC sub-fora (e. g. Market Access Group, Group on Services, and Energy Working Group) to discuss on a potential green economic trade framework.
- Increase funding and collaboration with institutes of higher learning to build workforce capabilities.
- Make trade financing more accessible for MSMEs participating in green trade.
- Roll-out capacity building programs for MSMEs.

Possible long-term outcomes (5 years):

- Develop a green economic framework to harmonize environmental standards, rules and policies to reduce compliance costs.



Annex D

ABAC Recommendations on Regional Cooperation for Cross-Border Paperless Trade

Introduction

Cross-border paperless trade has been a long-standing focus in the Asia-Pacific region. With full implementation, cross-border paperless trade can bring about significant improvements to the efficiency of trade by reducing transaction time and costs; enhance supply chain visibility and resilience through improved information flow and strengthened cross-border connections; enable greater inclusion through micro, small and medium enterprises' (MSME) participation in global supply chains; and support sustainability efforts by cutting out the vast quantities of paper documents currently used. However, implementation remains a challenge globally. According to the World Trade Organization (WTO) and the International Chamber of Commerce (ICC), fewer than one percent of trade documents are currently fully digitalized.¹

The ABAC Public-Private Dialogue on Regional Cooperation for Cross-Border Paperless Trade in June this year discussed the gaps and enablers of cross-border paperless trade. Stakeholders consulted pointed out the need for greater interoperability among digital trade systems; eliminating legal incompatibilities; and encouraging adoption, implementation, and cross-recognition of digital trade documents.

While this multistakeholder task to build seamless cross-border paperless trade will understandably involve extensive stakeholder consultation and a multi-year implementation horizon, developing an APEC Cross-Border Paperless Trade Roadmap and implementation plan is an important step in making it a practical reality for businesses for the following reasons:

1. There is a need for alignment between existing APEC workstreams that are part of the Committee on Trade and Investment, Sub-Committee on Customs Procedures, and Digital Economy Steering Group. The roadmap should not duplicate that work but instead pull together and coordinate the various workstreams.
2. There is a need to be able to track the progress of the implementation plan, which should contain mutually agreed actions, targets, and timelines, and allow the monitoring of progress through quantitative indicators. The proposed roadmap could have a timeline of ten years and include a mid-term review at the five-year mark to assess the progress of the implementation plan and determine further actions required.
3. There is a need for flexibility to allow achievement of common targets with differentiated approaches. ABAC recognizes that different economies are at different stages of development. Having a roadmap and implementation plan would allow economies to adopt initiatives to meet the targets and milestones according to their level of readiness.

The roadmap and implementation plan should also be living documents that take into consideration and be consistent with global developments and initiatives by international organizations such as the WTO,

¹ https://www.wto.org/english/res_e/booksp_e/standtoolkit22_e.pdf



United Nations (UN), and ICC. APEC should also take references from existing free trade agreements (FTAs) and digital economy agreements (DEAs) with detailed approaches to paperless trade.

Elements & Recommendations

The recommended elements that should be incorporated into the APEC Cross-Border Paperless Trade Roadmap and implementation plan are as follows:

Element 1 – Recognition: Conducive legal frameworks

Trade digitalization is not possible unless trade documents, in their digital forms, can be recognized legally. Existing trade laws in different economies are currently not made to support digital trade documents and economies today face a long and tedious process of identifying existing laws that need to be changed and changing them in a way that can support digital trade documents.

To address this, ABAC and other international bodies have called for governments to adopt the United Nations Commission on International Trade Law (UNCITRAL) Model Law on Electronic Transferable Records (MLETR), which will enable the legal use of electronic transferable documents, both domestically and across borders. Seven jurisdictions, including Singapore, have legislation based on or influenced by MLETR and the Group of Seven (G7) economies have agreed on a roadmap to examine the legal, regulatory, and technical issues that impede the adoption of electronic transferable records.² Several other economies, including Thailand, are also set to adopt MLETR.

On top of MLETR, APEC economies should also consider adopting the other cross-border legal frameworks developed by UNCITRAL such as the model laws on Electronic Commerce (1996) and Electronic Signatures (2001), and the upcoming one on the Use and Cross-Border Recognition of Identity Management and Trust Services. These would allow electronic documents to function as paper-based documents and serve to harmonize legal frameworks that facilitate digital trade.

Recommendations:

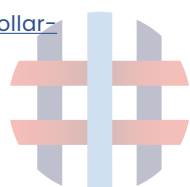
- 1.1 Ensure that legislations are in line with UNICITRAL model laws, such as the ones on Electronic Commerce, Electronic Signatures, and Electronic Transferable Records.
- 1.2 Establish a working group or include as a regular agenda at APEC for economies to share their learning experience implementing MLETR.

Element 2 – Efficiency: Identification and harmonization of documents and data that are critical for interoperable digital trade

Documentation for a single shipment can require up to 50 sheets of paper that are exchanged with up to 30 different stakeholders and many overlaps in the data required on various documents.³ As a first step to effectively digitalizing cross-border trade, the roadmap and implementation plan must include a concerted effort to identify and agree on key data and documents required in digital trade exchanges. Public and private sector stakeholders throughout the value chain, including stakeholders involved in the day-to-day or intermediary trade operations such as certification and regulatory approvals, should be consulted to align the requirements of different stakeholders, allowing the document or data to flow seamlessly across government-to-government (G2G), business-to-business (B2B), and business-to-government (B2G) systems.

² <https://www.gov.uk/government/publications/uk-g7-presidency-roadmap-to-reform-for-electronic-transferable-records/uk-g7-presidency-roadmap-to-reform-for-electronic-transferable-records>

³ <https://www.mckinsey.com/industries/travel-logistics-and-infrastructure/our-insights/the-multi-billion-dollar-paper-jam-unlocking-trade-by-digitalizing-documentation>



There have been existing attempts to do so, globally, and APEC should build on these efforts to develop and trial an exhaustive list of data and documents required in cross-border digital trade. In a 52-page report, the ICC Digital Standards Initiative Key Trade Document and Data Elements Working Group identified seven key trade documents for digitalization, namely the certificate of origin, customs declaration, packing list, bill of lading, commercial invoice, warehouse receipt, and insurance certificate.⁴ In the trade digitalization pilot connecting Thailand's National Digital Trade Platform with Singapore's Networked Trade Platform and Japan's TradeWaltz, three commercial documents, namely the e-purchase order, e-invoice, and e-packing list, were identified and successfully exchanged digitally. The pilot has been expanded to include Australia and New Zealand's TradeWindow and will look at the exchange of a fourth document, the electronic bills of lading. In another example, the Singapore Trade Data Exchange (SGTraDex), a data sharing infrastructure founded as a public-private partnership that facilitates the sharing of trade data among partners in a supply chain ecosystem, leverages a use case approach to identify the types of documents and data critical for industry-specific value chains.

Case Study on SGTraDex

Launched in June 2022, SGTraDex is a data sharing infrastructure founded as a public-private partnership that facilitates the sharing of trade data among partners in a supply chain ecosystem. Formed to address supply chain disruptions and drive economic transformation in the wake of COVID-19, SGTraDex's technical infrastructure is operated by Singapore's Infocomm Media Development Authority (IMDA). By digitalizing trade and channelling information from disparate sources into a trusted and secure digital infrastructure, SGTraDex creates end-to-end visibility, and more resilient supply chains while preserving data confidentiality and existing commercial relationships.

At present, more than 120 multinational corporations, large local enterprises and small and medium enterprises (SMEs) across the trade finance, maritime and logistics sectors are using SGTraDex to enhance operational efficiency, productivity and transparency. This is further broken down into "use cases" based on specific industry needs.

These use cases are driven by private and public sponsors, who bring onboard their respective networks and business knowledge to drive SGTraDex's adoption locally and globally. SGTraDex leverages on the public sector where there is a need for collective action or larger community incentive for change, and on private industry shareholders (including banks, traders, terminal operators) where there is a need to identify the right incentive structure required to enable equitable value distribution. SGTraDex also partners private entities in co-developing solutions and products for wider industry consumption.

Enrolment into SGTraDex often starts with the conduct of a business discovery workshop to map business process and data flow, after which participants enrol onto the platform and establish consent between data contributors and data consumers. Data elements are also defined and standardized before live transactions take place within the ecosystem. At present, participants are exchanging data across use cases supporting a total of about 120 types of documents and events. These include the exchange of bills of lading, invoices, letters of credit, electronic delivery orders, bunker delivery notes, as well as supply chain milestone data.

The next step in ensuring that trade digitalization can reap the full benefits of enhanced efficiency is in standardizing and harmonizing how the data and documents are presented in cross-border and cross-entity exchanges. Simply digitizing trade documents will do little to streamline processes and improve manual

4 <https://www.tradefinanceglobal.com/posts/icc-dsi-7-key-trade-documents-digitisation/>



workflows. However, with standardized electronic data and document templates, digitalized trade systems can leverage artificial intelligence and machine learning to speed up processes, ensure interoperability, and reduce human error. APEC is well positioned to provide a regional perspective on these standards and influence development of global standards through work with other important stakeholders, such as the WTO and ICC, to scale up adoption. Extensive consultations and collaborations are crucial in ensuring that even with digitalization and streamlining of processes, existing critical safeguards, such as third-party verification, are addressed and incorporated in the new digital processes, and do not become an impediment to trade digitalization.

Digital trade exchanges must be complemented with effective and interoperable systems. Similar to the Principles for the Interoperability of Electronic Invoicing Systems in the APEC Region announced as part of the 2023 APEC Ministers Responsible for Trade (MRT) Statement of the Chair, APEC should consider developing principles for interoperability of single windows and cross-border paperless trade. Possible principles could include implementing domestic single windows and developing policies, infrastructure, and processes that link the domestic single windows to other B2B platforms; promoting a common standard for regulatory data exchange such as adopting the World Customs Organization Data Model in a single window environment; and sharing best practices and supporting capacity building initiatives for the development and adoption of interoperable domestic single window systems.

Recommendations:

- 2.1 Develop and maintain, through extensive public and private stakeholder consultations, an APEC living document detailing a list of documents and data sets to be standardized, harmonized, and exchanged.
- 2.2 Develop principles for the interoperability of domestic single window systems.

Element 3 – Verification: Data trust and security

A key concern of both businesses and regulatory authorities in using or accepting digital trade documents is the risk of fraud and the ability to ascertain the authenticity and source of the trade documents. While existing and established paper-based processes provide an adequate level of confidence through physical clues such as signatures, organization stamps, carbon copies, and material, the understanding and familiarity of digital authentication or verification are not anywhere as widespread. Nevertheless, eliminating the need for printing, handling, and transportation of hundreds of pages of documents or document copies among multiple parties can result in significant cost savings, time, and manpower needs to manually process and transcribe information for businesses, as well as reduce paper consumption.

Blockchain is an emerging technology that can be used to facilitate cross-border paperless trade. The use of public blockchain technology, the most accessible and neutral manner by which the endorsement chain can be recorded, to deal with electronic transferable records has been demonstrated through the TradeTrust framework. Developed by IMDA, it addresses the challenges of paper-based international trade by enabling trusted interoperability of digital trade documents that can be exchanged and verified across digital platforms in a decentralized manner. TradeTrust leverages international standards and frameworks, such as those from the UN Centre for Trade Facilitation and Electronic Business (UN/CEFACT), World Wide Web Consortium (W3C), and International Organization for Standardization (ISO), to support the digitalization of trade documents into two broad categories, “Verifiable Documents” and “Transferable Documents”.

The digitalization of “Verifiable Documents” uses decentralized (cryptographically verifiable) identifiers to create, wrap, and issue such documents, while the digitalization of “Transferable Documents” into Electronic Transferable Records is supported by open-source software that utilizes blockchain technology and is aligned with the UNCITRAL MLETR. By doing so, TradeTrust enables government agencies and businesses to



issue, verify the authenticity and provenance of documents, and effect title transfer across digital platforms seamlessly, thus achieving end-to-end digital processing of trade documents. Furthermore, both types of documents can be created with printable QR codes that allow parties who scan that QR code to retrieve and verify the digital file. This easy interchange between paper and digital mediums means that there is no need to wait for all parties along the long supply chain to be of the same technological maturity and removes the need for expensive data exchange infrastructure to be put in place between exchanging parties, easing the shorter-term scalability of this platform.

APEC economies and businesses must continue to embrace newer and more efficient forms of trade documentation while piloting new frameworks and leveraging solutions that can ensure secure transfers of data and documents.

Case Study on the use of TradeTrust between Australia and Singapore

As part of the Singapore-Australia Digital Economy Agreement, the Australian Border Force (ABF), IMDA, and Singapore Customs alongside industry participants⁵ launched a trial in August 2021 to prove that trade documents can be issued and verified digitally across two independent systems through the TradeTrust framework.

The trial successfully demonstrated the interoperability between ABF's Intergovernmental Ledger and Tradetrust, with Singapore Customs able to verify the digital Certificate of Origins issued by Australia. These digital trade documents were able to be instantly authenticated, provenance traced, and digitally processed when scanned or machine-read.

Australia and Singapore will work on a Digital Verification Platform Project which is underpinned by the TradeTrust framework. The Project aims to reduce environmental costs through digital trade procedures and steps towards a paperless trade environment, e. g. sharing of high-integrity verifiable digital documents between traders.

19 other pilots for trade finance and supply chain facilitation use cases have demonstrated the potential for cost and time savings in cross-border trade. For example, in the Singapore-Netherlands (Port of Rotterdam) pilot for the Bill of Lading documentation process, there was a reduction of the time taken from an average of six to ten days when using a hardcopy Bill of Lading, to less than 24 hours when using an electronic Bill of Lading.

Recommendations:

- 3.1 Build on pilot projects, work with private sector partners, and leverage technology to secure and ensure the authenticity and verifiability of digital trade documents.

Element 4 – Adoption: Capacity building and enablers

A 2019 UN Conference on Trade and Development (UNCTAD) report found that while the global average implementation of paperless trade measures had reached 60%, the global average implementation level of cross-border paperless trade remains substantially lower.⁶ There is a need for critical mass to unlock the value for all stakeholders involved, and many such solutions have yet to reach critical mass. Capacity

5 ANZ Bank, Australian International Chambers of Commerce, Australian Industry Group, DBS Bank, Rio Tinto, Standard Chartered Bank.

6 <https://unctad.org/news/paperless-trade-facilitation-2019-global-and-asia-pacific-state-play>



building and sharing of use cases could be useful in demonstrating clear benefits to businesses, especially the MSMEs, and ensure that they are not left behind in the trade digitalization process.

However, costs remain a top barrier for MSMEs in their digitalization process, and adoption will be hindered significantly if adopters cannot afford to pay to be part of digital platforms. For example, a QBE SME Survey in Singapore found that the top barriers to digitalization among SMEs were high cost of investment/operating and the lack of financing; and despite high awareness of government support available to help businesses digitalize, only 50% of SMEs applied for it.⁷ Governments should address cost/funding issues through grants to mitigate costs of digitalization, raise awareness on these grants, and make them easily accessible to MSMEs.

At the government level, APEC and ABAC should develop an online portal for economies to update their initiatives and projects relating to cross-border paperless trade to facilitate capacity building, knowledge sharing, and information exchange. The platform should consolidate the various APEC workstreams dealing with paperless trade, such as the Committee on Trade and Investment's Compendium of Best Practice Technology Solutions for Single Window Interoperability; the Sub-Committee on Customs Procedures' guidelines, analysis and pathway for paperless trade; and the Digital Economy Steering Group's Internet and Digital Economy Roadmap which looks at the following focus areas linked to cross-border paperless trade – promotion of interoperability, promoting coherence and cooperation of regulatory approaches affecting the internet and digital economy, and facilitation of e-commerce and advancing cooperation on digital trade.

The platform should also be complemented with capacity building workshops and the profiling of successful cross-border paperless trade pilots to showcase the lessons learnt and allow economies to learn from best practices. As a whole, these would enable economies to cross reference the data, documents, and systems that others within the region are utilizing, spur discussions, and encourage the adoption of existing standards and model laws to strengthen regional cooperation for cross-border paperless trade. APEC could consider converting its current webpage on the paperless trading individual action plan for this purpose.

Recommendations:

- 4.1 Develop trade digitalization programs for MSMEs with relevant grant or financing schemes to ensure that they are not left behind in the trade digitalization process.
- 4.2 Maintain a digital repository of updated information on paperless trade and single window initiatives of APEC economies, including cross-border paperless initiatives and projects.
- 4.3 Continue sharing of initiatives and experiences through capacity building workshops and profile case studies of successful pilots.

Conclusion

ABAC believes there is significant scope for APEC to improve regional cooperation for cross-border paperless trade which will enhance the efficiency, resilience, visibility, inclusiveness, and sustainability of supply chains. This requires coordinated efforts between governments to establish regional norms, promote best practices, and provide the much needed political support to advance the agenda. ABAC looks forward to regular and open dialogues to discuss these recommendations on the APEC Roadmap on Regional Cooperation for Cross-Border Paperless Trade, with the implementation timeline of ten years and a mid-term review at the five-year mark.

⁷ https://www.qbe.com/sg/-/media/singapore/files/sme%20research/2023/qbe%20sme%202023%20release_digitalisation_14%20mar_final_press%20release.pdf



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