



**Asia-Pacific  
Economic Cooperation**

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**2023/MRT/004**  
Opening Session

## **ABAC Letter to APEC Ministers Responsible for Trade**

Purpose: Information  
Submitted by: ABAC



**Ministers Responsible for Trade  
Meeting  
Detroit, United States  
25-26 May 2023**

2 May 2023

**The Honorable Katherine Tai**

Chair, Meeting of APEC Ministers Responsible for Trade  
U. S. Trade Representative

Dear Ambassador Tai,

In advance of your gathering in Detroit, Michigan, it is my pleasure to convey the APEC Business Advisory Council's key recommendations to APEC Trade Ministers in this letter and the attached Report and Statements. 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 – that confront the region, APEC's collective efforts in pursuit of openness, sustainability, and inclusion are more vital than ever. These crises are opportunities for APEC to reflect, learn, and pivot onto a new path of economic inclusion, resilience, and sustainability. Our work this year focuses on **opportunity, equity and sustainability** to help our communities come back stronger. We call for your partnership to jointly promote this effort through the actions recommended below:

Opportunity

- Meaningful progress in the **World Trade Organization (WTO)**, at the 13<sup>th</sup> Ministerial meeting and through open plurilateral initiatives, is critical to continued economic growth, inclusion, and sustainability. We call on APEC Ministers to pursue ambitious e-commerce and sustainability outcomes; to seek agreement to a permanent e-commerce moratorium; quickly restore the Appellate Body and make necessary reforms in dispute settlement, agriculture and fisheries subsidies. Our WTO Statement further details our recommendations.
- The **Free Trade Area of the Asia-Pacific (FTAAP)** Agenda Work Plan is an important vehicle for advancing shared economic integration goals. Our FTAAP Statement recommends five short-term deliverables for early harvest. Longer term, we encourage APEC Ministers to optimize the region's economic architecture through the full implementation and utilization of existing agreements and the development of coherent approaches to next generation trade and investment issues.
- **Digitalization** can unleash dynamic growth and seamless connectivity, but the region's operating environment is increasingly complex and restrictive; coherent and trusted digital governance will be key to unlocking opportunities. We urge APEC Ministers to promote the interoperability of digital regulations and policies, improve and expand the uptake of the voluntary Cross-Border Privacy Rules (CBPR) system, adopt a toolbox of other mechanisms to facilitate cross-border data flows, and embed trust by creating an enabling environment for technologies and platforms that facilitate and protect trade.

## Equity

- **Supply chain** disruptions increase costs, inflation, uncertainty, and create barriers to micro, small and medium enterprise (MSME) inclusion. We stress the importance of accelerating APEC's work on physical connectivity such as cross-border e-commerce, transportation and delivery services liberalization, simplification of low-value shipments, and digitalization of business and border processes to enhance supply chain visibility while supporting the participation of MSMEs. We further call for APEC to maintain an open dialogue with business to address potential bottlenecks as they emerge, and work with ABAC to ensure that policy responses are informed by lessons learned from the supply chain disruptions during the COVID-19 pandemic.
- Recognizing the potent ability of the digital economy to support equity for **MSMEs**, we call on APEC Ministers to design digital trade regulation with a view to inclusion, and to foster broader participation in the digital economy through upskilling initiatives.
- **Groups with untapped economic potential** including women, MSMEs, Indigenous peoples, those from remote and rural communities and others, require sustained, intentional, and tailored support including access to finance, and to the digital economy, as well as trade rules that are fit for purpose. We call on APEC Ministers to work to this end; recognizing, too the sustainability imperative, we urge Ministers to develop an Environment, Social, and Governance (ESG) Framework for MSMEs to avoid their exclusion due to efforts to reduce carbon emissions in supply chains.

## Sustainability

- Global challenges such as climate change and sustainability demand both collective and individual responses; APEC must continue to act as a global trailblazer on these issues. We urge APEC Ministers to liberalize trade in **environmental goods and services** based on updated lists. We caution against the potential for climate responses, including carbon border measures, to become tools for disguised protectionism.
- Recalling ABAC's Climate Leadership Principles, we call on APEC Ministers to leverage trade tools to speed reductions in emissions, adapt to a low-carbon economy and achieve a **just, ambitious and realistic energy transition**. We urge APEC Ministers to develop the Roadmap for Trade and Investment in Renewable Energy proposed by ABAC, which includes elements such as trade in low-carbon materials and technologies to reduce emissions. Further, we encourage a dialogue mechanism with the private sector to shape and prioritize more effective policies, technologies and practices.

We look forward to discussing these recommendations with you later this month, including how ABAC can best continue to support your important work to create a more open, dynamic, resilient, and peaceful Asia-Pacific community, as embodied in the Putrajaya Vision.

Yours sincerely,



**Dominic Ng**  
ABAC Chair 2023

**APEC Business Advisory Council**  
**Report to APEC Ministers Responsible for Trade**

*Opportunity*

**World Trade Organization (WTO):** The rules-based multilateral trading system has never been more vital, not only enabling greater global prosperity but also helping to unlock effective solutions to the region's most daunting challenges. To that end, we call on APEC economies to participate constructively in open plurilateral initiatives, including those on e-commerce and sustainability; champion urgent and meaningful reforms that lead to elimination of distorting agriculture and fisheries subsidies; make permanent the e-commerce moratorium; and engage constructively and quickly to restore the Appellate Body and make necessary reforms to the dispute settlement system and to transparency. Our WTO Statement further details our recommendations.

**Free Trade Area of the Asia-Pacific (FTAAP):** To advance progress toward this shared long-term vision for economic integration in the region, the FTAAP Agenda Work Plan is an important vehicle for advancing shared economic integration goals. Economies should leverage APEC's unique role as an incubator of ideas on trade and investment issues in the region by exploring existing economic integration undertakings involving multiple APEC members that seek to develop coherent approaches to next generation trade and investment issues. Our FTAAP Statement recommends five short-term deliverables for early harvest.

Additionally, APEC economies should promote full implementation and utilization of their existing free trade agreements (FTAs) such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and Regional Comprehensive Economic Partnership (RCEP) by strengthening the existing committees and commissions of FTAAP pathway agreements to monitor the implementation and operation of these agreements and continue to consider amendments to the agreements. In addition, the APEC Policy Support Unit should be tasked to assess the extent of FTA utilization and identify and address barriers that prevent more companies from taking advantage of the benefits provided by preferential trading arrangements. The results of this assessment should be used to identify best practices for addressing such barriers. Relevant data should be shared publicly.

**Digitalization:** The growing number of digital regulations and policies has brought new challenges for businesses, who must continually consider and comply with new privacy, security, and information-control issues as they collect, store, and trade in more data and data-enabled products and services. Increasingly divergent views and approaches on important policies governing the digital economy and cross-border trade have exacerbated these challenges. APEC should reject protectionism and prioritize the advancement of regulatory interoperability and transparency on digital economy governance and digital trade by continuing to improve upon and expand the voluntary uptake of Cross Border Privacy Rules (CBPR) system at both the economy and business level across APEC. Addressing the proliferation of complex regulations is essential, not just to ensure continued trade and interoperability, but to promote sustainability and inclusion. The cost, burden and complexity of so many rules and regulations will disproportionately affect developing economies, micro, small and medium enterprises (MSMEs) and those trading or coming onto the internet for the first time. The significance of this is demonstrated by the fact that there have been 100 million new internet users in Southeast Asia in recent years.

Further, building trust is important in promoting digitalization and the digital economy, especially given challenges such as cybercrime and cybersecurity. APEC must create an enabling, inclusive, open, fair and non-discriminatory digital ecosystem for businesses and consumers, and embed

trust at the heart of the trade digitalization journey. To achieve this, economies should expand cybersecurity skilling and awareness and enable the adoption of privacy enhancing technologies, interoperable platforms to facilitate secure and trusted transactions, and digital ID systems.

Economies in the APEC region are at various stages of development particularly with regard to participation and engagement in the digital economy. APEC should therefore promote an inclusive and sustainable digital economy, supported by capacity building, to ensure the benefits of the digitalization are more widely shared.

Accelerating advances in **artificial intelligence (AI)**, including generative AI, will impact all commerce in the years ahead. In particular, greater data utilization and sharing will ensure AI enhances trade and healthcare services' uptake of digital health. An opportunity exists for APEC to be a forum for productive dialogue and assist in designing good regulatory practices on the responsible development of AI, to make progress towards the UN Sustainable Development Goals, and to promote beneficial innovation, trade and investment, while addressing the challenges and risks. As a non-binding forum for discussions on collaborative approaches to trade and economic policy, APEC is well-suited to promote interoperable approaches to AI governance that reduce barriers to trade and promote interoperability, including collaborating on AI principles and guidelines. APEC could also promote multistakeholder collaboration and dialogue on responsible AI innovation in trade, by facilitating dialogues between government, businesses, academia, and civil society, and encouraging knowledge exchange and cooperation among APEC economies to develop effective AI policies. APEC should work to ensure MSMEs have access to AI-powered trade tools to enable access to global markets.

**Digitalization of financial services**, including financial transactions, has the potential to expand access to finance, particularly for MSMEs and other groups with untapped economic potential, reduce transaction costs and allow more entrepreneurs to conduct business globally. However, there is a growing risk of new barriers to cross-border financial services due to uncoordinated development of open data systems in member economies. In response, APEC economies should work together, and with the business sector, to develop common principles, among other approaches, that can guide member economies in developing interoperable open data systems. When exploring the potential use of central bank digital currencies (CBDC) in settlement of wholesale financial transactions, APEC economies should consider interoperability.

### *Equity*

**Trade response to the pandemic:** APEC economies are emerging from a period of great supply-side disruption. APEC's highly integrated economies require trade corridors for essential goods and services, including personnel such as air and maritime crew, to keep trade open in the face of crises. The physical world of trade (fulfilment, border clearance, transportation, and deliveries) has struggled to keep up with the surge in e-commerce. APEC economies require greater coordination and predictability supported by common rules, health protocols, and travel requirements to ensure the seamless functioning of the transportation ecosystem of air, ocean, land, rail and multimodal services that support commerce in our region.

**Supply Chains:** We call on APEC to accelerate its work to enhance the region's physical connectivity including investment in infrastructure, liberalization of transportation and delivery services, full automation of customs procedures, simplification of clearance for low-value shipments, and digitalization of business and border processes to enhance supply chain visibility. APEC's work on essential logistics services is also critical and we hope will progress towards concrete actions to maximize the efficiency of this enabling sector. We further call for APEC to maintain an open dialogue with business to address potential bottlenecks as they emerge and work with ABAC to ensure that policy responses are informed by lessons learned from the supply chain disruptions during the COVID-19 pandemic. ABAC stands ready to help APEC's

MSMEs enhance their own supply chain resilience through developing a toolkit and capacity building programs in 2023.

The adoption of paperless trade can make supply chains more efficient and inclusive. It reduces transaction costs and enhances the visibility, resilience, inclusiveness, connectivity and sustainability of supply chains. ABAC calls on economies to develop a Roadmap for Cross-Border Paperless Trade, with a clear implementation plan, targets, and timelines, to facilitate the monitoring and evaluation of the outcomes of these efforts.

ABAC is developing recommendations for the roadmap which will include a conducive legal framework for digital trade processes, an enabling technical framework for interoperability, harmonization, and standardization, as well as stakeholder engagement, knowledge sharing, and capacity building. Additionally, we call 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.

Emerging technologies, including AI, have the potential to enhance efficiency, transparency, and security in cross-border trade. To that end, ABAC encourages economies to promote the responsible adoption of AI in supply chains to improve efficiency, visibility, and sustainability by developing guidelines and incentives for integrating responsible AI practices.

**Groups with untapped economic potential:** As noted in ABAC's 2022 New MSME Economy report, groups with untapped economic potential, including women, Indigenous people, people from remote and rural locations, and MSMEs struggle to participate successfully in trade. They are often the hardest to reach but respond well when connected to support programs. Those seeking to engage in trade can face structural impediments and other barriers such as access to finance and lack of technical trade skills. Trade rules need to reflect their specific business needs and interests and should be designed based on robust data. Persistent, intentional, and tailored support and capacity building, particularly in access to finance and in digital trade, will also enable greater success for these groups.

### Sustainability

**Trade and sustainability:** Trade agreements increasingly include provisions on the environment and climate change. As they strive to meet their climate commitments, APEC economies should recognize the potential to leverage trade for strong environmental outcomes when they enter new agreements or review existing ones. They should also ensure that domestic trade and environment policies are consistent and support efforts to achieve climate targets, and cooperate to assist developing economies adopt high-quality, appropriate environmental standards through favorable trade relationships. ABAC urges APEC to develop an APEC Trade and Investment in Renewable Energy Roadmap as proposed by ABAC in 2022, as a point of reference for economies when negotiating trade agreements and formulating domestic policies. ABAC further recommends that APEC economies take a leading role in advancing the WTO Trade and Environmental Sustainability Structured Discussions (TESSD). Finally, ABAC calls on economies to expand, update, and leverage APEC's reference list of environmental services and list of environmental goods, and eliminate tariff and non-tariff barriers.

There is a risk that the climate response can be used for disguised protectionism, in respect of both market access barriers and subsidies, especially if policies and measures are developed unilaterally. There is also a risk of triggering reciprocal responses in such a scenario. ABAC is undertaking a study on carbon border adjustment mechanisms (CBAMs) and will share the findings in our ABAC Report to Leaders later this year.

**Energy Transition:** Climate change is among the most urgent and complex challenges the world faces. Concerted, coordinated and rapid action is needed across all three areas of ABAC's Climate Leadership Principles (mitigation, adaptation, and just transition) to achieve an effective transition to a green and low-carbon economy. This requires meaningful action to reduce greenhouse gas emissions, including through the development of agreed global standards. Economies must adapt energy, assets, systems and production practices to a green and low-carbon economy by leveraging trade and digital technologies to speed this process.

This transition must be fair and consider the circumstances of all members of our community, noting that women, small businesses, people from remote and rural areas, and Indigenous peoples are particularly vulnerable to the negative impacts of climate change but also less well-equipped to undertake the transition. We urge APEC to strengthen capacity building for MSMEs to help them navigate the energy transition and further recommend that APEC develop an Environment, Social, and Governance (ESG) Framework for MSMEs to avoid their exclusion due to efforts to reduce carbon emissions in supply chains.

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. Economies should develop clear and credible transition roadmaps toward achieving the net zero goals 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 projects verified as aligned with their respective economy and sectoral roadmap and development of low-carbon technologies. Interoperable ESG taxonomies, carbon pricing instruments and interoperable carbon markets should be developed to facilitate further emissions reductions.

**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. APEC economies should explore the potential application of the bio-circular-green (BCG) economy model, and support 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. ABAC calls on APEC economies to continue to champion 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.