



**Asia-Pacific
Economic Cooperation**

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Report on the ABAC-SOM Dialogue, 13 February 2020, Sydney, Australia

Purpose: Information
Submitted by: ABAC



**First Senior Officials' Meeting
Putrajaya, Malaysia
20-22 February 2020**

ABAC-SOM Dialogue
13 February 2020, Sydney, Australia

Executive Summary

The annual ABAC-SOM Dialogue involving the participation of ABAC members and Senior Officials was held in Sydney, Australia on 13 February 2020 to promote a better understanding of ABAC priorities in 2020, elicit the views of Senior Officials on the ABAC work program, and identify opportunities for synergy in advancing the APEC goals. There was a clear call on the need for more engagement between ABAC members and Senior Officials and for business to speak up and to do much more. There was support for greater collaboration between ABAC and APEC and areas where there is scope for such collaboration were identified. The Dialogue addressed issues relating to: multilateral trading system and the benefits of trade; sustainable growth; digital economy; and growth with inclusion.

Multilateral trading system and the benefits of trade

- The dialogue agreed on the importance of supporting the multilateral trading system, the need to resolve the impasse on the appointment of members to the WTO Appellate Body and the need for reforms to ensure that the WTO remained relevant and effective.
- All agreed on the importance of the business voice, recalling in particular the significant impact of last year's ABAC WTO Statement in helping achieve a consensus statement from APEC Ministers Responsible for Trade, and the useful ABAC delegation visit to Geneva. ABAC was encouraged to be frank and broad in its advocacy and to put pressure on governments to move on with reforms to the WTO as a matter of urgency to find ways forward.
- It was agreed that the forward agenda and messaging about the WTO needed to encompass concerns about more inclusive participation, including for developing economies and under-represented groups such as MSMEs, women and indigenous communities.

Promoting sustainable growth

- The dialogue discussed the importance of enabling a positive investment environment for business that will also encourage technology that will drive solutions to climate change. There is a need to foster technological innovation to tackle climate change issues. Business had a vital role to play in creating innovative technological solutions to climate change.
- The business community could play a leadership role in the transition to a low-emissions economy. Business could act now – it did not need to wait for the development of new frameworks or decisions at the political level. Future frameworks needed to take account of all stakeholders in the transition process – including consumers, business and investors, and political leaders. All three had to contribute to and participate in the transition process.

- There is a need to encourage ESG investments in developing economies by creating common frameworks and criteria, and addressing issues such as availability of data and transparency.

Digital economy

- The dialogue emphasized the enormous potential for the digital economy to unlock more inclusive growth, including for MSMEs, women and others. To facilitate greater uptake of e-commerce and participation in the digital economy more broadly, the infrastructure and regulatory environment need to be fit for purpose and accessible. There needs to be investment in people and development of capabilities. Business needs to partner with governments in education. Human capital development should not be confined to STEM skills but should include a broader understanding of the humanities and ethics, including responsible business practices.
- Data is the lifeblood of the digital economy. There is a need to achieve open data flows with proper trust and minimum restrictions. Privacy and security issues must be covered - CBPR vs GDPR. There is a need for a global standard as business is struggling with fragmented rules.
- ABAC was encouraged to engage with APEC to promote the implementation of the APEC Internet and Digital Economy Roadmap, including by providing concrete examples of the risks of not creating the right regulatory environment for the digital economy and the potential for lost opportunities. It was noted that the Roadmap was created on the premise of regular interaction with the private sector and ABAC's Digital & Innovation Working Group is the appropriate ABAC group to engage with the APEC Digital Economy Steering Group.
- The need to address the significant impact of the growth of the digital economy on the workforce was highlighted. It was noted that shifts in workforce needs are already being seen in APEC economies.

Growth with inclusion

- Technology and digital were potentially powerful tools for greater inclusion.
- There was emphasis on the importance of women's economic empowerment and the inclusion of youth and indigenous communities.
- It was recognized that while focusing on specific groups is effective, promoting efforts like improving the ease of doing business and structural reforms can also be effective in supporting a broad range of traditionally marginalized groups.
- Business needs to be more engaged with access to finance, access to information and access to digital technology.

ABAC SOM DIALOGUE: BREAKOUT SESSIONS
Residential Suite, Level 2, Four Seasons Hotel, Sydney
Thursday 13 February 2020, 1015-1200

BREAKOUT GROUP 1 SUMMARY REPORT

Multilateral trading system and the benefits of trade

- The group agreed that there are many challenges – to the WTO including the paralysis of the dispute settlement processes, escalating trade tensions, and the calling into question of the social licence for trade.
- The importance of the multilateral trading system and the WTO to developing economies and especially small business was noted. It is critical that the system be people centred and that it is ensured that the benefits of trade are distributed. The need to continue to improve the narrative around trade was discussed.
- The special and differential treatment of developing countries in the WTO was noted as having continuing importance.
- The impact of large government organisations participation in business, particularly the rise of dominant SOEs, was raised.
- The continuous dialogue that arises from trade negotiations was noted as a real benefit, providing access to other cultures and encouraging peace and settlement of disputes.
- It was noted that most countries are aligned on the need to fix the impasse around the dispute settlement system of the WTO, but it was noted that moving forward with reforms is critically important.
- The role of the trading system in providing a level playing field with a purpose built rule making body was stressed.
- Business was urged to put pressure on government to move on with reforms to the WTO as a matter of urgency, to find ways forward.
- Business needs to engage and speak out but to do so in specific terms- advise governments about exactly what they want, and impress upon them why those issues are important to them.
- It was suggested that there should be a focus on inclusion in a more systematic way.
- Governments want business to be more active and vocal supporters.

Promoting sustainable growth

- Sustainable growth with inclusiveness is the goal.
- APEC has lifted millions out of poverty but now we must mitigate the damage to the environment.
- The impact of disruptive technologies was recognised.
- Food and energy security are critical parts of the solution.
- Evidence based solutions based on case studies were discussed.

- It was noted that APEC is made of different economies all at different stages of development, but it is an integrated region. So there is power to disseminate good practices and advance discussions. There can be collective responses. Sustainability is not a country issue it is an issue for the region.
- The importance of consciousness of the circular economy and moving towards it was raised.
- The need to be willing to adapt was noted. What technology can support the needs of the region to do this?
- One of the most important things we can do is support the WTO for collective global responses.
- The need to enable a positive investment environment for business that will also encourage technology that will drive the solutions to climate change was discussed. There is a need to foster technological innovation to tackle climate change issues.
- There is a need to minimise burdensome regulation that inhibits innovation.
- Clear advice from business on what is important and helpful is needed.
- The need to encourage investment in dealing with waste was stressed.
- There is a need to talk about energy productivity.
- There is a need to encourage ESG investments in developing economies by creating common frameworks and criteria, and addressing issues such as availability of data and transparency.

Digital economy

- The digital world is the whole economy. It is a cross cutting issue.
- It particularly affects SMEs.
- Data is the lifeblood of the digital economy.
- Digital startups are disproportionately impacted by non-transparent, non-interoperable regulations, that create real barriers, and yet it is these businesses that are producing many of the innovative solutions to problems.
- Privacy and security issues must be covered. Need to achieve open data flows with proper trust and minimum restrictions.
- There needs to be investment in people and development of capabilities. Business needs to partner with governments in education.
- Harmonisation is important.
- SMEs need tools to enable them to scale up to support the demand in global markets if they are to successfully be integrated in to international trade.
- APEC economies are interested to know whether or not business really supports CBPR and whether to continue to push for greater take up and adoption. There is concern about the impact of GDPR on small business and that it offers an onerous approach to privacy and security. There is concern around having multiple systems. A global standard is needed. Business is struggling with fragmented rules.
- ABAC is urged to look at the APEC initiatives that have been endorsed by Leaders and work on implementation.

Growth with inclusion

- The goal is to deliver broad based improvements in people's standards of living. Prime Minister Mahathir's "Shared Prosperity".
- It was noted that without growth we cannot be inclusive.
- Digital technology is critical for inclusion.
- Business needs to be more engaged with access to finance, access to information and access to digital technology.
- Chile made the economic empowerment of women a priority and endorsed the La Serena Roadmap. There has been a lot of progress but issues remain – such as access to capital, labour force participation, access to management positions, data collection and targets. It is the goal to make sure that these issues do not stay only in the women's economic empowerment fora but are supported across other work streams in APEC.
- The importance of addressing the needs of an aging population was discussed, noting that new technologies and innovations are a useful tool.
- Protectionists often purport to speak for disadvantaged groups. It is important to promote the message that free trade benefits disadvantaged people in our communities.
- It was noted that to be successful, business must treat customers well and look after its people, suppliers, communities and be a good citizen.
- It was noted that if this shared concern is not addressed and people are not given equal opportunities, so that cultural change take place, the system that has improved people's lives will be at great risk.
- Themes of women's economic empowerment and indigenous inclusion will continue to be developed in APEC and ABAC.
- The huge gains for women that come from access to capital were noted.
- Business was urged to look at how we present ourselves – who do we employ and how do we operate. Ask "if not, why not?"
- The SME marketplace and new strategic plan were noted. Suggestions from ABAC on these initiatives were urged.

ABAC SOM DIALOGUE: BREAKOUT SESSIONS

Studio 1 & 2, Level 2, Four Seasons Hotel, Sydney

Thursday 13 February 2020, 1015-1200

BREAKOUT GROUP 2 SUMMARY REPORT

Multilateral trading system and the benefits of trade

Participants discussed the importance of resolving the impasse on the appointment of members to the WTO Appellate Body and noted that there need to be more transparency around the issues that are at the source of the impasse to enable meaningful debate. They noted that failure to resolve the impasse puts pressure on economies to seek bilateral agreements that create the proliferation of different rules undermines the faith in the multilateral trading system. Further, the importance of the multilateral trading system to small countries has become clear as the problems at the WTO persist and it is important for all WTO members, large and small, to respect the processes in place.

Members also noted the need to promote WTO reforms and updates to rules, essentially establishing new rules for new business models. This includes achieving progress on the Joint Statement Initiative on E-commerce to address, which includes 83 countries that represent 90% of global trade, to address challenges being posed by the growth of the digital economy. This will be discussed at the 12th Ministerial Conference in June and a strong outcome on these issues at that meeting would help build confidence in the WTO. A strong WTO is also critical to advance services liberalization.

There was some discussion about the role for APEC in addressing the problems at the WTO. Some officials felt that WTO issues should be resolved in Geneva, while others noted that APEC could play an important role in supporting some kind of agreement at the WTO. APEC can also set an example for global trading system and serve as an incubator of ideas.

In terms of a role for ABAC, officials noted that ABAC's strong messages on the WTO in its Letter to Trade Ministers last year helped secure a full consensus on the APEC Ministers Responsible for Trade statement for the first time since 2015. Further, ABAC's visit to Geneva last year played a critical role in getting APEC leaders to focus on the importance of the multilateral trading system. Officials encouraged ABAC to send a strong message that highlights the importance of the WTO to the region's business community. Participants also noted that business is interested in progress through plurilateral agreements, like the Trade Facilitation Agreement to bridge the gap between members.

Promoting sustainable growth

Participants noted the importance of companies taking action to invest in solutions to the real impacts of climate change and further that companies should incorporate the UN Sustainable Development Goals in their business models. Government incentives and regulatory reform should be implemented in order to facilitate action on the part of business. It was further noted that Environment, Social and Governance, or ESG, investing is rising as an important issue. Since the

Paris agreement, the European Union has been taking the lead in efforts to set standards for classifying companies as green or brown and APEC economies need to consider action such as establishing its own taxonomy, definitions and standard in response to EU actions. Failure to do so could hinder efforts to attract investment to the Asia-Pacific region.

Participants also discussed the importance of the elimination of fossil fuel subsidies and other environmentally harmful subsidies. It was noted that APEC started discussions on the elimination of fisheries subsidies in 1996 and finally there is the potential for agreement on this issue at the WTO next June. It was further noted that if the USD\$500 billion in fossil fuel subsidies was eliminated, global carbon emissions would reduce by 8-10%.

Participants noted the importance of technology in addressing climate change and clean energy sources. APEC's Energy Working Group is undertaking numerous projects in this area, however business engagement has been limited. Participants discussed the importance of a circular economy approach to new business models as part of technology-enabled efforts to reduce carbon emissions. It was further noted that policy updates were necessary to solidify the role of LNG as a transition fuel.

It was noted that international cooperation was required to deal with the impacts of climate change, however differences in levels of development, geography and other characteristics makes a one-size-fits-all approach infeasible. However, it is important that all economies are headed in the same direction.

Finally, it was stressed that the private sector should not wait for the government to take action to address sustainability. The government's job is to create a regulatory environment that is transparent and fair to promote innovation and consumer choice and then get out of the way.

Digital economy

Participants noted that as the digital economy expands, inconsistency in regulatory and policy approaches to digital governance will have a strong impact on companies. It was also noted that innovation in the private sector is outpacing the development of regulatory frameworks, creating a mismatch between the framework and the use of technology.

Officials encouraged ABAC to engage with APEC to promote the implementation of the APEC Internet and Digital Economy Roadmap (AIDER), including providing concrete examples of the of the risks of not creating the right regulatory environment for digital economy and the potential for lost opportunities. Governments need to hear from companies on both sides of the data equation. It was noted that the APEC Internet and Digital Economy Roadmap was created on the premise of regular interaction with the private sector and that ABAC's Digital & Innovation Working Group is the appropriate ABAC group to engage with APEC Digital Economy Steering Group.

Participants also noted that APEC should address cybersecurity as it is an essential part of enabling the digital economy. AIDER has 11 areas for action by various APEC groups, including cybersecurity which is handled by APEC's Telecommunications and Information Working Group.

Finally, participants noted the need to address the impact that the growth of the digital economy will have on the workforce. It was noted that significant shifts in workforce needs are already being seen in APEC economies.

Growth with inclusion

Participants noted that MSMEs form the backbone of APEC economies, representing approximately 97% of companies in the region. Future growth of these important companies is dependent on digitization. ABAC has commissioned two studies on barriers to MSME digitization that have helped identify issues that APEC should address. The importance of online dispute resolution, online transaction platforms and other tech-enabled solutions in allowing MSMEs to internationalize was also noted. Officials noted some ongoing APEC efforts aimed at supporting MSMEs including the Online 2 Offline initiative. The importance of such efforts was recognized by participants as some MSMEs are “digitally immature” and are not positioned to leverage digital tools that can enhance business performance. It was noted that micro enterprises are generally not as capable as small and medium-sized enterprises, so attention needs to be paid to those limitations.

Participants also discussed financing related efforts to support MSMEs including creating an environment to facilitate transactions, platforms for cooperation between fintechs and financial institutions, pathfinder for the digitization of trade documents, frameworks for new data analytics and a digital ID for APEC. It was noted that it is important that messaging related to financial inclusion be conveyed through both the Finance Ministers Process and the SOM process. It was noted that the Boracay Action Agenda will be reviewed by officials this year.

Participants discussed the importance of addressing economic empowerment for women, youth and indigenous populations. APEC has some programs focused on youth including the APEC App Challenge and annual engagement with the Voices of the Future organization. Officials noted that ABAC does not have a representative for the APEC Policy Partnership on Women in the Economy. Participants recognized that while focusing on specific groups is effective, promoting efforts like improving the ease of doing business and structural reforms can also be effective in supporting a broad range of traditionally marginalized groups.

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Gallery 2, Level 2, Four Seasons Hotel, Sydney
Thursday 13 February 2020, 1015-1200

BREAKOUT GROUP 3 SUMMARY REPORT

Multilateral trading system and the benefits of trade

- ABAC members emphasized the importance of supporting the WTO and the need for reforms to ensure that the system remained relevant and effective. One member commented that making progress on reforms might help to unlock the impasse in the dispute settlement system, acknowledging that the Appellate Body was a critical part of the WTO's architecture.
- SOMs agreed that the supporting the WTO was crucial, and that it was strongly in need of reform, with several SOMs noting that reforms were needed in all three functions of the WTO system, namely rule-making, negotiation and resolving disputes. On the question of sequencing reforms and resolving the Appellate Body impasse, progress was needed equally on all fronts as rapidly as possible – including looking to develop interim solutions for dispute settlement while at the same time seeking to address the concerns that had been raised about the Appellate Body as far as possible.
- SOMs emphasized the value in a strong business voice from ABAC, recalling the significant impact of last year's ABAC WTO Statement in helping to achieve a consensus statement from APEC Ministers Responsible for Trade, and the useful ABAC delegation visit to Geneva. SOMs encouraged ABAC members to continue with their influential advocacy for the WTO and the necessary reforms, both to Ministers and Leaders and among domestic stakeholders and communities. ABAC was encouraged to be frank and broad in its advocacy. This was particularly important as a guiding light in the lead-up to the next WTO Ministerial Conference in June.
- SOMs and ABAC members agreed that the forward agenda and messaging about the WTO needed to encompass concerns about more inclusive participation including for developing economies and under-represented groups such as MSMEs, women and indigenous communities. A people-centered approach was needed. The development agenda should not be neglected, particularly given that two-thirds of APEC economies were developing or emerging.
- A number of SOMs commented that APEC was not the place to seek to negotiate or resolve technical WTO details – but APEC and ABAC could serve a valuable role in continuing to champion the system.

Promoting sustainable growth

- ABAC members noted that the transition to a low-emission economy was predicated on a business philosophy that sought to defend and maintain existing value for shareholders. Existing investments and assets based on fossil fuels had primacy over the future. However the significant question confronting all APEC economies and businesses was how to create future value.

- ABAC members noted that the business community could play a leadership role in the transition to a low-emissions economy, citing examples of business action in some economies. Business could act now – it did not need to wait for the development of new frameworks or decisions at the political level. Future frameworks needed to take account of all stakeholders in the transition process – including consumers, business and investors, and political leaders. All three had to contribute to and participate in the transition process. It would not necessarily be easy. But the optimal transition process would be phased over the coming decades rather than taking no action now and instead out of necessity facing an abrupt and painful transition in years to come.
- SOMs warmly welcomed and supported the ABAC comments. Business leadership including concrete examples in ABAC could serve as a model and benchmark for the wider business community, and were invaluable. Business also had an important role to play in creating innovative technological solutions to climate change.
- SOMs discussed some of the policy approaches currently being used in different APEC economies, such as support for renewable energy, disclosure of relevant practices and green bonds.
- Some SOMs noted that it was unrealistic to think of rapid *decarbonization* of economies, and that instead the goal for the short- and medium term should be to support a transition to *lower* carbon economies, including by acknowledging different circumstances in different economies. It was not realistic to exclude the use of fossil fuels at least in the medium term. Capacity-building to assist the transition would also be important.

Digital economy

- ABAC members noted the valuable discussions that had been undertaken over the last few years in APEC among policymakers, regulators, experts and the business community on the digital economy.
- ABAC members and SOMs emphasized the enormous potential for the digital economy to unlock more inclusive growth, for example for MSMEs, women and others, in line with Malaysia's priorities for this year.
- However it would be important to facilitate greater uptake of e-commerce and participation in the digital economy more broadly, or we risked worsening inequality. To achieve this, businesses needed help to participate successfully, and the infrastructure and regulatory environment needed to be fit for purpose and accessible. Human capital development should not be confined to STEM skills – a broader understanding of the humanities and ethics, including responsible business practices, would help businesses and communities to adapt and thrive. Data flow with trust was an important concept.
- ABAC members noted that it would be challenging to achieve optimal solutions across APEC economies and businesses – there was a strong case for a regional approach, supported by policymakers and business. APEC was well placed to develop such an approach, and indeed could be a powerful force for change.

Growth with inclusion

- ABAC members noted the importance of inclusion and how to share prosperity. SOMs agreed this was a key concern. MSMEs were the first to suffer in bad times, and the last to benefit in good times. Technology and digital were potentially powerful tools for greater inclusion.