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Policy Support Unit

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# Trade & Investment Liberalization & Facilitation

## APEC's Bogor Goals Progress Report 2018

Publication Number: APEC#218-SE-01.18

Published Date: November 2018

Link: <https://www.apec.org/Publications/2018/11/APEC-Bogor-Goals-Progress-Report>

This is the latest biennial review of APEC members' progress towards the Bogor Goals. It highlights areas where members have made significant progress and where there are unfinished businesses as well as new policy developments that are affecting trade and investment liberalization and business facilitation.

### Findings

Progress is shown in many areas. For example, overall average tariffs have fallen; unilateral and negotiated services liberalization measures have been put in place in many sectors; measures to attract FDIs are being implemented; cost and time to trade has been reduced; efforts towards improving the quality of regulations are ongoing; and the network of RTA/FTAs has continued to expand.

Notwithstanding, there remains unfinished businesses and a need for continued improvement in a number of areas. For instance, tariffs in agriculture are still higher than those imposed on non-agricultural products; new unilateral restrictions in services are appearing (e.g. on cross-border data flows); trade remedies have increased in recent years; and there is an accumulation of specific trade concerns in areas such as sanitary and phytosanitary measures. All in

all, actions undertaken to achieve the Bogor Goals have significantly benefited APEC members and the region as a whole, but more remains to be done.

APEC's achievements and areas for improvement are as follows:

- Tariffs. Low MFN average tariff of 5.3%, but average tariffs for agricultural products are more than two times higher than those of non-agricultural products.
- Non-tariff measures. Reduction in implementation of new trade-restrictive non-tariff measures in the APEC region; at the same time, more trade remedies have been imposed and less new trade-facilitating measures been implemented.
- Services. Mixed policies in services – while restrictions against foreign services providers have been eliminated in many economies and sectors, restrictions seem to have increased in areas such as communications, insurance and electronic payment processing services.
- Investment. Active implementation of policies to attract investments; however, there is a perception that investment conditions have worsened in recent times. Some foreign investment restrictions are due to strategic interests.
- Standards and conformance. Efforts to align to international standards – there has been active participation in international-setting standards organizations. While new specific trade concerns related to sanitary and phytosanitary issues and technical

matters against APEC economies seem to be falling, the number of accumulated concerns related to sanitary and phytosanitary issues is growing.

- Customs procedures. All APEC members have accepted the WTO Trade Facilitation Agreement. Time and cost to trade to/from the APEC region is decreasing. Many initiatives are in place to facilitate trade, such as the single windows and Authorized Economic Operators.
- Intellectual property rights. All APEC members have notified the Protocol modifying the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). Increased cooperation, including the use of Patent Prosecution Highways to get patent applications approved. Laws/regulations amended to strengthen intellectual property.
- Competition policy. New initiatives in competition policy aim to prevent abuse of market power and assess mergers and acquisitions. Recent RTA/FTAs increasingly include provisions on state-owned enterprises.
- Government procurement. Efforts to increase transparency in government procurement and use of electronic portals for tenders, but restrictions to foreign participation in government procurement are common. Governments have also set aside programs to favor local SMEs.
- Deregulation/regulatory reform. Policies to reduce regulatory burden and progress in the APEC region to make it easier, cheaper and faster to do business.

- Dispute mediation. Mechanisms for alternative dispute resolution in place. There have been efforts to implement or improve online dispute resolution systems in some APEC economies.
- Mobility of business people. Increase in the number of APEC Business Travel Card holders and implementation of systems to facilitate immigration clearance. Initiatives to facilitate visa processing times and eliminate visa requirements for short-term business travellers; however, some economies have tightened the eligibility of particular visa schemes for business travellers.
- RTA/FTAs. Network of RTA/FTAs continues to expand in the APEC region – new agreements are put in force every year and many negotiations are currently underway.

## APEC's Bogor Goals Dashboard 2018

Publication Number: APEC#218-SE-01.19

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Link: <https://www.apec.org/Publications/2018/11/APEC-Bogor-Goals-Dashboard>

The Bogor Goals Dashboard aims to provide easy-to-understand figures to track the advancement in areas critical to promoting greater regional economic integration. It displays a set of harmonized indicators laying out the evolution across time certain aspects of trade and investment liberalization and facilitation in quantitative terms. This Dashboard includes indicators gathered from

respectable public sources for the period 2008–2017.

### Findings

In terms of trade, APEC continues to make progress in tariff liberalization. Between 2016 and 2017, MFN applied average tariffs went down from 5.5% to 5.3%. Most of this reduction was due to lower tariffs in agriculture, which fell from an average of 11.7% to 11.4%. In addition, the proportion of products that is duty free increased from 46.9% to 47.9% of the existing tariff lines. Similarly, regarding trade facilitation, it is getting faster and cheaper to export from and import to the APEC region.

On services, there is an increasing trend to include sectoral services commitments in bilateral or regional trade agreements. As for investments, between 2016 and 2017, there was no change in the average perception of business rules affecting the arrival of FDI in the APEC region. Likewise, there was no change in experts' perception on the prevalence of foreign ownership in the region.

## Services and the Food System

Series: Policy Brief No. 21

Publication Number: May 2018

Published Date: APEC#218-SE-01.7

Link: <https://www.apec.org/Publications/2018/05/Services-and-the-Food-System>

This policy brief provides an overview of the various roles of services in the food system, measures the value added contribution of services in food exports, and identifies key services in the food system.

### Findings & Recommendations

Services in food value chains. Services are a critical component of the food system: they function as vital stages (development, distribution, sales services) in the value chain as well as linkages (transport, storage services) between the different stages. They are also key inputs (telecommunication, financial services) in the food producing and manufacturing process.

The figure below depicts a generic food value chain from the development stage to the consumers. It shows a standard combination of services involved in the food value chain and the stages those services are associated with. Research and development services are usually involved in the first few stages before the products are ready to enter the market, while distribution services (i.e. retail and wholesale) come in after production and processing. Environmental services, transportation and storage services start from the production stage. Besides those services

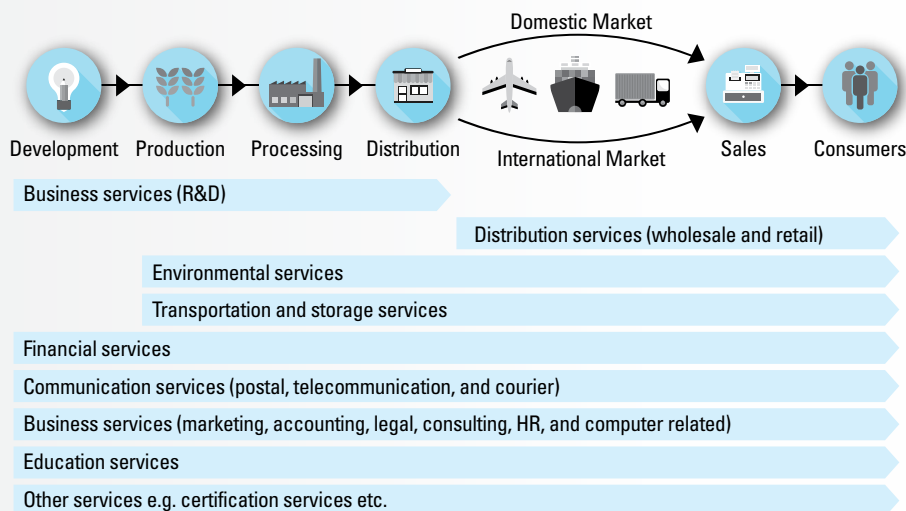
# Trade & Investment Liberalization & Facilitation

associated with specific stages, there are many others supporting the whole value chain, such as financial, communications, business and education services. Together, they complete the whole value chain and deliver food into the hands of the consumers.

value chain vary across different types of food and their production modes.

Contribution of services in food system. Some services have greater contribution in the food system than others. To provide insights on

## Services in a generic food value chain



Source: APEC Secretariat, Policy Support Unit

In reality, value chains are generally more complex as the value chain of a particular product is entwined with that of others. For some products however, the actual value chain might be simpler as one or two stages can be skipped. For example, no processing may be required for fresh fish or seafood chain. Moreover, the order of stages in the value chain is not fixed. For example, coffee beans can be exported right after production, then processed in the foreign market before they are finally sold in the market. The range and combination of services involved in each

which services are critical in the food system, statistics on APEC economies' domestic services value added share of gross exports as well as backward linkage of agriculture on services using the OECD Leontief input-output inverse matrix are analyzed.

The domestic services value added share of gross exports is based on two different industry classifications used in the OECD trade-in-value added tables, namely: 1) food products, beverages and tobacco industry; and 2) agriculture, hunting, forestry and fishing industry.

- Food products, beverages and tobacco industry: Domestic services value added share of gross exports in 2011 ranges from 8.8% (Brunei Darussalam) to 40.5% (Hong Kong, China) among APEC economies with an APEC average of 22.7%.
- Agriculture, hunting, forestry and fishing industry: The share ranges from 5.6% (Indonesia) to 36.2% (Hong Kong, China) with an APEC average of 19.1%.
- The share of services is usually higher in more developed economies such as Australia; Hong Kong, China; Japan; New Zealand and the U.S., while in less developed economies such as China; Indonesia; Malaysia; the Philippines; Thailand and Viet Nam, the share of services value added is relatively low.

The OECD Leontief input-output inverse matrix measures the number of input required from the services sectors to produce one additional unit from the food industry.

- Food products, beverages and tobacco industry: More than 0.5 unit is required from services sectors in all developed economies, while the services input is lower in economies with less developed services sector and which are more agriculture-oriented. Hong Kong, China and Singapore have higher services backward linkage due to the highly services-reliant structure of their economies.
- The four major services input in the industry are: wholesale and retail services; transportation and storage; financial intermediation; and R&D and other

business activities. Wholesale and retail services take up a good amount in the total services input for this industry in almost all economies, followed by transport and storage services and business services such as R&D.

- Agriculture, hunting, forestry and fishing industry: A similar pattern is observed – developed economies have higher services input than most less developed economies. Compared with the food products, beverages and tobacco industry, less services input is required across all economies (except for Brunei Darussalam) in this industry.
- Wholesale and retail services remain the highest services input sector for the majority of APEC economies. Transport and storage, financial services, and business services are the other major services sectors that contribute to this industry.

It is recognized however, that the OECD Leontief input-output inverse matrix has certain limitations when identifying key services in the food value chain. For example, communications and computer services do not stand out in the calculation, possibly because in 2011 when the data was collected, the transformation of ICT was not as deep and widespread as it is now.

What next. Wholesale and retail, transport and storage, financial services, and business services are the major services sectors in the food system identified by the Leontief inverse matrix. Together with ICT services, these five sectors can be discussed in detail in a future study. For example, for the financial services

sector, the study can tackle different financing activities along the food value chain, various types of insurance services, barriers faced by players in accessing the service, as well as identify some innovative financial modes and cases in the APEC region.

Moreover, strict regulations on services hinder the development of the services sector and place barriers on trade in services. Considering the importance of these sectors, it is worthwhile to look at some of the regulatory impediments in services sectors based on the OECD Services Trade Restrictiveness Index (STRI). Restrictions on foreign entry, barriers to competition and regulatory transparency are the major contributors to the overall restrictiveness. More discussion on the regulatory environment of the food-related services sectors can form part of a subsequent study.

## Financing the Food Value Chain

Series: Policy Brief No. 22

Publication Number: APEC#218-SE-01.9

Published Date: July 2018

Link: <https://www.apec.org/Publications/2018/07/Policy-Brief---Financing-Food-Value-Chain>

This policy brief provides a better understanding of the role that financial services play in the food value chain. It identifies where and what types of financing are typically needed in a value chain and the various financing instruments or structures that are used by financial services suppliers to grant financing. It also reviews the

challenges of getting finance and discusses risks and insurance in the food value chain and the policy implications.

### Findings

Demand for finance varies in various stages of food value chain. At each stage of the value chain, different actors require different types of financing. The suppliers of finance likewise change at each stage, and financing tools become usually more sophisticated towards the end of the chain, particularly if the product is for export. The paper uses a coffee value chain as an example to illustrate the typical credit providers and those seeking finance, types of finance and the reasons for financing in the different stages of the value chain.

Variety of available financing instruments depends on regulatory landscape and market sophistication. The availability of financing tools differs across the different stages in a food value chain, and their level of sophistication vary depending on maturity of the market and existing regulatory landscape. Credit demanders at later stages (e.g. storage, processing and distribution) of the value chain often find it easier to get funds compared to finance seekers in the early stages, especially the production stage.

Direct finance, or the conventional idea of getting loans from banks, is the most common and straightforward finance model. There are other financing models available. These alternative models provide funds for buying inputs and financing operation relying on securities such as receivables or invoices, rather than on traditional physical collateral (e.g. land or equipment). They also focus not so

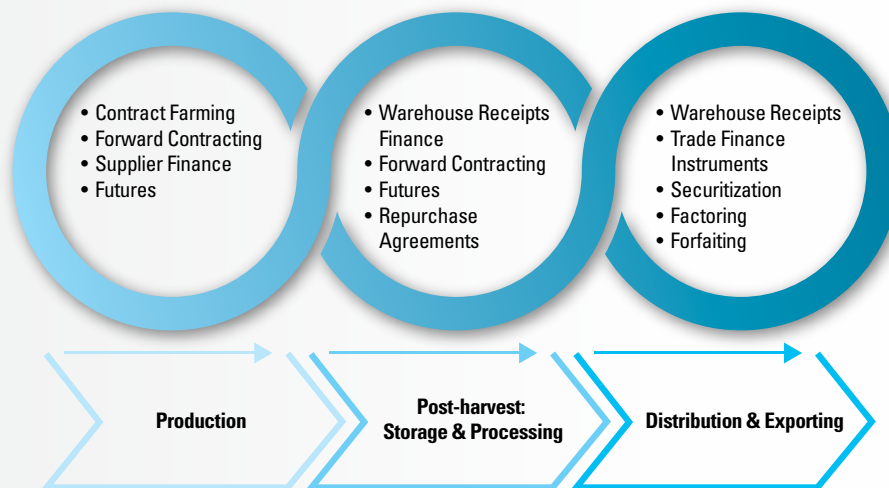
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much on traditional non-movable collateral but on the performance and viability of the whole transaction that is being funded. The figure below shows the common finance instruments applicable to each stage of a food value chain. Four of them are discussed in the paper: 1) contract farming; 2) warehouse receipts financing; 3) trade finance; and 4) factoring.

than 1%. Viet Nam's ratio is 10% while it is 7% in Australia. While the ratio can indicate that the industrial sector in some economies is just too large and thus absorbs most of the financing, it may also point to existing challenges in getting agriculture credit in some economies. Some challenges found particularly in APEC developing economies

due to various factors. Risks associated with the food value chain are a major consideration when deciding on agriculture investment and the biggest consideration for financial institutions in offering financial services. Generally, the risks can be categorized into: 1) production risks; 2) market risks; 3) risks associated with assets; 4) risks from natural causes; and 5) risks from regulatory environment.

## Variety of finance instruments along the food value chain



Source: APEC Secretariat, Policy Support Unit

**Challenges of getting finance.** Are farmers and those in agriculture underserved when it comes to receiving credit? This seems evident from the observed low value of credit to agriculture, forestry and fishing. In APEC economies, the highest percentage of agriculture credit to total credit is in New Zealand (15%) which means that 85% of credit in New Zealand are extended somewhere else in the economy. In Thailand and the U.S., the percentage is less

are: 1) inadequate financial infrastructure; 2) information asymmetry and lack of credit reporting system; 3) limited collateral management and warehousing capacity; and 4) underdeveloped financial market and limited financial products.

**Risks in food value chain.** Financial institutions are no strangers to risk. For every simple loan they make, they face the risk of debtor's default

Risks in the food value chain are inherently interconnected as one risk would easily cause other risks and affect the whole value chain. Vulnerability is high in the production stage because it is highly subject to vagaries of the external environment and may comprise mostly small farms or companies which have weak ability to withstand risks. The high risk in the production stage also explains why financing is more difficult to obtain at this stage, while it is more available further down the value chain (processing, export, distribution).

**Insurance services help mitigate risks but there are challenges.** Since risks exist in the entire food value chain, insurance services are, in principle, needed at each stage. Arguably, the greatest risk falls in the production stage because weather and calamities are not within anyone's control. Over the last few decades, the insurance sector has seen rapid growth as public awareness of risks increases. An estimate by Swiss Re in 2013 showed that the global agriculture insurance premiums increased from around USD 8 billion in 2005 to USD 23.5 billion in 2011. Among APEC members, Australia, Japan and New Zealand have a long tradition of agriculture insurance, while the idea of agriculture insurance is relatively new in other economies.



As with financial services, challenges exist in accessing insurance services. First, inadequate infrastructure and technology prevent access to insurance especially from less urban areas. Second, high premium is another reason why many smallholders and firms are uninsured. Third, when claim procedures are complex and lengthy, they deter many people from acquiring insurance. Finally, in many developing economies, especially in rural areas, farmers and firms still lack awareness of risk management and understanding of insurance's benefits.

## Recommendations

There are a number of ways governments and policymakers can facilitate greater finance flows to the food value chain:

- To the extent that credit providers are encouraged to lend if the regulatory environment is such that they are able to mitigate their risks, then governments must look closely at how to improve their financial regulations and laws to encourage the use of asset-based lending.
- Financial services now rely on modern telecommunications and internet connectivity to reach out to new clients and expand services coverage especially outside urban centers. Progress can still be made in many APEC economies to upgrade their telecommunications and finance infrastructure to promote better connectivity and financial inclusion.
- Fostering competition in financial services by, for example, removing restrictions for foreign creditors to operate can benefit the

demanders of finance through availability of more options and cheaper financing alternatives.

- Governments share the responsibility of raising the public's financial awareness and knowledge. Businesses and public sectors can cooperate in organizing public campaigns and courses for individuals and SMEs, particularly in rural and remote areas where awareness and knowledge of financial services are still scant. In APEC, the Finance Ministers' Process since the launch of 2015 Cebu Action Plan, has been making efforts in areas such as expanding financial literacy and inclusion and promoting an enabling financing environment for SMEs including alternative financing mechanisms.

## Globalization, Inclusion, and E-Commerce: APEC Agenda for SMEs

Series: Policy Brief No. 20

Publication Number: APEC#2018-SE-01.2

Published Date: February 2018

Link: <https://www.apec.org/Publications/2018/02/Globalization-Inclusion-and-E-Commerce---APEC-Agenda-for-SMEs>

This policy brief looks at an alternative route to SME internationalization – through e-commerce. It discusses the trade prospects for SMEs in e-commerce, followed by policy issues that an APEC agenda on SMEs and e-commerce can include.

## Findings & Recommendations

SMEs' participation in international trade through e-commerce. A study by eBay Public Policy Lab, drawing on data of its own registered sellers, supports the observation that e-commerce enables SME participation in the global market. The figure below shows that almost all of eBay's registered online sellers in selected APEC economies are able to export globally, compared to a relatively small percentage of SMEs in traditional (offline) business. In the U.S., while 97% of online sellers export, less than 5% of traditional business SMEs do so. Among APEC economies, Thailand, China, Korea, and Chile have a relatively higher percentage of exporting SMEs offline, but this is still smaller compared to 100% online sellers who export.

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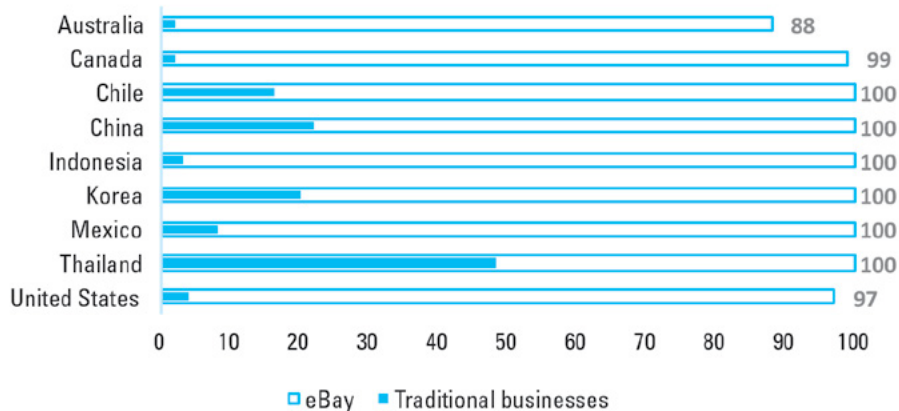
In addition, SMEs that sell online are able to reach more markets than those in traditional business. On average, firms are able to reach 30 different economies using platforms for e-commerce.

Expanding opportunities for SMEs from e-commerce. More SMEs can benefit from the expected growth in online consumer demand in the coming years. Forecast by eMarketer made in 2015 indicated that retail e-commerce will increase from USD 1.3 trillion in 2014 to USD 3.6 trillion in 2019 (see figure), and its share to total retail sales will more than double from 6.3 to 12.8% between 2014 and 2019. Asia-Pacific, North America and Latin America are collectively expected to increase its share of retail e-commerce sales to 85% by 2019. While the online business-to-consumer market is growing, its size is dwarfed by the business-to-business market which, in 2015, stood at USD 19.9 trillion.

To date, most e-commerce transactions have been domestic, but cross-border retail e-commerce is anticipated to grow at twice the rate of domestic e-commerce until 2020. This opens a potentially bigger market for SMEs if given the right regulatory and infrastructure support, some of which are discussed next.

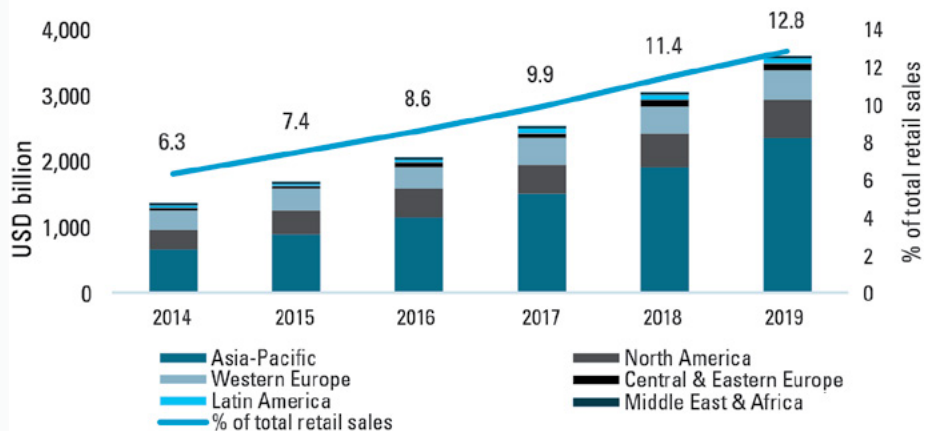
Supporting SMEs in e-commerce. E-commerce has an ecosystem with multiple stakeholders that help make the system work smoothly and efficiently. Regulations that adversely affect any of the players in the ecosystem impact the whole, including the buyers and sellers, some of whom are SMEs. Still few SMEs are able to take advantage of the potential of e-commerce. Many lack awareness of business possibilities through e-commerce

## Share of exporters in eBay vs. traditional businesses



*Note: The eBay data reflects the share of 2014 eBay Commercial Sellers (those with USD 10,000 or more in sales on eBay) in each economy, who exported in that year.*  
*Source: eBay (2016)*

## Global retail e-commerce sales poised to grow



*Note: Retail e-commerce includes products or services ordered using the internet via any device, regardless of payment or fulfillment method; it excludes travel and event tickets.*  
*Source: eMarketer (2015)*

and even lack basic business skills such as knowledge of excel or the importance of attractive packaging and product photos and information. Even SMEs that have some years of experience selling online need more tailored training in e-commerce selling strategy, in branding and packaging their products, in the smart use of videos or pictures for online marketing, as well as appropriate ad words. Online business is more demanding with respect to quality, not only of the product itself but also of how they are presented in the internet.

Initial introductions to e-commerce for SMEs usually happen through social media like Facebook or Instagram. But SMEs have problems scaling up once business picks up. Value added service providers, such as inventory management application providers or web 'decorators' help SMEs transition to a more commercialized setting as in technology-enabled marketplace platforms. But joining the latter has its own challenges.

Marketplace e-commerce platforms facilitate access to a wider market, and particularly in the case of cross-border trade, provide the necessary regulatory information collection that SMEs need to sell abroad. The complexity of regulations and the disproportionate cost in money and time to collect, understand and meet these regulations is a major hurdle for SMEs. Marketplace platforms partly provide the necessary minimum information by already limiting the products that can be sold in specific economies through the websites. But SMEs still face the challenge of meeting requirements on sustainability, and industry and product standards.

While it is relatively easy to join marketplace platforms catered to the SMEs' own domestic market, it is difficult to list themselves in platforms catered to foreign markets. Most economies require that listed sellers on platforms have local business registration, a condition that SMEs would be hard pressed in complying in other markets. Aggregators or intermediaries, including the platform itself, can help solve this problem because they have the financial capacity to do multiple local business registrations. SMEs can, in this case, act as suppliers to these intermediaries without the need to list themselves independently.

In theory, SMEs need not list themselves in foreign market platforms to access those markets if foreign buyers can find them through their domestic platforms. This requires that buyers anywhere are not blocked from accessing any e-commerce website from any economy. This also requires that the marketplace platform itself is well-known enough and has significant traffic so they are found in engine searches. In practice, however, domestic buyers prefer buying through the domestic marketplace platform, for reasons of language and shipping cost.

Logistics cost is a significant portion of e-commerce cost. SMEs shipping parcels abroad will not be competitive, unless they have a unique product that buyers are willing to get despite the high shipping cost. To be competitive, SMEs need volume which is obtained by using intermediaries or aggregators who can negotiate better shipping discounts, or by using the logistics arranged by the marketplace platform operator.

Payment service providers are another important link in the chain. Sellers from economies who do not have payment options generally preferred abroad like PayPal are disadvantaged and unable to sell to many foreign customers.

Good digital infrastructures including ICT, payment services, postal services and others are important for the development of e-commerce and internationalization of SMEs. Affordable broadband connection helps access to the internet and fosters increased SME awareness of e-commerce. But just as important are the regulatory infrastructures like transparent regulations, expeditious customs clearance through for example electronic single window, and overall facilitative business environment starting from business registration to taxation to application of international standards.

Regular dialogues in APEC between various regulators and market players are useful to understand emerging technology trends. As well, it is important to hear policy developments that may be useful to replicate in other economies such as the use of digital free trade zones.

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## GDPR and CBPR: Reconciling Personal Data Protection and Trade

Series: Policy Brief No. 23

Publication Number: APEC#218-SE-01.10

Published Date: October 2018

Link: <https://www.apec.org/Publications/2018/10/GDPR-and-CBPR---Reconciling-Personal-Data-Protection-and-Trade>

This policy brief examines two governance frameworks related to personal data protection: the EU General Data Protection Regulation (GDPR) and APEC Cross Border Privacy Rules (CBPR) system. It also takes a comparative look at the privacy regimes of the GDPR, CBPR and OECD guidelines, and discusses implications of the GDPR for companies in the APEC region.

### Findings & Recommendations

#### GDPR

- Entered into force on 25 May 2018, the GDPR applies to data controllers (those who determine the purposes and the means for processing data) and processors (organizations that process personal data on behalf of the controller). While many have characterized its obligations as being too stringent, one positive aspect is that the GDPR is designed to lead to large-scale (although not full) harmonization of data protection laws across the European Economic Area (EEA), thereby reducing

the compliance cost for companies in the long run. The EEA members still retain the ability to further legislate in certain areas.

- Scope of application. The GDPR only applies to processing (collection, use and disclosure) of personal data of an identified or identifiable person. It also includes a broader definition of “special categories” of personal data that are subject to stricter rules, including genetic data, biometric data, health data, data concerning a natural person’s sex life or sexual orientation, and data revealing racial or ethnic origin, political opinions, religious or philosophical beliefs, and trade union membership data. Processing of such data is in principle prohibited, except when the data subject has given explicit consent or the processing falls under specific statutory exceptions. Furthermore, EEA members can add more conditions to processing genetic, biometric or health data. In contrast, processing of sensitive data is not uniform across the APEC region. Some APEC members include a definition of sensitive data in their data protection laws, while others do not.

- Important changes. The most important new features are:
  - (Extra) territorial application (“European rules on European soil”): The GDPR applies to controllers (and now to processors) “established” in the EEA. The concept of “establishment” is broad and flexible, being determined by: 1) a real and effective activity in the EEA region – even a minimal one; 2) an activity exercised through stable arrangements; and 3) personal data

being processed in the context of that activity. Yet, the GDPR applies even if the controller or processor is not established in the EEA, but processes data related to: 1) the offering of goods or services to data subjects in the EEA; or 2) the monitoring of their behavior as far as their behavior take place within the EEA.

- New rights and obligations: New rights for data subjects are the right to erasure (commonly known as the right to be forgotten), and the right of portability (which allows data subjects to request for the data that controllers hold about them and reuse it for their own purposes or provide it to another controller).

For controllers, new obligations include: implementing data protection by design and default; and reporting data breaches to supervisory authorities within 72 hours, and when the data breach is of high risk to the rights and freedom, communicating it to the data subjects. For processors, new obligations are: compliance with instructions on processing given by the controller; keeping records of processing activities; and notifying data breaches to the controller. Importantly, if the processor departs from instructions given by the controller, it becomes itself a controller and therefore faces full compliance for its actions. Obligations common to controllers and processors are to designate a data protection officer; cooperate with data protection authorities; and secure the processing of personal data (including by means of pseudonymization and encryption).

- GDPR and cross-border data flows. The GDPR provides that any transfer of personal data overseas (and “onward transfers”) shall take place only if: 1) an adequacy decision was granted by the European Commission to a third economy providing the same level of protection as in the EU; 2) appropriate safeguards are in place, including standard contractual clauses, binding corporate rules (BCRs), approved codes of conduct, and approved certification mechanisms; or 3) certain derogations apply (e.g. consent).

Of the three, BCRs in particular are important for companies in the APEC region. In fact, to help companies applying for certification under the EU system of BCRs and the APEC Cross Border Privacy Rules (CBPR) system, a referential outlining the compliance and certification requirements of both systems was developed in 2014 by a working group consisting of experts from the EU and APEC. Although non-binding in nature, the referential could serve as a starting point for companies seeking certification in Europe and the APEC region. Building on the work related to CBPR-BCR interoperability and with the implementation of the GDPR, the APEC Electronic Commerce Steering Group’s Data Privacy Subgroup held a meeting with the European Commission in August 2017 to discuss issues on recognizing the CBPR system as a certification mechanism under the GDPR.

## CBPR

- The CBPR system is a voluntary certification scheme that allows companies to transfer personal data (inter and intra company)

in a safe manner across APEC economies taking part in the initiative. The first version of APEC Privacy Framework of 2005 conceptualized the CBPR as a mechanism for mutual recognition or acceptance of different domestic privacy laws, which would allow for effective privacy protection without creating unnecessary barriers to cross-border information flows. As the information privacy principles contained in APEC Privacy Framework only apply to data controllers, the CBPR likewise applies to the controllers of personal information (i.e. information about an identified or identifiable individual). In comparison with other international instruments such as the OECD Guidelines on the Protection of Privacy and Transborder Flows of Personal Data (OECD Guidelines), APEC Privacy Framework explicitly intended to reconcile personal data protection and trade.

- The CBPR was endorsed in November 2011. In 2012, the U.S. became the first member to take part in the CBPR system, and IBM became the first company to be CBPR certified. To align with the updated OECD Guidelines of 2013, APEC Privacy Framework was updated in 2015.
- The current trend is to intensify the level of regulations for processing and transfer of personal data. It therefore makes good business sense, even in APEC economies with no data protection laws in place, to adopt minimum standards such as those included in APEC Privacy Framework. However, they should be aware that domestic data protection laws in other jurisdictions (e.g. GDPR) could exceed those minimum standards. This is not to say that

the CBPR would fall below more stringent domestic privacy laws. The CBPR does not interfere with the ability of an economy to impose higher data privacy standards. Moreover, a review of implementation of APEC Privacy Framework at the domestic and international levels reveals certain level of interoperability with the OECD and GDPR frameworks.

## Comparative Look at CBPR, OECD Guidelines and GDPR

- Partial overlapping. The APEC Privacy Framework and CBPR partially align with the GDPR and OECD Guidelines as they include concepts such as the Privacy Enforcement Authorities, privacy management programs, and promotion of technical measures to protect privacy. The international implementation of APEC Privacy Framework is worth highlighting. It puts forward information sharing among member economies, cross-border cooperation in investigation and enforcement, cross-border transfers of data, and interoperability between privacy frameworks. The GDPR on the other hand, includes principles and obligations that are not covered by the APEC Privacy Framework, CBPR or the Privacy Recognition for Processes (PRP) system. For instance, the principle of “storage limitation” found in the GDPR does not appear to be reflected in the current APEC Privacy Framework.
- Enforcement. Enforcement actions have yet to occur for the GDPR, hence it is unclear how cross-border enforcement would work. In the case of the CBPR, enforcement actions take place essentially at the domestic level.

# Trade & Investment Liberalization & Facilitation

However, the CBPR ecosystem also includes the APEC Cross Border Privacy Enforcement Arrangement (CPEA), as a multilateral arrangement that provides the first mechanism in the APEC region for Privacy Enforcement Authorities to voluntarily share information and provide assistance for cross-border data privacy enforcement. The CPEA could be considered as a good practice in global personal data governance frameworks as it helps to ensure data protection compliance across borders while boosting consumer confidence. The CPEA also aligns well with other global initiatives such as the Global Privacy Enforcement Network which was formed in response to an OECD recommendation.

- Contrasting governance models. The GDPR is a detailed regulation that works “top-down”. It prescribes a series of obligations that should be met by companies and imposes hefty fines if those are not met. In contrast, the CBPR is a model of self-regulation. Except for the intake questionnaire that an APEC member should complete for its application to the Joint Oversight Panel, the CBPR is not prescriptive in the details and does not mandate how an economy should modify its data privacy laws. Instead, the CBPR system works “bottom-up” towards a facilitated global data governance, which at the same time facilitates data sharing and reuse. The CBPR is a good example of promoting global interoperability of privacy regimes based on minimum standards. As more members and companies join the system, the CBPR could become an effective mechanism for privacy protection that works towards the avoidance of

barriers to information flow, and ensures continuous trade and economic growth.

- Personal data protection and trade. Personal data (and the free flow of it) will be the cornerstone of digital innovation and economic growth in the coming years. Given that its regulation differs across the world and due to societal perceptions, it is necessary to find mechanisms that will allow for meaningful data protection laws at the domestic level and adequate use of it by businesses at the international level. Those mechanisms are not easy to find. There have been suggestions to include data protection negotiations in trade talks, but this is difficult for many reasons.

Even in long established e-commerce issues, there are still divergences among several parties on how to carry on further negotiations which would make any discussion on free cross-border data flows unlikely to happen (anytime soon) in multilateral forums. Scenarios such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the U.S.-Korea Free Trade Agreement, which contain a provision for cross-border flow of personal data within their e-commerce chapters, are rare and exceptional. Yet, as more CPTPP signatories are expected to ratify the trade agreement, momentum to include provisions facilitating cross-border data flows could occur. Furthermore, there are other mechanisms to balance trade objectives with personal data protection such as the CBPR system.

## Implications

- Extraterritorial reach of GDPR. Companies in the APEC region that depend on personal data but are not “established” in the EEA will be captured by the GDPR if they either target the offerings of goods or services to, or monitor the behavior of, individuals in the EEA. This could be the case of e-commerce companies, websites or apps offering goods or services to individuals within the EEA. Furthermore, data controllers and processors not based in the EU, but covered by the GDPR, will have to appoint a data protection officer and in some cases a representative in the EU. Data processors such as payroll companies, providers of IT solutions, and data analytics will also face direct obligations under the GDPR.
- Cross-border data flows. Only four APEC members have received an adequacy decision from the European Commission, namely: Canada; New Zealand; the U.S.; and Japan. This means they have been determined as having an adequate level of data protection for data transfers overseas. For other members, the pursuit of an adequacy decision can entail significant burden. Therefore, further work on the interoperability of the CBPR system and adequate safeguards included in the GDPR could benefit companies in the region in the long term as it would enable cross-border data flows. Meanwhile, members may still find their own way on the governance of personal data protection.
- Outlook for CBPR. The CBPR establishes bottom-line standards for personal data protection to facilitate cross-border

personal data flows. Yet, in light of the GDPR, there are a few aspects that should be considered while constructing bridges for interoperability. Some of those are the principle of storage limitation; obligations regarding onward transfers, processing of special data, data breach notifications; the rights to be forgotten and of data portability; and importantly, enforcement actions against processors. A good practice to spotlight is the CPEA and the overall governance approach of the CBPR, which allows APEC members to decide for themselves their domestic levels of personal data protection while facilitating trade and investment in the region.

## Developing Indicators to Assess the Strength of Standards and Conformance Infrastructure in APEC

Publication Number: APEC#218-SE-01.4

Published Date: April 2018

Link: <https://www.apec.org/Publications/2018/04/Developing-Indicators-to-Assess-the-Strength-of-Standards-and-Conformance-Infrastructure-in-APEC>

This report analyzes the strength of standards and conformance (S&C) infrastructure in the APEC region by conducting surveys with APEC members and individual case studies on Australia; China; Japan; Peru; Singapore; and Viet Nam.

## Findings & Recommendations

Among the findings are:

- APEC economies are active in international and regional S&C bodies, although the level of involvement is typically much higher for developed than developing economies. There is scope for economies to work together to bring issues of common concern to the attention of international and regional bodies, using the APEC fora as a point of contact and exchange to facilitate contacts among domestic bodies, and provide focus to international action.
- APEC's overall alignment with international standards like ISO, IEC, and Asia-Pacific Metrology Programme (APMP) is strong. Most economies are also developing processes to create standards that address future needs.
- Engagement with stakeholders is an area where economies need to increase their focus on, specifically the measurement of that engagement. Involvement of business and consumer groups is key to effective S&C performance, hence it is incumbent upon agencies to develop effective performance metrics so that programs can be data-driven and evidence-based. The case studies show that business uptake of S&C varies widely across economies and firms, and there is generally a strong rationale for increasing it, particularly in the context of GVCs that rely heavily on standardized inputs of goods and services. As such, maintaining data on business and consumer awareness is a key first step in putting in place a virtuous

cycle of information gathering, diagnosis, and performance upgrading in S&C across the region.

- Data collection is a key element to move forward the S&C agenda in APEC. Experience with the survey instrument used for this project suggests that members adopt diverging approaches to which data they track, and how they record the information. A key recommendation therefore is that APEC members, through the Sub-Committee on Standards and Conformance, make a concerted effort to develop a common core of data elements that they agree are important for tracking S&C performance.
- For data collection efforts over the medium term, the recommendation is that members work together on the basis of the 2017 Guide to Support Quality Infrastructure Incorporation into Micro, Small and Medium Enterprises (MSMEs) to develop a set of quantitative indicators specific to MSMEs. Doing so is consistent with the economic importance of this segment within APEC members. It will also complement the contents of the Guide which is primarily qualitative.
- The following types of data points could also be further collected (e.g. through representative surveys):
  - 1) Number of firms with ISO quality/IEC74 certification per 100,000 firms;
  - 2) Estimated price premium (in percentage) that can be charged if a product is certified (where that is optional and not mandatory for safety reasons);
  - 3) New national standards and

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accreditation programs that have been introduced in the last year, broken down by sector;

- 4) Average time taken to develop a new national standard; and
- 5) Number of MSMEs involved in standards developing organizations and standards outreach.

Collection of some of these data would require collaboration across government departments, for instance with statistics agencies. There may be a case for building capacity in the area of data gathering and performance tracking in developing economies, where APEC is well placed to facilitate information exchange and dissemination of best practices.

- Case study interviews indicate that an important benefit of standards is consumer protection and safety. Yet those interviews also show there is little or no systematic data collection regarding the impacts of standards on the consumers. There are no data to answer questions such as: 1) What is the level of awareness or acceptance of standards and certifications/labeling among consumers?; and 2) What are the impacts of the S&C infrastructure on consumer protection and safety? These consumer-side information can be gathered through representative surveys in markets and among consumers. They can complement the data being collected on the institutional side (e.g. regulators, manufacturers) and inform policies on strengthening S&C infrastructure with a view of ensuring consumer protection and safety.

## Trends and Developments in Provisions and Outcomes of RTA/FTAs Implemented in 2017 by APEC Economies

Publication Number: APEC#218-SE-01.14

Published Date: December 2018

Link: <https://www.apec.org/Publications/2018/12/Trends-and-Developments-in-Provisions-and-Outcomes-of-RTAFTAs-Implemented-in-2017-by-APEC-Economies>

This annual report contributes to the APEC information sharing mechanism on RTA/FTAs, an initiative to enhance transparency among trade agreements. The report covers four trade agreements that were put in place in 2017 and involved at least one APEC economy, namely: Canada-European Union; Canada-Ukraine; Peru-Honduras; and the Singapore-Turkey FTAs.

### Findings

#### RTA/FTAs in APEC

- The number of RTA/FTAs signed and enforced by APEC economies has grown year after year. As of December 2017, 175 RTA/FTAs had been signed by at least one APEC economy. Of the 164 already in force, 63 were intra-APEC agreements.
- APEC economies are strengthening their

integration within APEC and with the rest of the world through the implementation of RTA/FTAs. From the trade perspective, APEC's share of exports with its RTA/FTA partners surged from 24.2% in 1997 to 49.4% in 2017. Similarly, APEC's share of imports with its RTA/FTA partners increased from 22.6% to 46.0% during the same period.

- By the end of 2017, 101 intra-APEC trade pairings were covered by RTA/FTAs. This signified that 48.1% of the bilateral trade pairings within APEC were covered by RTA/FTAs. However, some of the most important bilateral pairings in APEC have yet to be covered by any RTA/FTA (e.g. China-U.S.; China-Japan; and Japan-U.S.).

### Chapters in Trade Agreements

- Competition policy. All four agreements include clauses on state-owned enterprises. They also recognize that anti-competitive practices could be detrimental and do not prevent any party from maintaining or designating state enterprises, which have to act in a non-discriminatory manner. Some agreements highlight the need for state enterprises to make purchases and sales under commercial considerations.
- Temporary entry of natural persons. All agreements facilitate temporary entry for applicants traveling for business purposes that fall under certain categories, such as intra-corporate transferees and business visitors. Some agreements extend it to other categories, for instance the investors, merchants, independent professionals and contractual service suppliers. Reservations



and economic needs test apply for some cases. The initial granted period and extensions for temporary entry differ depending on the trade agreement and type of business visitor.

- **Customs-related.** All agreements include the WTO Trade Facilitation Agreement (TFA)-plus provisions. In some cases, RTA/FTAs incorporate the same TFA provisions or the whole TFA *mutatis mutandis* into the bilateral trade agreement. In terms of the scope of these chapters, they differ in certain areas. For example, implementation of risk assessment principles is only mandatory in certain RTA/FTAs. In the case of advance rulings, while all agreements provide for inquiries concerning tariff classification and origin of a good, not all provide them for customs value criteria or if reimports are subject to preferential treatment.
- **Investment.** Investment chapters are included in three RTA/FTAs (i.e. Canada-European Union; Peru-Honduras; and Singapore-Turkey). In terms of similarities, all agreements use a negative list approach for investment commitments at both the pre- and post-establishment stages. Similarities are also found in expropriation and compensation clauses and which include definitions on direct and indirect expropriation. As for differences, some agreements offer fair and equitable treatment as well as “full protection and security” based on “international customary laws”, while others list actions/features that could determine a breach of these obligations. Procedures regarding investor-state dispute settlements also differ

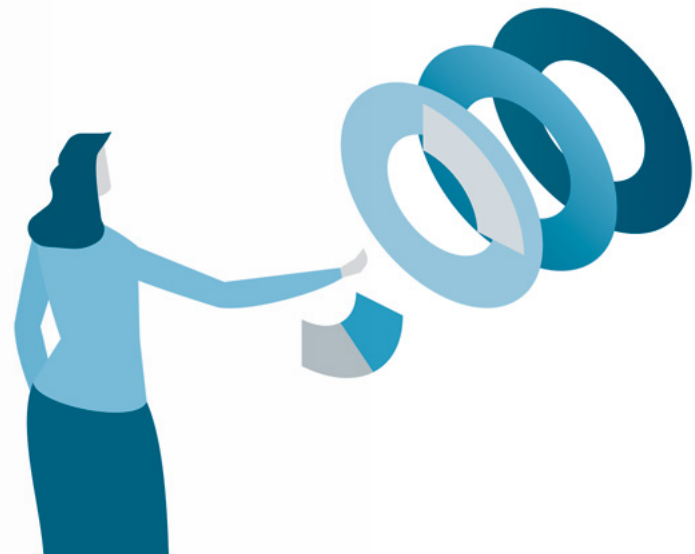
across the RTA/FTAs. Some agreements do not prohibit the use of performance requirements on technology transfer as per articles 31 and 39 of the TRIPS Agreement.

### Conclusion

- It is possible that more RTA/FTAs in the future would include specific clauses reaffirming the rights of the parties to regulate in order to achieve legitimate policy objectives. Regulations seeking these objectives therefore will not constitute a breach of any obligation in RTA/FTAs. The CPTPP already has a clause on the matter concerning tobacco control measures. Following a similar rationale, the Canada-European Union FTA includes a comprehensive clause in the Investment chapter, reaffirming the rights of the parties to regulate in order to achieve legitimate policy objectives such as those related to public health, safety,

environment, public morals, social or consumer protection, and the promotion and protection of cultural diversity.

- The report shows cases of RTA/FTAs being used as a tool to facilitate implementation of domestic reforms in areas that would otherwise not be able to in the absence of a RTA/FTA. Such reforms are mostly possible in cases where trade agreements are signed with very important partners. These reforms are not only conducted to put RTA/FTAs in force, but also to maximize benefits from them. Many of these reforms have been helpful to sustain economic growth rates and close the development gap. Evidence from Latin American economies show that economies that have pursued an outward-looking trade strategy, including through the use of RTA/FTAs, are able to make much more socioeconomic progress than those who have pursued inward-looking policies.



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## APEC Economic Policy Report 2018: Structural Reform and Infrastructure

Publication Number: APEC#218-EC-01.2

Published Date: November 2018

Link: <https://www.apec.org/Publications/2018/11/2018-APEC-Economic-Policy-Report>

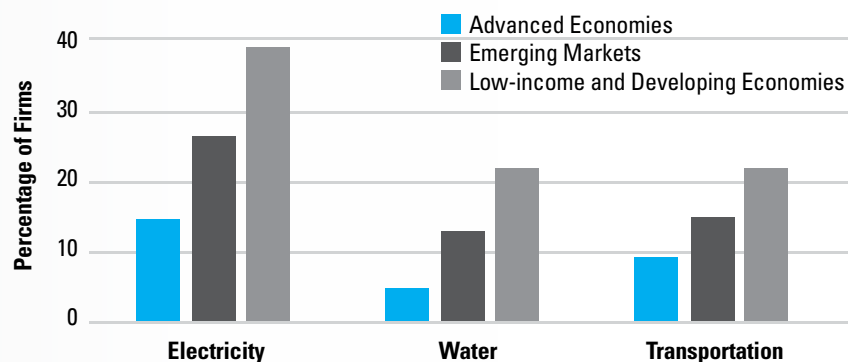
A flagship product of the Economic Committee, the 2018 APEC Economic Policy Report involves a collaboration with the Finance Ministers' Process. This report provides an overview of the infrastructure needs of the Asia-Pacific region. It evaluates the impact of infrastructure on economic growth and social inclusion, identifies challenges faced by APEC members, and discusses APEC's role in promoting structural reform. Drawing on case studies and survey responses from members, the report discusses structural policy settings and reforms across the region. It also identifies nine key outcomes for structural policy aimed at achieving quality infrastructure.

### Findings & Recommendations

#### Infrastructure Needs and Structural Reform

Top impediments highlighted by firms include electricity services, water and transport inadequacies. They were found to be less of a concern for firms operating in advanced economies.

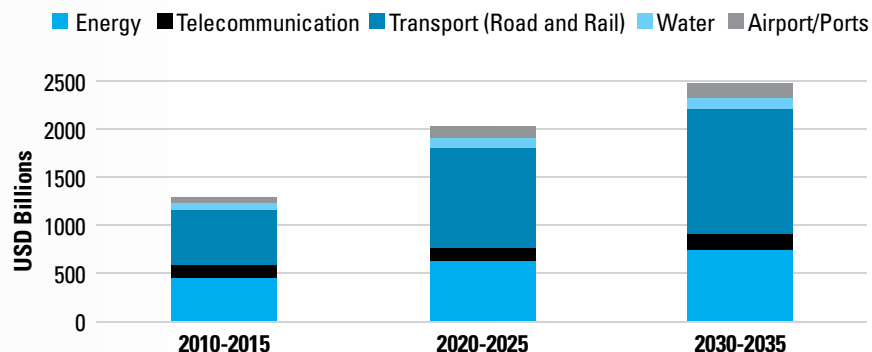
### APEC: Infrastructure impediments experienced by firms



Source: International Monetary Fund, IMF Working Paper No. 17/233 (2017)

OECD predicts global infrastructure needs for energy, transport, water and telecommunication will total at USD 95 trillion between 2016 and 2030. For the APEC region, needs have been estimated to increase from USD 2 trillion per year in 2020-2025 to almost USD 2.5 trillion per year in the 2030-2035 period.

### APEC: Infrastructure needs (2010-2035)



Source: Global Infrastructure Hub, Global Infrastructure Outlook

APEC economies identified a number of drivers of infrastructure needs, including: population growth; aging populations; transport and connectivity needs; rise of digital infrastructure; need to ensure crisis-ready infrastructure; and need to renew aging infrastructure. Many APEC economies face significant infrastructure financing gaps, estimated to range from USD 7.5 million to USD 102 billion. Given these gaps, the APEC region is expected to dominate the infrastructure investment market over the coming years.

Public investment in infrastructure is traditionally important and will remain so going forward. One estimate suggests that 75% of global infrastructure assets are publicly owned. There is evidence that the efficiency of public investment can be further improved to maximize financial return as well as to strengthen the broader impact of infrastructure on economic and social development.

However, given the size of infrastructure financing gaps, mobilization of private finance for infrastructure will be necessary for many APEC economies. To facilitate private sector investment, APEC economies have been active in undertaking reforms to legal frameworks and government procurement practices.

Aside from investing in infrastructure, governments also play an important role with regard to infrastructure as the regulator. This role arises for a number of reasons, including: infrastructure assets are often natural monopolies; infrastructure provision often gives rise to negative spillovers such as environmental degradation or social impacts; and technological change requires regulatory systems to be adaptive. APEC

economies continue to engage in a range of structural reform policies with respect to infrastructure, including deregulating network industries, adapting regulatory systems in light of technological change, and reforming institutions such as state-owned enterprises and infrastructure funding models.

### Nine Key Outcomes for Delivering Quality Infrastructure

This report finds nine key outcomes that are important to promoting quality infrastructure and discusses a number of policies in relation to these outcomes. The range of policy considerations demonstrates that developing quality infrastructure to support inclusive growth requires a mix of structural policies and an integrated, interlinked approach across many policy areas. The outcomes are outlined below.

- Sound infrastructure governance and project prioritization processes are necessary to ensure resources are allocated to initiatives with the highest value or return. Elements of governance and prioritization processes discussed include: the use of standardized investment assessments, adequate independence between assessment and operational functions, the use of long-term plans, and funding models that strike the right balance between efficiency and social objectives.
- Fiscal sustainability is important to ensure economies can manage risks holistically and over the long term. This is supported through the effective identification of risks and contingent liabilities, adequate fiscal buffers and insurance, and adequate ex-post monitoring of procurement processes.

- Reliable operation and management of infrastructure over its life-cycle, and sound procurement, is important to ensure asset quality and minimize costs. This can be supported by the use of governance standards such as procurement, data and asset management standards.
- Ensuring institutional arrangements allow for private sector involvement and competition where possible can improve affordability and efficiency and reduce fiscal burdens. Governments have implemented a range of policies to support competition, such as unbundling competitive and non-competitive elements of services; introducing open procurement processes; and reducing red tape. However, several infrastructure sectors are typically natural monopolies and hence government regulation is necessary to ensure consumers are charged prices that reflect costs for a given service level.
- Providing an institutional environment that supports private sector financing for infrastructure. Private sector financing can assist in filling the infrastructure financing gaps faced by APEC economies. Governments can take several steps to attract greater private sector financing, which includes: ensuring the institutional environment is stable and predictable, ensuring the legal environment supports the use of a diversity of funding vehicles as well as ensuring adequate project preparation and evaluation.
- Institutional settings promote and adapt to technological change. Technological change brings with it benefits to productivity and

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wellbeing, but regulatory systems need to be adaptable to allow change. New technology can bring widespread social benefits, which may justify government support where financial returns are lower than net social benefits.

- Infrastructure decisions are aligned with economic and development objectives. Infrastructure investments can assist governments in meeting broader social goals, such as poverty reduction. In making investment decisions, the social impacts of investments should be taken into account. At times there can be a trade-off between efficiency-based funding models and social goals. Governments can use policy overlays, such as subsidies, to help address social goals.
- The social and environmental impacts of infrastructure are appropriately mitigated. While infrastructure provides social benefits, it may also have negative impacts on the environment and communities, and these need to be appropriately considered during decision making. Structural policies such as responsible business conduct standards, environmental standards and community consultation requirements can assist in ensuring costs are appropriately mitigated.
- Resilience considerations are incorporated into decision making. Resilience refers to the ability of a system to adapt to a shock and should consider adapting to slow-moving risks such as those arising from climate change and security risks. Ensuring a system as a whole is resilient requires the consideration of a range of

factors in addition to the robustness of a particular asset, such as sufficient access to infrastructure in the event of a shock, community preparedness and adequate financial strength.

These outcomes closely align with the G7 Ise-Shima Principles for Promoting Quality Infrastructure Investment. A major element of an adequate policy approach is to consider all these elements in a strategic, interconnected and coordinated way. Moving forward, members envisage a number of areas where APEC could continue to play a role with regard to structural reform and infrastructure, including: 1) expanding or deepening APEC's role in sharing knowledge and best practices; working with the private sector; and promoting homogenization of standards; and 2) strengthening capacity building initiatives to improve institutional capacity relevant for the region. Furthermore, this report notes that cross-fora and international collaboration on infrastructure has been beneficial and should continue as it allows resources and expertise to be pooled together.

## APEC's Ease of Doing Business: Interim Assessment 2015-2017

Publication Number: APEC#218-SE-01.11

Published Date: August 2018

Link: <https://www.apec.org/Publications/2018/08/APECs-Ease-of-Doing-Business>

The interim assessment of APEC's Ease of Doing Business (EoDB) Second Action Plan 2016-2018 takes into account the indicators released by World Bank in the five priority areas of: 1) Starting a Business; 2) Dealing with Construction Permits; 3) Getting Credit; 4) Trading Across Borders; and 5) Enforcing Contracts. Using 2015 as the baseline year, the assessment compares the figures obtained by the APEC region in the baseline year and 2017 to examine whether APEC's combined performance is on track to meet the overall improvement target of 10%.

### Findings

Looking at average values recorded by the APEC region, the combined progress for the period 2016-2017 was equal to 7.3%, above the pro-rata target of 6.6%. While the greatest progress was shown in Getting Credit (18.1%), followed by Starting a Business (11.8%), progress was achieved in other areas as well.

On Getting Credit, significant progress was made in the strength of legal rights and depth of credit information systems. In fact, the average share of adults in the region with

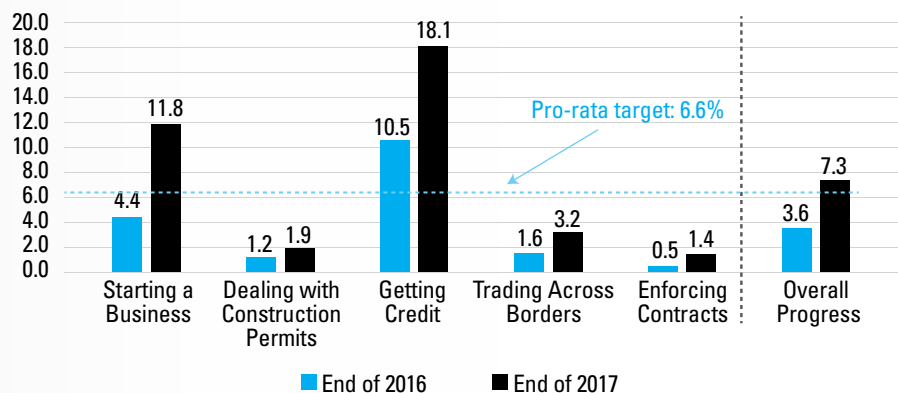
their credit information in public registries or private bureaus went up from 74.3% to 77.4% in two years. Important progress was also made in Starting a Business: average time fell by nearly three days, and only one APEC member still required a paid-in minimum capital as a condition to start a business.

For Trading Across Borders, most of the progress was related to time to trade: average time for exports and imports went down from 70.2 to 65.6 hours and from 89.3 to 85.5 hours, respectively. As for Dealing with Construction Permits, most of the indicators reported improvements, such as the average time going down by one day and the average cost of obtaining a permit being reduced by 0.5% of the warehouse value. In terms of Enforcing Contracts, most of the progress was related to improvements in the quality of judicial processes.

In terms of APEC's performance in median values, the results show a collective improvement of 6.4% for the period 2016-2017, very close to the 6.6% pro-rata target. Most of the progress in median values was explained by positive changes in Getting Credit (25.1%). Improvement in Starting a Business was significant during the second year of the current EoDB Action Plan (5.6%), noting the absence of progress in the first year.

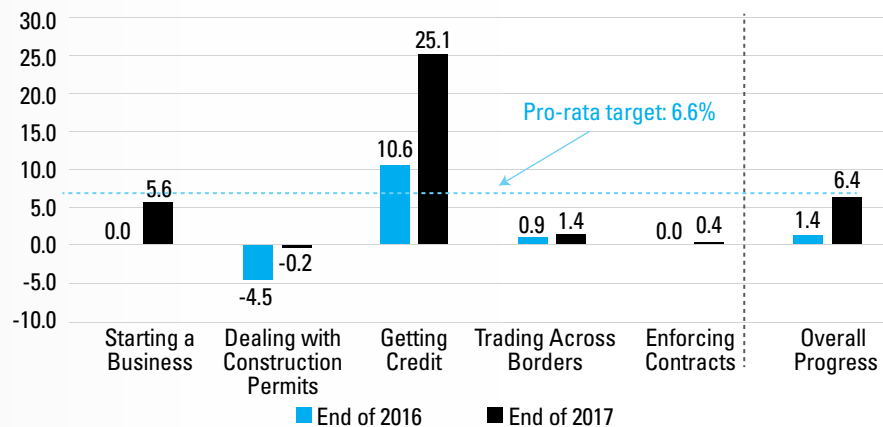
On the contrary, progress has been scant so far in the median values for Trading Across Borders and Enforcing Contracts. APEC also has not been able to fully reverse the deterioration of its median value in Dealing with Construction Permits which happened in 2016, the first year of the current EoDB Action Plan.

### APEC: Accumulated overall progress in EoDB initiative (average values: years 2016-2017)



Source: APEC Secretariat, Policy Support Unit calculations using data from World Bank, Doing Business 2018 database

### APEC: Accumulated overall progress in EoDB initiative (median values: years 2016-2017)



Source: APEC Secretariat, Policy Support Unit calculations using data from World Bank, Doing Business 2018 database

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## Recommendations

After two years, APEC is getting closer to achieving its 10% improvement target by 2018. Efforts still need to be intensified in all areas since the current combined overall progress was mostly due to Getting Credit and Starting a Business. In addition, the lower progress reported by the median values is an indication that APEC's progress was explained by a few APEC members in most of the priority areas.

APEC should continue to emphasize capacity building activities to close the gaps across economies, as well as prioritize efforts in those areas with limited or no progress so far. APEC members could benefit significantly from those activities by learning from good practices and successful experiences. These activities could also assist governments to raise awareness about certain issues and find ways to resolve problems. In fact, policymakers could be inspired, from the exchange of information and discussions with other participants, to implement policies that will make doing business easier, faster and cheaper.

Finally, while remarkable progress has been achieved, there still exists room for improvement. With the EoDB Second Action Plan coming to an end, it is worthwhile that members start discussing the future of this initiative. This includes the possibility of extending it beyond 2018 or introducing a new initiative to improve business environment, taking into account members' efforts in implementing the Renewed APEC Agenda for Structural Reform and lessons gleaned from the two EoDB Action Plans.

## Renewed APEC Agenda for Structural Reform: Mid-Term Review Report

Publication Number: APEC#218-SE-01.12

Published Date: August 2018

Link: <https://www.apec.org/Publications/2018/08/RAASR-Mid-Term-Review-Report>

The Renewed APEC Agenda for Structural Reform (RAASR) consists of three pillars to guide APEC members in their structural reform actions, namely: 1) more open, well-functioning, transparent and competitive markets; 2) deeper market participation by all segments of society; and 3) sustainable social policies that promote the above and enhance economic resilience.

This mid-term review looks at the progress achieved in structural reform, and identifies areas where gaps are observed so APEC members may focus their attention on moving forward. There are two parts to the review: 1) progress of the APEC region as a whole through the use of agreed external quantitative indicators; and 2) progress of each APEC member through an analysis of their respective submission.

## Findings & Recommendations

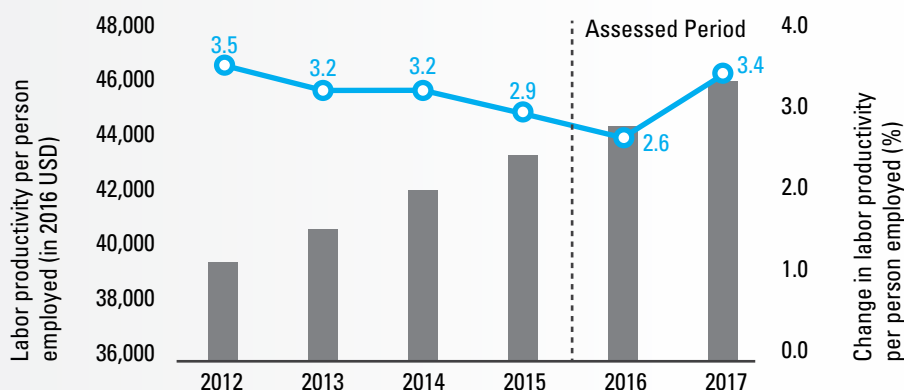
### APEC-wide Progress

- APEC needs to intensify efforts in improving business regulations and

facilitating business conduct (pillars 1 and 2). While analysis of World Bank EoDB indicators between 2016 and 2017 showed improvements across all areas covered, data from OECD STRI indicated mixed results – some services sectors such as logistics have become less restrictive, but others have become more restrictive. Furthermore, comparing APEC's performance vis-à-vis OECD revealed that while APEC has done relatively well in certain areas such as addressing complexity of regulatory procedures and administrative burdens on start-ups, more work is needed in areas such as tackling explicit barriers to trade and investment. Data from OECD also identified that despite outperforming ASEAN in general, it was the opposite when comparing APEC with OECD.

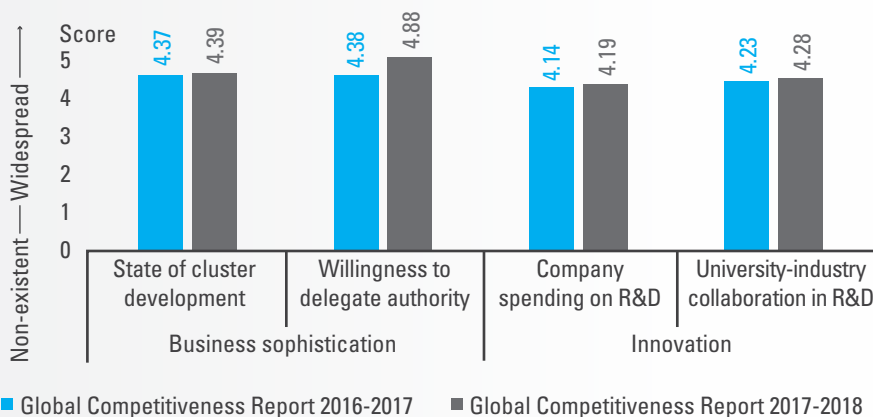
- APEC performed well in enhancing innovation and productivity and should continue to support these areas (pillars 1 and 2). Labor productivity per person employed in APEC increased year-on-year. Productivity showed an uptick in growth, reversing the trend since 2012 when growth was declining. WEF indicators pertaining to business sophistication and innovation also showed improvements across all monitored indicators, albeit only slightly.
- APEC could increase efforts towards boosting competitiveness of its labor and financial markets, paying attention to certain gaps in specific areas (pillars 1 and 2). Although an analysis of WEF indicators on labor and financial market efficiency showed improvements by APEC in one area (i.e. hiring and firing practices) and three areas (i.e. venture capital availability,

## Labor productivity per person employed



Source: The Conference Board Total Economy Database

## Global competitiveness indicators for business sophistication and innovation



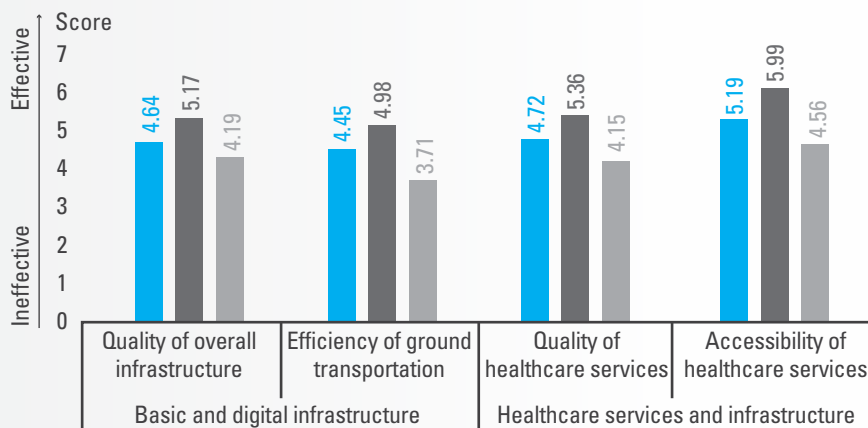
Source: World Economic Forum

soundness of banks, and regulation of securities exchange), respectively between 2016 and 2017, scores in the remaining areas such as cooperation in labor-employer relations, flexibility of wage determination and access to financing through local equity market have either stagnated or worsened.

- APEC could step up measures aimed at strengthening access to basic services & infrastructure and enhancing fiscal & social policies (pillars 1, 2 and 3). Analysis of WEF indicators on basic services & infrastructure showed that while APEC on average fared better than ASEAN in terms of both basic and digital infrastructure (e.g. transport, communications), and health services and infrastructure, it underperformed OECD. Indeed, data from World Bank and OECD indicated that APEC has fewer physicians per 1,000 people than OECD on average. Specifically on access and quality of education, analysis of UNESCO tertiary gross enrolment ratio pointed that while APEC is doing better than ASEAN on average, it lags OECD. Likewise, UNESCO pupil-teacher ratio showed that although APEC has lower pupil-teacher ratio than ASEAN across all three levels of education (i.e. primary, secondary and tertiary), they are higher relative to OECD. On fiscal transfers, APEC performed better than OECD but worse than ASEAN in terms of tax code, but it was the opposite in terms of social protection.

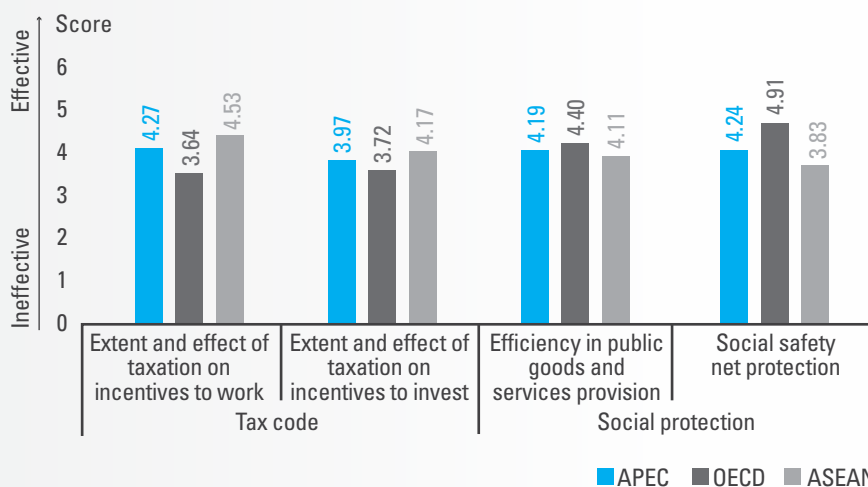
# Structural Reform

## WEF inclusive growth and development indicators for basic services and infrastructure for APEC, OECD and ASEAN in 2016

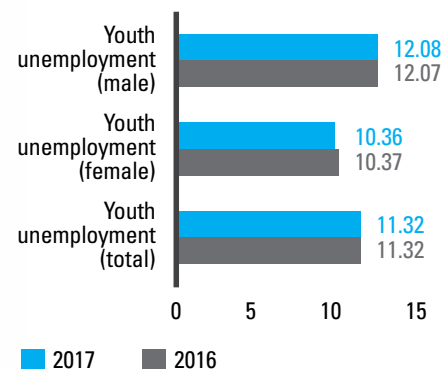


- APEC could do more to deepen participation of wider segments of society in its markets, particularly on youth employment (pillar 2). Despite the ILO labor force participation rate for age group 65+ indicating improvements between 2016 and 2017, mixed results were observed for the share of youth unemployment over the same period. While female youth unemployment fell, male youth unemployment has increased slightly. Employment to population ratio also declined slightly over the same period. According to World Bank indicators on Women, Business and Law between 2015 and 2017, the number of APEC economies with laws/regulations on various aspects that may protect women against discrimination has remained the same.

## WEF inclusive growth and development indicators for fiscal transfers for APEC, OECD and ASEAN in 2016



## Average share of youth unemployment in APEC in 2016 and 2017



Source: International Labour Organization

Source: World Economic Forum



## Progress by Individual APEC Economy

- APEC members collectively provided updates on 80 priorities and 172 related actions. Categorizing these priorities into the three pillars showed that pillar 1 has the most priorities associated with it (66%), followed by pillar 2 (46%) and pillar 3 (34%).
- Priorities and related actions identified and undertaken by economies were varied, even within the same pillar (see table).

Where members noted the presence of certain programs/activities, specific or broad progress updates were provided. Understandably, the fact that certain laws, regulations or programs are either not at the implementation stage yet or just implemented indicates that progress in terms of how a member's population has benefited are still unclear. Furthermore, certain members reoriented their actions in response to changes in their external or domestic environment.

they allow for progress to be tracked and provide the basis for tweaking actions to attain optimum outcome if necessary.

- There is room for improvement in the indicators and baselines used by members to monitor and evaluate priorities and actions. Indicators need to evolve with the progress of an action, and the quality of information captured by the indicators could also be improved.

Pillar	Examples of objectives of various priorities and actions
1	<ul style="list-style-type: none"> <li>• Reducing administrative burden</li> <li>• Boosting competitiveness and competition in the economy as a whole and in specific sectors including addressing issues related to state-owned enterprises</li> <li>• Improving infrastructure</li> <li>• Liberalizing market to a greater extent</li> </ul>
2	<ul style="list-style-type: none"> <li>• Enhancing quality of human resource in the economy</li> <li>• Increasing participation of specific segments of the society such as women, youth, people with disabilities and vulnerable groups in the labor force</li> <li>• Eliminating labor duality in the market</li> <li>• Providing support to MSMEs in various aspects including access to finance and government procurement</li> </ul>
3	<ul style="list-style-type: none"> <li>• Improving quality of education and health and ensuring they respond to industry demands</li> <li>• Enhancing social programs in terms of benefits and coverage</li> <li>• Using data analytics to identify at-risk households</li> </ul>

- Members made reasonable progress in their priorities and related actions. Where members indicated plans to pass/amend a certain law/regulation in their 2016 RAASR individual action plan or subsequent revisions, progress ranged from regulations being drafted to full implementation.
- Several members faced challenges in the course of moving certain actions forward. Encouragingly, such challenges have led members to respond by making changes. This is indeed the main motivation for advocating that priorities and related actions be monitored and evaluated –



# Connectivity Including Supply Chain Connectivity & Global Supply Chains

## Case Studies on Addressing Connectivity Challenges in APEC Economies

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Since the development of the APEC Connectivity Blueprint in 2014, APEC members have been making progress in strengthening institutional, physical and people-to-people connectivity across the region. The six case studies in this report, two for each connectivity pillar, address different challenges of connectivity and bring to light different policy approaches in managing such projects.

### Findings

#### Case Studies

- The High Speed Rail (HSR) project connecting the mainland of the People's Republic of China and Hong Kong, China was announced in 2000 after realizing the steep increase in cross-boundary annual passenger traffic since 1996. Besides bringing greater physical connectivity between both sides, it will also improve economic prospects and sustainability. The project is expected to create 11,000 construction jobs and 10,000 new job opportunities upon commencing in services and management. Better physical connectivity could also mean greener and more sustainable transport system since the project is expected to reduce carbon emissions.
- The Information and Communications Technology (ICT) initiative by Russia highlights the impact of better physical connectivity on economic efficiency and inclusiveness. In addition to making broadband subscription more affordable and expanding its reach to 95% of the population by 2020, the initiative will improve internet connectivity for medical institutions and interoperability of information systems in the healthcare sector. It is expected to bring internet access to remote regions of Russia and provide technology-friendly solutions to the disconnected population. The ICT strategy also addresses regulatory restrictions which previously hampered the sharing of communication infrastructure.
- Improved institutional connectivity is enabled through cross-border paperless information exchange which allows better supply chain visibility, specifically for sea-freight logistics as shown in China's case study. Cross-border supply chain visibility addresses long lead times, poor last-mile service quality and differing border clearance administration. Better visibility will allow supply chain stakeholders to benefit as they can improve their inventory and quality control as well as their risk management functions.
- The case study on data privacy issues by the U.S. shows how the APEC Cross Border Privacy Rules (CBPR) supports global e-commerce through lower compliance costs while ensuring secure cross-border data flows. Participation in the CBPR can also improve consumer's trust through consistent and enforceable privacy protections as well as streamlined mechanisms for complaint-handling.
- The OurCityLove social enterprise in Chinese Taipei shows the role of the private sector in enhancing people-to-people connectivity and addressing accessibility challenges for people with disabilities (PWDs). Elderly and disabled people experience challenging limitations to their mobility and may have issues accessing common public facilities. By providing targeted, relevant, and digital platform-based accessibility information and services for the elderly and PWDs, OurCityLove has shown that accessible service and tourism not only promotes inclusiveness but could also be a profitable business model.
- Japan utilises the passenger name records (PNR) to smoothen customs procedures and as a measure for terrorism prevention. PNR data supports better risk analysis to facilitate the entry of legitimate travelers through reduced processing times, reducing costs for airlines through fewer delays and shorter waiting times at the gate. Improved data gathering and analysis also facilitates easier movement of low-risk passengers while re-directing resources towards high risk passengers.

## Lessons Learned

- The HSR case study highlights the use of participatory approach to obtain support from the public at large. The consultative approach in the implementation of co-location arrangement, which involved complicated legal, operational and security issues, is said to have played a key role in the successful implementation of the project.
- The case study on sea-freight logistics shows that while advanced and intelligent physical infrastructure is needed to enable visibility across borders, effective functioning of the system still requires the willingness of stakeholders to share information with others. This requires a great amount of trust among the stakeholders. In turn, issues of protection of data privacy and security need to be addressed as it is critical to provide confidence to supply chain participants to submit their information to the data exchange system or platform.
- The importance of multi-stakeholders' engagement to initiate reforms was also discussed in the PNR case study. The engagement with various sectors was a key element in successfully implementing the PNR. Although initiated by a law enforcement agency, consultations with the legal experts and airline sector were held to address any legitimate concerns. This was also seen in the OurCityLove case study which shows that accessible tourism should be based on a collaborative model,

bringing together the government, private sector, civil society, elderly and PWDs to arrive at holistic and responsive solutions for accessibility.

## Recommendations

- The case studies emphasize that the connectivity pillars are often interlinked; an initiative focused on one pillar may also have implications on other pillars. This is true for the HSR project which not only improves physical and people-to-people connectivity between the mainland of the People's Republic of China and Hong Kong, China, but also facilitates smoother institutional connectivity through its co-location agreement.
- The importance of digital technology is apparent in most case studies – in the form of ICT infrastructure development and through the adaptation or application of technology-friendly solutions – as in the sea-freight visibility, CBPR, and OurCityLove initiatives. The case studies also encourage more collaborative models of planning and project implementation.
- Ensuring that policy making is adaptable and forward-looking in the new digital economy is discussed in several case studies. The ICT initiative by Russia acknowledges the importance of flexibility in implementing the ICT infrastructure and preparing for the perpetually changing digital economy. Regulations need to be adjusted to the new technology landscape. The CBPR case study shows

how interoperability is possible without modifying the domestic laws, thus ensuring that implementation can be flexible enough to adapt to the particular domestic legal environment in APEC economies, while still providing certainty for system participants.

## Study on Single Window Systems' International Interoperability: Key Issues for Its Implementation

Publication Number: APEC#217-SE-01.31

Published Date: August 2018

Link: <https://www.apec.org/Publications/2018/08/Study-on-Single-Window-Systems-International-Interoperability>

This report discusses the general framework of Single Window Systems' International Interoperability (SWSII) by introducing common concepts and the 10 SWSII principles. It also reviews the Regional Single Window (RSW) implementations of ASEAN and the Pacific Alliance as well as the Revenue Authorities Digital Data Exchange (RADDEx). Additionally, the report showcases the single window journeys of Australia; Indonesia; and Peru, and summarizes the survey conducted among APEC economies.

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## Findings & Recommendations

To date, there are only a handful of RSW implementations globally to draw guidance and lessons learned. Most, if not all, remain in their infancy with SWSII as economies wrestle to discover what works for them to achieve regional integration, while balancing domestic constraints, resources and priorities. Nonetheless, current efforts from the study have produced several insights, some of which are highly actionable while some remain at a level of abstraction that require further analysis. Wide variations in conditions and constraints among participating economies make the concept of applying best practices extremely complex.

The survey concluded that successful interoperability is only achieved when the following levels of interoperability are seriously considered by all stakeholders: 1) technical, 2) information, 3) processes, and 4) legal. Interoperability, like open systems, unlocks the door for integration and innovation. However, the survey also showed that interoperability is a complex, dynamic concept along a wide spectrum of possibilities. Based on the study, interoperability is not straightforward. As there are no perfectly aligned incentive structures or laws, most economies in the survey have adopted a nuanced view as demonstrated by how economies adhere to standards and take the path that works for them and their SWS and SWSII strategies. One recommendation is to apply the following 10 principles as they manifest themselves to achieving SWSII best practices.

Autonomy	Each operating economy functions without having to know details about other members to seamlessly exchange digital information
Responsiveness	'Acting on demand' to respond to a request received efficiently through automation
Agreement	Existing understanding among two or more economies to follow a specific course of conduct on the exchange of information
Consensus	Technical process to uphold confidence by digitally seeking widespread agreement amongst interoperating economies
Connectivity	Capabilities of economies to interconnect SWS across transnational boundaries in a highly-secured manner
Data flow, security, privacy and confidentiality	Based on trust, this includes conducting appropriate risk assessment activities prior to the set-up of interoperability functions
Data harmonization and standardization	Interactive process of capturing, defining, analyzing and reconciling government information requirements
Terminology	Consistent use of internationally recognized trade facilitation standards' terms and definition
Upgrading existing IT infrastructure	Advances in technology and modernization efforts of governments
Adoption of open standards	Emphasis placed on an open architecture based on international standards and protocol

From the case studies, some general requirements can be derived to ensure interoperability. These include, but are not limited to: 1) Coordination among local agencies to prevent duplication and loss of time due to repetition or omission of tasks; 2) Harmonization with international standards and regulations to enable efficient sharing and comparison of information; and 3) Continuous improvement of IT systems to keep up with the requirements for electronic exchange of data.

The regulatory framework should be flexible in order to take into account the constant

changes and improvements in technology. Hadfield (2017) noted that conventional approaches to producing regulation are increasingly unable to cope with the levels of complexity and scale of some new technologies.

Regional integration through SWSII is a journey with asymmetric outcomes and its own operating tempo. The APEC Sub-Committee on Customs Procedures' Single Window Strategic Plan and Roadmap in 2007 emphasized the following components of international interoperability: 1) adoption

of international standards and instruments; 2) cohort of international expertise; and 3) experience sharing. The ASEAN Single Window enables the adoption of a unified catalogue and tariff classification amongst participating ASEAN economies, including the use of harmonized codes and description of goods, and synchronizing of explanatory notes among others. The term “single window interoperability” in the Pacific Alliance Agreement means “the ability of the systems to enable electronic exchange of information, aligned to internationally accepted standards”. Both ASEAN and the Pacific Alliance recognize the critical role of international standards in achieving interoperability among their member economies and have worked towards their incorporation. Their progress in achieving SWSII has been made possible by the large potential gains to traders and governments. Some of these benefits are yet to be realized and may even be further expanded as the digital economy grows. Further APEC studies should be conducted to better define the contours and understand the potential benefits and challenges in developing SWSII.

It is worthy of note that regional harmonization efforts, posed at times by competitive regional endeavors, can exacerbate the challenges of SWSII even further. From Canada’s experience, the Canadian Border Services Agency has been actively engaged in discussions regarding a North American RSW System which conceivably may require interoperating with other RSWs such as the Pacific Alliance or APEC’s to avoid duplicating systems and creating unwanted information silos. Coordination between different regional

models is a challenge. However, with some forward planning and the adoption of standards, the possibility of global consistency and SWSII is possible.

In general, the case studies highlighted the push to develop SWSII among the economies to benefit from lower costs, and greater efficiency and coordination in the trade of goods and services. However, there is also widespread recognition of the challenges faced, such as the lack of harmonization of standards, data and procedures, and the need for a more adaptive architecture. The three economies – Australia; Indonesia; and Peru – have future plans to address these challenges and improve international interoperability.

In conclusion, there is no one-size fits all in achieving interoperability. Given APEC’s drive for SWSII amongst its member economies, the study underscores the need for ongoing collaboration between economies as well as the need to establish a pragmatic working definition of “interoperability”, determine how it can be achieved and sustained, and evaluate its progress based on pre-defined performance criteria. As a possible next step, a “limited” pilot using blockchain technology to demonstrate trust, efficiency and effectiveness alongside usability and scalability is recommended. Additionally, further case studies highlighting the potential benefits and challenges on SWSII implementation will be useful in encouraging wider adoption of SWSII as well as experience sharing among APEC economies.

## Peer Review and Capacity Building on APEC Infrastructure Development and Investment: Viet Nam

Publication Number: APEC#218-SE-01.8

Published Date: May 2018

Link: <https://www.apec.org/Publications/2018/05/Peer-Review-and-Capacity-Building-on-APEC-Infrastructure-Development-and-Investment--Viet-Nam>

This project involves two components: 1) conduct a peer review on policies and practices relating to the planning, selection and implementation process of infrastructure projects in the reviewed economy; and 2) identify capacity building needs and suggest capacity building activities for the economy.

The focus of this report is on Viet Nam, the second economy to be reviewed. As part of the review, Viet Nam was benchmarked against a peer group drawn from the membership of ASEAN. Findings from the review form the basis for recommendations on further steps that Viet Nam can take to make public-private partnership (PPP) projects more attractive and easier to develop and execute.

### Findings & Recommendations

The key issues and recommended improvements are:

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Institutional support. A central PPP unit should be tasked with providing independent review of PPP projects, particularly at the project preparation stage. This is useful from a finance perspective. The financial implications of a project, particularly the risks to the government due to default by the investor, are not yet well studied.

To be effective, the institutional framework for PPP implementation should be able to directly engage support at whatever political level is required to resolve problems and remove obstacles in a timely manner.

Institutional capacity could be strengthened through training in key areas such as the PPP process and project cycle; PPP modalities and financial contract structures; and project funding strategies and risk allocation between the government and investor.

PPP legal structure. There remain a number of inconsistencies among the various documents that together define the PPP legal structure in Viet Nam. The most important of these is the status of the key decrees that are currently the highest legal documents regulating PPP. While these legal documents are primarily designed to regulate investment in pure public-initiated projects, they also have a profound impact on PPP and what other investor-initiated PPP projects can and cannot do. Given these concerns, a new PPP law is much needed, to clarify the ambiguities in the current legal framework, and to define more clearly the different PPP modalities and the requirements for managing and coordinating PPP project implementation.

Financing challenges. Funds for the key steps in establishing a PPP project are often available but not used by sponsors. This is particularly true for project development. Among the concerns are: 1) Project development funding from international donors is not being used; 2) Inadequate funding for project preparation has implications for PPP project implementation; 3) Build-Transfer projects have inadequacies that affect the interests of the government; 4) Viability gap financing invested by the government to increase financial feasibility and attract investors lacks clear procedures for planning, identifying and approving the funding; 5) The legal, institutional and policy environment for PPP investment in Viet Nam is not yet fully developed, and the involvement of state-owned enterprises in PPP projects reduces bidding competitiveness and transparency, hence reducing international interest; 6) Availability payment modalities are not being used; and 7) Lack of standardized PPP contracts. Improved access to stronger international and domestic financing will be essential for the longer term success of the Vietnamese PPP initiatives.

Linkage between central and provincial governments. Responsibility for water and sewerage management is allocated on a province-by-province basis, which essentially ignores the movement of water through the river systems. Effluent from one province can become the input water source for the downstream province. Water management by water corridors is therefore both sensible as well as good public policy. The central government should review the process of allocation of responsibility for

water and sewerage management and move toward a watershed management approach as opposed to a strictly decentralized provincial approach. At the moment, investors in water treatment do not have a say in the treatment of water in upstream jurisdictions, which may increase treatment cost in the downstream installation.

Risk sharing in PPP investments. Viet Nam does not have many cases of successful transport or water sector international standard PPPs. Those that are in place are based on direct assignment to specific companies and a number of those are having financial difficulties. The lack of a clear risk-sharing mechanism currently limits international investor interest. However, the option of design/build/operate/transfer/sell is viable. Investors would be more interested in an opportunity if it can be shown to generate a consistent stream of revenue and where the operating costs are well defined. Risk sharing can also be improved by using availability payment projects.

Coordination mechanism. PPP projects often require coordination between, for instance, the Ministry of Transport and the Ministry of Planning and Investment and the Ministry of Finance. The Ministry of Planning and Investment and the Ministry of Finance play the most important role in the preparation and development of PPP projects throughout the lifecycle of the project. The lack of a clear coordination mechanism among these ministries adversely affects the effectiveness of the ministry's work and could lead to longer lead times and other unnecessary problems.

Benchmarking against a peer group. In the period 2005 to 2010, the magnitude of transport investment in Viet Nam was largely similar to that of Indonesia and the Philippines. However, Indonesia and the Philippines appear to have pulled away from Viet Nam since 2011. To attract more private investment in infrastructure, Viet Nam should benchmark its PPP program against similar economies. It could learn from economies that have shown progress on this front such as the Philippines and Malaysia. Helpful information on other developed economies could also be obtained from the International Transport Forum at OECD, which provides comparative transport statistics for 59 member economies.

Capacity building. Training is usually required in: 1) PPP process and project cycle; 2) PPP modalities and financial contract structures (i.e. what makes a project bankable and acceptable to creditors and investors); and 3) Project funding strategies and risk allocation between the government and the investor.



# Economic & Financial Analysis

## APEC Regional Trends Analysis

This biannual report provides an overview of the APEC region's economic prospects through an in-depth analysis on recent macroeconomic and financial developments and also trade and investment trends and measures recently implemented by APEC economies. Each report also carries a theme chapter which looks at current pertinent issues facing the region.

### May 2018 – Trade, Policy, and the Pursuit of Inclusion

Publication Number: APEC#218-SE-01.6

Published Date: May 2018

Link: <https://www.apec.org/Publications/2018/05/APEC-Regional-Trends-Analysis>

#### Findings

##### Trade, Policy, and the Pursuit of Inclusion

- In 2017, APEC Leaders reiterated their commitment to the pursuit of inclusion by endorsing the APEC Action Agenda on Advancing Economic, Financial and Social Inclusion. With the aim of achieving a more inclusive APEC region by 2030, economies are tasked to implement policies that contribute to inclusive growth.
- Supporters of protectionist policies often cite inclusion as one of their policy objectives, pointing out that protecting industries will help save or create jobs. However, data show that at the macroeconomic level, there is no negative relationship between imports and employment. Pursuing protectionism in the

name of inclusion only benefits workers in the protected sector to the detriment of workers in the wider economy.

- Decades of policy research and development work have identified several policy areas that can contribute to inclusion. These include ensuring access to human capital development, improving access to economic opportunities, enacting social inclusion policies, and promoting economic growth through trade and regional cooperation.
- While most policies that directly address inclusion fall under behind-the-border issues, trade policies and agreements have done their share to promote inclusion. Recent trade agreements have covered aspects such as labor standards, environmental protection, gender, indigenous groups, and MSMEs.
- Within APEC, several initiatives have been implemented to pursue inclusion. The Policy Partnership on Women and the Economy works on improving women's access to opportunities, while the Boracay Action Agenda aims to promote internationalization of MSMEs. Access to human capital development is being pursued under the Human Resources Development Working Group and the

Health Working Group. Additionally, the Economic Committee's Renewed APEC Agenda for Structural Reform calls for more actions to promote deeper participation by all segments of society as well as the implementation of sustainable social policies in the pursuit of inclusive growth.

##### Growth Surges but Uncertainty Persists

- Growth in GDP in the APEC region surged to 4.1% in 2017, from 3.4% in 2016. The region is seeing a broad-based economic recovery, with steady contribution from consumption combined with a significant turnaround in trade, benefiting primarily from the continued strengthening in global economic activity.
- The value of merchandise exports in the APEC region grew by 10.2% in 2017 after contracting 3.9% in 2016. Merchandise imports also turned positive. The volume of merchandise exports and imports grew at 4.9% and 7.8% in 2017, respectively. Meanwhile, trade in commercial services grew more than 5% in 2017.
- The ongoing global economic upswing and higher commodity prices saw higher average inflation in the APEC region at 2.4% in 2017, from 2.1% in 2016. Monetary developments in the region have largely



reflected the general stance of maintaining a balance between supporting economic growth on the one hand and managing inflation pressures on the other.

- Preliminary data from UNCTAD reveal that global inflows of FDI dropped by 16.3% in 2017 to USD 1.52 trillion, from USD 1.81 trillion in 2016. The lower global FDI has been attributed largely to a 40% slump in equity investments coupled with a 32% decline in announced greenfield investments.
- According to data on G20 trade and investment measures for the period mid-May to mid-October 2017, the number of trade-restrictive measures outweighed trade-facilitating measures while investment-friendly measures outnumbered investment-restrictive measures. The trend in trade-restrictive measures could have negative repercussions on global trade activity, with consequences for producers and consumers alike.
- Following strong GDP growth in 2017, the APEC region is expected to continue along the path of relatively high growth in 2018 at 4.1% before consolidating to 4.0% in 2019. Short-term risks are broadly balanced as a stronger-than-expected pick-up in global economic activity in the next two years could counter policy uncertainty. In the medium term, risks are tilted to the downside, and are crucially dependent on outcomes in monetary, fiscal and trade policies.
- Buoyant economic conditions create an important opportunity for economies to implement structural reforms. APEC is well equipped with strategies and

roadmaps to achieve meaningful reforms that can promote trade and investment and sustainable and inclusive growth. Examples include the APEC Connectivity Blueprint 2015–2025; the Renewed APEC Agenda for Structural Reform; and the APEC Framework on Human Resources Development in the Digital Age.

- Policy commitments and agreements are a good start in making trade and economic growth more sustainable and inclusive. However, the pursuit of an inclusive and sustainable APEC community does not end with pronouncements; implementation is key. Governments and societies need to continue pursuing commitments through effective and efficient implementation, and ensure that efforts are sustainable and progress is tracked.

## November 2018 – The Digital Productivity Paradox

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Published Date: November 2018  
Link: <https://www.apec.org/Publications/2018/11/APEC-Regional-Trends-Analysis---The-Digital-Productivity-Paradox>

### Findings

#### The Digital Productivity Paradox

- Digital technology has improved by leaps and bounds, and computers are more powerful, more compact and more affordable than ever before. Growth in computational capability has led to innovations that have transformed how firms and people do work. Tasks that used to take hours or days now take seconds or minutes. This continuous upgrading in digital technology should have led to higher growth in labor productivity, and ultimately growth in real wages.
- Instead, economists around the world have observed a downward trend in labor productivity growth in the last two decades. In the APEC region, both industrialized and developing economies experienced declining labor productivity growth in 2000 - 2017.
- Various theories have been put forward to explain the downward trend in labor productivity growth. It could be a

# Economic & Financial Analysis

measurement issue: current methods of measuring economic output may no longer be suitable for a digital economy. Or perhaps there is a lag between the time new technology is developed and its widespread application in production.

- Firm-level studies have shown a lack of technological diffusion: productivity is increasing in frontier firms while stagnating in non-frontier firms. Network effects and barriers to entry could be behind this trend. Policy uncertainty and skills gaps are also contributing to the lack of technological diffusion, making it more risky and costly for firms to adjust to new technologies.
- Addressing the downward trend in labor productivity growth requires new ways of doing things. Economies may need to reconsider revising how economic activity is defined, monitored and measured. Structural reforms may also be needed to make sure that rules and institutions remain relevant and responsive to new economic realities.
- Moreover, economies will need to invest in and upgrade their infrastructure, which forms the backbone of connectivity and underpins production. Finally, economies also need to invest in their people through education and skills development, active labor market policies and appropriate social protection.
- Previous technological breakthroughs have contributed to improving standards of living, and digital technology has the potential to do the same. But this does not happen

automatically. Technology upgrading needs to lead to growth in productivity, and people need to feel the economic benefits through real wage growth. If digital technology is to live up to its potential, governments and firms need to ensure that this linkage remains unbroken.

## Mixed Growth amid Heightened Uncertainty

- The first half of 2018 was marked by continuing economic growth amid a backdrop of heightened uncertainty due to escalating trade tensions and a new normal of higher global interest rates, while some economies had to deal with exchange rate pressures along with rising oil prices and inflation.
- Although growth was uneven as the macroeconomic impact varied across economies, APEC as a whole expanded by 4.2% in the first half of 2018, which was faster than the 3.9% growth in the same period in 2017.
- Inflation has picked up in the APEC region, averaging 2.5% in September 2018 from 2.2% in September 2017, largely reflecting higher energy prices.
- Higher inflation and employment rates provided the basis for the U.S. monetary policy rate hikes. This, together with economy-specific factors, has generated mixed response from APEC economies. Out of the 17 APEC economies that use interest rates as their main monetary policy lever, six have hiked rates as of early October 2018 compared to end-2017 levels; two

have lowered their rates; and the rest decided to keep rates unchanged, opting to boost economic growth while domestic inflation conditions were deemed to be benign so far.

- Even with the momentum in global demand, merchandise trade growth in APEC was lacklustre, reflecting the combined impact of trade tensions and policy uncertainty. Growth in merchandise trade value inched up in the first half of 2018 while it doubled for the rest of the world. Meanwhile, trade volume growth slowed down.
- As GDP and trade growth showed signs of moderation, a declining trend was also observed in FDI flows. Global FDI dropped anew in the first half of 2018, falling by 41% to an estimated USD 470 billion from USD 794 billion in the first half of 2017.
- This decline followed a similar drop in annual global FDI inflows in 2017 which was mirrored by the fall in inflows of FDI into APEC economies by 20.7%, while FDI outflows from the region went up by 6.5%. Greenfield investments in APEC also contracted in 2017 by 5.5% compared to the level reached in 2016.
- The sluggish performance of trade and investment coincided with the increase in the number of trade- and investment-restricting measures compared to facilitating measures in the period October 2017 to May 2018.

- APEC is expected to maintain robust growth in 2018 with a 4.1% GDP expansion, propped up by the global economic momentum. However, growth is projected to moderate in 2019 – 2020, but still outpacing the rest of the world.
- The balance of risks has tilted to the downside for both the short term and medium term due to prolonged and heightened uncertainty. A substantial part of this uncertainty is attributable to intensified trade tensions that could affect both trade activity and trade relations. Growth is expected to be further weighed down by policy uncertainty, higher inflation, exchange rate pressures, and episodes of financial market volatility. Against these downside risks is the upside potential for growth that could come from continued pick-up in global economic activity which should translate into sustained strength in domestic consumption.
- For many years, trade has been the major source of economic growth in the APEC region. However, from 2012 to 2016, trade growth consistently lagged behind GDP growth. It was only in 2017 that APEC trade once again expanded faster than economic output, with a projected convergence in 2019 – 2020. This implies that trade is no longer the reliable driver of APEC economic growth it once was.
- In a persistently uncertain external environment marked by many changes – encompassing economic growth, financial stability and rapid technological transformations – the APEC region needs

to remain steadfast to its goal of balanced, inclusive and sustainable growth by boosting reliable sources of growth while, at the same time, harnessing drivers of future growth beyond trade. For example, there are opportunities in the digital economy that APEC can pursue, while also developing green technology, increasing greenfield investments and implementing productivity-enhancing reforms.

## APEC: Trekking the Road to Financial Inclusion

Series: Policy Brief No. 24

Publication Number: APEC#218-SE-01.20

Published Date: November 2018

Link: <https://www.apec.org/Publications/2018/11/APEC---Trekking-the-Road-to-Financial-Inclusion>

This policy brief looks at how financial inclusion is being defined, the various financial inclusion and literacy programs being implemented within the APEC region and whether they have translated into greater financial inclusion and improved access. It also discusses briefly what can be done to advance financial inclusion in the region.

### Findings & Recommendations

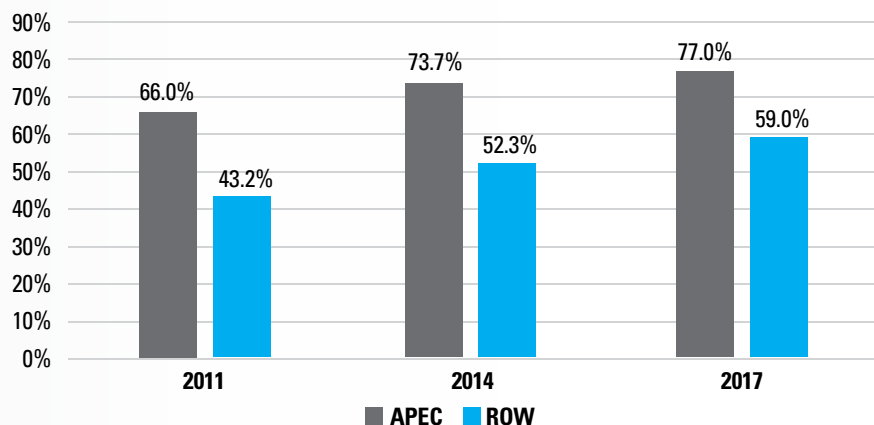
Defining financial inclusion. Financial inclusion centers on financial access as the primary requisite, although organizations and economies have varying definitions. The main similarity among the various definitions is that financial inclusion is focused on the delivery of financial services to the marginalized and low-income segments of society with the end-goal of improving lives and reducing poverty. While APEC as a whole does not have a formal definition of financial inclusion, meaningful initiatives have been launched on the matter, primarily through the Finance Ministers' Process (FMP).

# Economic & Financial Analysis

APEC performance in Global Findex. While there are variations in APEC economies' performance on financial inclusion as measured by the Global Financial Inclusion Index (Global Findex), the APEC region as a whole has performed remarkably well in ensuring access to financial services, with an upward trend in averages across the years. Using indicators for which data is available for at least 19 out of the 21 APEC members, it is observed that the results for APEC have improved in recent years and are more favorable compared to the average fetched by the rest of the world (ROW).

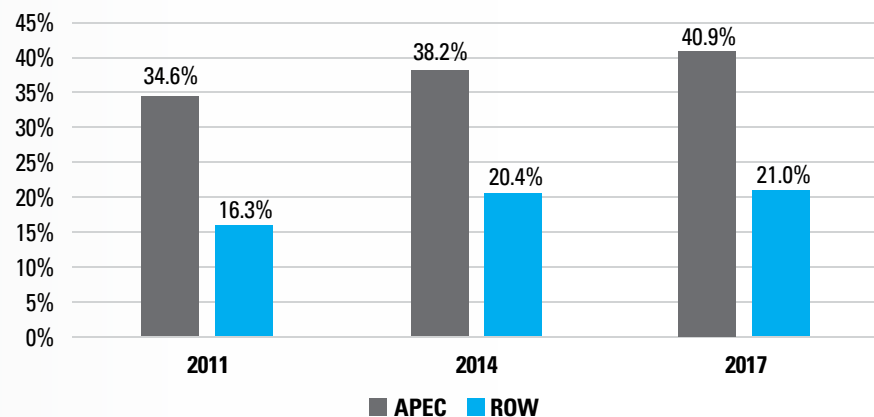
- Number of respondents aged 15 and above who maintain an account with a bank or any financial institution, either by themselves or together with someone else, reached 77% in APEC by 2017, higher than the ROW average.
- Number of respondents aged 15 and above who saved at a financial institution increased to around 41% in the APEC region in 2017, almost double than the average fetched by the ROW during the same year. It is also noticeable that the number of respondents who stated that they are saving or setting aside money at a financial institution is only about half of those who reported that they have an account at a financial institution.
- In terms of card ownership, debit card ownership is more prevalent compared to credit card ownership, globally and in the APEC region. It is also noted that card ownership – either credit card or debit card – is generally low across the world.

## Percentage of adults with an account in any financial institution



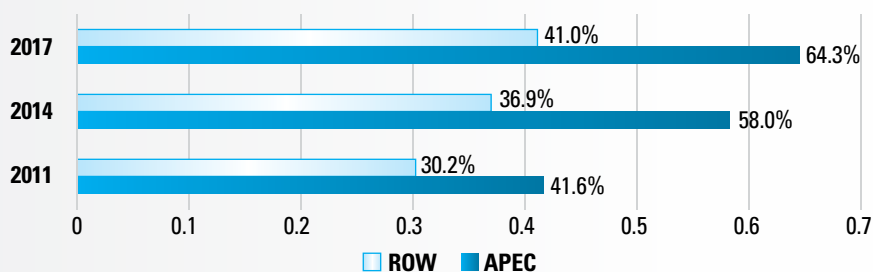
Source: World Bank, Global Findex Database (2011, 2014, 2017)

## Percentage of adults who saved at a financial institution



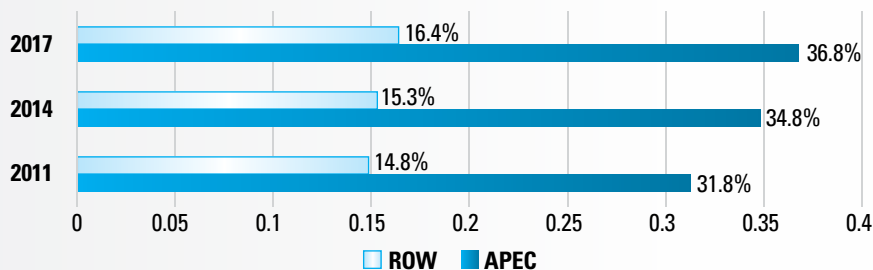
Source: World Bank, Global Findex Database (2011, 2014, 2017)

### Percentage of adults owning a debit card



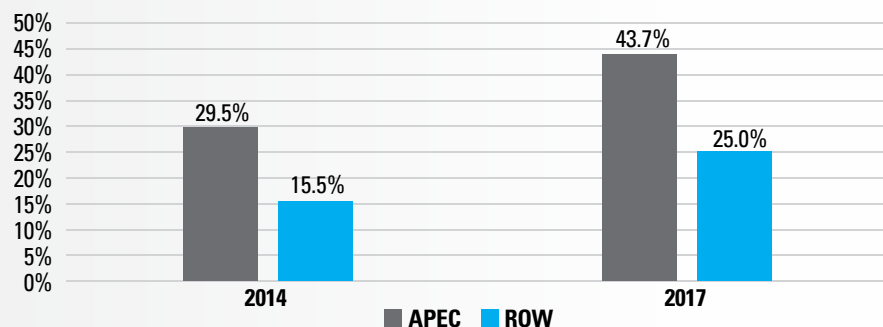
Source: World Bank, Global Findex Database (2011, 2014, 2017)

### Percentage of adults owning a credit card



Source: World Bank, Global Findex Database (2011, 2014, 2017)

### Percentage of adults who used the Internet to pay bills or buy something online in the past year



Source: World Bank, Global Findex Database (2014 and 2017)

- The advent of technology has given rise to the use of the internet and mobile phones to conduct financial transactions, particularly in paying bills or making purchases online. In 2017, almost 44% of respondents in the APEC region aged 15 and above used internet to pay bills or buy something online in the past year, a marked improvement from the 29.5% recorded in 2014.

Programs by APEC members. Progress made by APEC members in the area of financial inclusion as measured by the Global Findex is consistent with programs and strategies implemented in the region to increase awareness of the availability of and the means to access financial services and products.

- 20 out of the 21 APEC members have launched financial literacy programs that are geared generally towards equipping consumers with understanding about available financial instruments and services to help them make informed investment decisions.
- 15 APEC members have established domestic financial inclusion strategies with specific objectives and action plans. It should be noted that some APEC members who are G20 members could have implicitly adopted the G20 financial inclusion action plan instead of establishing their own, so that the number of APEC members with a financial inclusion strategy could include up to 18 members. In addition, some APEC economies are taking important steps towards developing and improving their own financial inclusion strategies such as

# Economic & Financial Analysis

conducting an economy-wide survey to determine the level of financial inclusion and publicly announcing the approaches that they are considering in formulating a financial inclusion plan.

- The financial inclusion strategies and financial literacy programs of the majority of APEC economies are mostly catered towards widening access to and enhancing knowledge of traditional financial products and services offered by formal financial institutions. However, this may change as Financial Technologies (FinTech) become more important in the financial sector.

Advancing financial inclusion. There is no one-size-fits-all: every economy is expected to implement a financial inclusion strategy that is appropriate and feasible given its development stage, economic priorities, and culture. Nonetheless, government support remains vital to the success of financial inclusion strategies and financial education programs. The role of government is to ensure that an appropriate and functioning regulatory and legal framework is in place, adequately supported by technological and financial infrastructures. Strengthening credit information bureaus is equally crucial to the financial inclusion agenda as it enables lending institutions to make sound decisions and apply appropriate interest rate schemes that should help both the lender and borrower achieve their respective objectives.

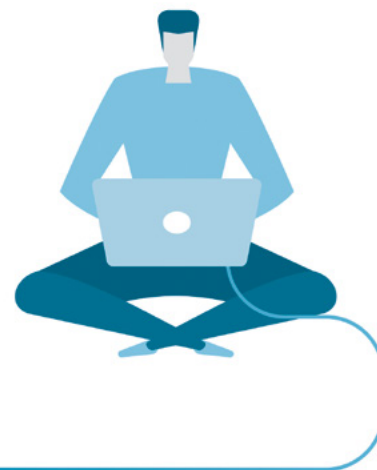
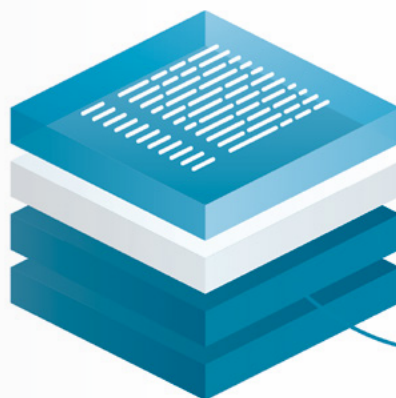
There are many other ways that governments, together with the financial sector, can

contribute in making financial inclusion more meaningful for all. Such short-term solutions that will increase participation in the financial process could include: reducing documentary requirements, especially collateral requirements to take in more borrowers; granting exemptions from cumbersome documentary requirements where appropriate; lowering transaction charges; allocating resources for MSMEs; and facilitating electronic or mobile transactions for increased convenience at less cost.

Within the region, there are several avenues where APEC economies can collaborate and conduct joint activities involving knowledge-sharing and capacity-building, for example, on sharing best practices to strengthen credit bureaus or credit information-sharing mechanisms, implementing an incentive

structure that encourages commercial banks to allot resources for MSMEs, and other such practices that lend support to the goal of financial inclusion. For example, the FMP has led the way in advancing the financial inclusion agenda in the region.

The APEC region is on the right path in moving towards greater financial inclusion as one of the passageways to inclusive growth. A majority of APEC economies have successfully launched financial inclusion strategies and financial literacy programs, even though more work can still be done. Effective and continuous implementation is critical, so that more and more people in the region have access to financial information, products and services, particularly the marginalized and low-income groups, including those who live in remote rural areas.



# Sustainable Economic Development

## Development and Integration of Remote Areas in the APEC Region

Publication Number: APEC#218-SE-01.13

Published Date: November 2018

Link: <https://www.apec.org/Publications/2018/11/Development-and-Integration-of-Remote-Areas-in-the-APEC-Region>

This report discusses what defines remoteness before delving into the challenges faced by remote areas and uncovering cases where remote areas have thrived in spite of those challenges. It also discusses what economies can do to develop and integrate remote areas into the wider economy and how APEC can contribute in this endeavor.

### Findings & Recommendations

Defining remoteness. Remote area development is economic development in the long run. Practically all of today's major cities were once remote areas, and some of yesterday's commercial hubs are remote areas today. The growth and decline of cities reflects shifting economic and trade patterns, changing technologies, and the impacts of policy intervention.

Although there is no comprehensive and generally accepted definition of remoteness, economies and international organizations have defined remote areas depending on their policy or program needs. A key element in these definitions is the lack of connectivity whether due to geographic distance, terrain, or travel time.

Remoteness could be absolute or relative and is not necessarily a rural phenomenon – cities can be considered relatively remote if they are disconnected from economic networks and are unable to tap into economic opportunities.

Challenges faced. Remote areas face many challenges peculiar to their situation. They often suffer from limited physical and communication infrastructure due to geographic isolation and high costs of infrastructure development.

People in remote areas have poor access to basic services such as education and healthcare. This results in economic hardships in remote areas due to high costs of living and limited job and entrepreneurial opportunities. Remote areas also face challenges related to governance, environmental vulnerability, and community isolation.

Realizing potential. Despite the challenges, many previously remote areas have realized their economic potential and integrated into the wider economy. Some remote areas have tapped into their natural resources and developed into cities with diverse industries. Others have benefited from their location and unique heritage through tourism development and attracting the film industry.

Setting up special economic zones with business-friendly environments can attract FDIs. On the other hand, investment in road and rail networks — from government funding and through public-private partnerships — can connect remote areas to local supply chains and global value chains.

While remote area challenges are many, they are not insurmountable. Economies need to develop transportation and communication infrastructure, implement structural reforms, and encourage public and private investments in remote areas.

Information and communication technologies can be utilized to improve the delivery of health and education services, alleviate the impacts of poverty and isolation, and promote financial inclusion in remote areas. Efforts can also be made to improve governance in remote areas and ensure stakeholder engagement and ownership of development plans while mitigating environmental and community risks.

Regional cooperation has a key role to play in remote area development. Economies can share experiences in addressing remote area challenges and mitigating various risks, and APEC's diversity in development level and geography can provide valuable insights. Lessons learned in tourism development and setting up special economic zones will help other economies in their own remote area development and integration plans. Experience has also shown that the building of quality infrastructure leading to the development of economic and trade corridors and trade facilitation can connect remote areas to global value chains.

Knowledge creation and dissemination is another role for regional cooperation. Work can be done towards defining and measuring remote area connectivity and constraints to growth, with the view of aiding economies in identifying those with high economic growth potential and prioritizing infrastructure investments. Toolkits and checklists, along

# Sustainable Economic Development

with capacity building activities, will be very useful in promoting cross-border investments in remote areas.

Role for APEC. While remote areas have been discussed in other international fora, this is often in the context of providing assistance or subsidies. There is little systematic discussion about the economic potential of remote areas with the view of improving connectedness and making these areas self-reliant. APEC can contribute to remote area development and integration by initiating discussions and actions on economic exploration and tapping the potential of remote areas.

Remote development is a cross-fora issue. While there aren't many projects directly dealing with remote areas, many of the discussions within APEC are relevant to their development and integration. Issues of connectivity, structural reform, trade liberalization and facilitation, cross-border investment, infrastructure development, financial inclusion, and e-commerce, among others, are key to realizing the potential of remote areas in the region.

## Identifying Green, Sustainable and Innovative MSMEs in APEC

Series: Policy Brief No. 19

Publication Number: APEC#218-SE-01.1

Published Date: February 2018

Link: <https://www.apec.org/Publications/2018/02/Identifying-Green-Sustainable-and-Innovative-MSMEs-in-APEC>

This policy brief examines the definition of a green, sustainable and innovative MSME, taking into account existing green growth indicators that are developed by other organizations.

### Findings & Recommendations

MSMEs and green growth. MSMEs play a key role in APEC; they make up 97% of all enterprises, employ 50% of workforce in the region, and contribute between 20 to 50% to GDP in most APEC economies. While individual small businesses have rather low environmental footprints, their combined impact can exceed that of large businesses. MSMEs may also produce more pollution due to their informal nature and the resulting lack of regulations and supervision. Indeed, studies have estimated that these businesses can contribute up to 60-70% of pollution levels in developing economies. In addition, SMEs tend to be key drivers of innovation in green industries. Notwithstanding, MSMEs face more challenges in pursuing green growth compared to the larger firms, such as the lack of awareness, limited access to information and technology, strict regulatory requirements, limited access to finance, and barriers to markets.

Green growth indicators. OECD defines green growth as “fostering economic growth and development, while ensuring that natural assets continue to provide the resources and environmental services on which our well-being relies”. In essence, green growth entails investing in the environment as a source of economic growth.

Green growth indicators generally chart the progress of members across various environmental aspects and are usually based on the System of Environmental-Economic Accounting framework. This framework integrates economic and environmental statistics to provide a more comprehensive perspective. It contains internationally agreed standard concepts, definitions, classifications, accounting rules and tables for producing internationally comparable statistics and accounts, and follows a similar accounting structure as the System of National Accounts.

Examples of such indicators include OECD's Green Growth Indicators; the Green Growth Knowledge Platform indicators developed jointly by the Global Green Growth Institute, OECD, UNEP and World Bank; UNESCAP's Green Growth Indicators; the UNEP's work towards developing green economy indicators; the European Commission's industry indicators; and specific economy and local level indicators. In general, these indicators span across three broad categories, namely: 1) conventional environmental indicators that measure waste generation and resource use (eco-efficiency); 2) indicators that account for social welfare; and 3) policy-related indicators.

Green growth indicators for MSMEs in APEC. Drawing from the World Bank's Green Bonds



initiative and National Resource Canada, the policy brief proposes two overall criteria to identify a green, sustainable and innovative MSME in APEC, namely: 1) one that mitigates negative environmental effects by adopting green business practices like recycling waste and installing solar panels, among others; and 2) one that actively adapts to the new market created by climate change, namely the green market, by becoming involved in producing green goods and services such as research and investment in environmental goods and services, and manufacturing recyclable and biodegradable inputs.

Way forward for APEC. While the policy brief offers some guidelines based on existing green growth indicators to identify what a green, sustainable and innovative MSME is, there is much to be done in APEC. First, baseline data at the firm level could be collected from members to provide a clear picture of the current situation. An APEC-specific framework may then be developed from this, suited to the particular features of the region. Second, APEC has undertaken many initiatives regarding green, sustainable and innovative development of MSMEs. The impact of these programs could be gauged to determine how much more work needs to be done, and what form is most effective. Lastly, multiple sources suggest that adapting local level indicators from international level ones require some degree of modification to ensure their relevancy. According to OECD, green growth needs to be tracked at all levels: international, economy and local as the impact of climate change varies across them. Policy impacts may also differ according to local situations.

A framework to identify green, sustainable and innovative MSMEs in APEC hence needs to be flexible enough to be applied by both industrialized and developing economies, as well as take into account geographical differences. More in-depth studies could be conducted to first determine specific indicators to identify green MSMEs and consequently policies could be developed to encourage greater uptake of green practices among them and other firms. Finally, focus group discussions can be arranged to facilitate exchange of ideas to identify context specific indicators.



**StatsAPEC** is APEC's statistics portal with data dating back to APEC's inception in 1989. It consists of the Key Indicators Database and Bilateral Linkages Database. The Key Indicators Database includes over 120 GDP, trade, financial and socio-economic indicators, allowing for an analysis of trends across a number of topics. The Bilateral Linkages Database facilitates detailed analysis of trade and investment flows between APEC economies and within APEC. APEC aggregates are available for most indicators in StatsAPEC, making it easy to examine the region as a whole.

StatsAPEC is available at [statistics.apec.org](https://statistics.apec.org) and is optimized for use on mobile devices.







**Asia-Pacific  
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