Virtual Roundtable

Promoting Structural Reforms for Sustained Economic Growth in the Asia-Pacific Region

14/15 June 2022

ROUNDTABLE REPORT

Note: This Report reflects the views of participants as presented during the Roundtable and not necessarily the positions of the organizers.

The Asia-Pacific region currently finds itself at a crossroads. Pressures are growing for economies to accelerate their transition toward sustainable environmental, social and governance frameworks. The ongoing revolution in data and digital technology, brought to the fore by COVID-19, is challenging businesses, governments and consumers to significantly transform their operational models. Unlike in Europe where a supranational framework exists, Asia-Pacific economies have been responding to these challenges through internal policies with very limited coordination. Exacerbated by recent conflicts threatening to create competing international economic, regulatory and market arrangements, the forces of economic fragmentation have gained ground against APEC's drive toward regional integration.

This new reality has superimposed itself on the ongoing efforts by APEC to promote structural reforms. Structural reforms are defined as measures that change the fabric of an economy and the institutional and regulatory framework under which businesses and individuals operate, with the goal of enabling the economy to achieve its growth potential in a balanced way.[1] Structural reforms, which are aimed to impact the supply side of the economy, are generally targeted at one or several of four areas: product markets, labor markets, framework conditions and trade barriers.

The call for structural reforms in the region has been growing louder since the era of rapid growth gave way to a period of more modest growth or in some cases, stagnation, often brought about by economic crises. It has been argued that underlying this current economic reality is the deterioration of potential growth rates in many economies, a trend that manifested itself in the aftermath of the Global Financial Crisis. Structural reforms can address this challenge by restoring productivity.

The experience of structural reforms across the world highlights the many challenges facing such efforts and the factors that impact their viability. These could include among others fiscal policies (e.g., fiscal consolidation or expansion) monetary policies (e.g., high or low interest rates), political environment (e.g., timing of elections, legislative majorities, political orientation of leadership), economic environment (e.g., stability, recession, unemployment) and external factors (e.g., financial assistance programs). A study by the European Central Bank (ECB)[2] on the impact of various factors on structural reforms in the euro area concluded that economies are generally more likely to implement such reforms under conditions of recession, high unemployment or low growth potential.

The region's economies have been able to avoid recession during the pandemic thanks to the vigorous fiscal and monetary policy responses of governments. However, the resulting record levels of public debt, tight fiscal situation and hugely inflated central bank balance sheets are now constraining most governments' ability to provide further stimulus or respond to new crises. They are now also facing inflation, driven by supply-side factors such as the impact of the pandemic and

[1] European Central Bank, *What are structural reforms?*

[2] Antonio Dias Da Silva, Audrey Givone and David Sondermann, *When do countries implement structural reforms?* [European Central Bank Working Paper Series No. 2078], June 2017

geopolitical conflict on global supply chains and the prices of food and energy. These factors combined with elevated unemployment levels and low growth potential are giving fresh urgency to the call for structural reforms, which are necessary for the region to achieve sustained economic recovery and future growth.

While APEC has been steadily promoting structural reforms since 2004,[3] there is broad agreement that more needs to be done. In its 2021 statement on APEC structural reform, PECC underscored its survey findings that there is a high perception among policy experts that not enough work has been done on structural reforms in the region's economies since the Global Financial Crisis. In its report to the APEC Structural Reform Ministerial Meeting, ABAC highlighted the urgent need for structural reforms that address the immediate challenge of recovering from COVID-19 as well as medium-term challenges in responding to technological evolution and climate change.

This Roundtable aimed to help find a way forward that addresses these concerns, by identifying priority areas (especially those related to promoting sustainability and inclusive digitalization) that could be the focus of concerted action by APEC economies in collaboration with other relevant stakeholders, including the business sector. In view of APEC's mission to promote regional economic integration through free and open trade and investment, the discussions also focused on how structural reforms in these priority areas can be pursued in a way that steers the region away from fragmentation and toward greater cross-border inter-operability and integration.

Structural Reform in the Asia-Pacific Region: The State of Play

Structural reform is an issue of significant concern for business, government and non-government stakeholders in the region, especially in the developing economies, as shown in the PECC's 2021 State of the Region report.[4] Failure to implement structural reforms was identified among the top 6 risks to growth by survey respondents. Of particular concern are those reforms related to capacity to benefit from digital technologies, compatibility of standards to improve connectivity and infrastructure investment, liberalization and facilitation of services trade and foreign investment, competition in key sectoral markets such as telecommunications, achievement of inclusion and sustainability objectives, financial sector issues affecting trade and investment, and liberalization and facilitation of agricultural trade.

In 2020, the APEC Economic Committee commissioned a review of structural reforms in APEC member economies under the 2015 Renewed APEC Agenda for Structural Reform (RAASR).[5] The review noted progress on 10 out of 20 external indicators, mixed performance on 8 indicators, no progress on one indicator and no data on one.[6] It also noted that there is much room for

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[3] In 2004, APEC initiated the Leaders' Agenda to Implement Structural Reform (LAISR), which was followed by the APEC New Strategy for Structural Reform (ANSSR) in 2010, the Renewed APEC Agenda for Structural Reform (RAASR) in 2015 and the Enhanced APEC Agenda for Structural Reform (EAASR) in 2020.

[4] Pacific Economic Cooperation Council (PECC), State of the Region 2021-2022 [https://www.pecc.org/research/state-of-the-region]

[5] APEC Policy Support Unit, Renewed APEC Agenda for Structural Reform (RAASR) - Final Review Report (October 2020) [https://www.apec.org/docs/default-source/publications/2020/10/renewed-apec-agenda-for-structural-reform-raasr---final-review-report/220_psu_raasr-final-review-report.pdf?sfvrsn=de393369_1]

[6] Following are the details:

- ***Improvements***: 1) World Bank Ease of Doing Business (EoDB); 2) The Conference Board Labour Productivity per Person Employed; 3) World Economic Forum (WEF) Indicators for Business Sophistication and Innovation; 4) ILO Share of Youth Unemployment; 5) ILO Labour Force Participation Rate for Age Group 65+; 6) WEF Indicators for Financial Market Efficiency; 7) UNESCO Tertiary Gross Enrolment Ratio; 8) WEF Indicators for Fiscal Transfers; 9) ITU Indicators on Access to ICT Infrastructure; and 10) World Bank and OECD Physicians Per 1,000 People
- ***Mixed performance***: 1) OECD FDI Regulatory Restrictiveness Index (FDI RRI); 2) OECD Services Trade Restrictiveness Index (STRI); 3) World Bank Indicators on Women, Business and the Law; 4) WEF Indicators for Labour Market Efficiency; 5) WEF Indicators for Basic Services and Infrastructure; 6) UNESCO Pupil-Teacher Ratio; 7) OECD PISA Indicators on Reading,

improvement in business regulations and conduct and barriers to trade and investment (particularly in the primary sector), as well as cluster development, university-industry collaboration in research and development, basic services and infrastructure, among others. Despite improvements, there is also concern to avoid possible backtracking in labor and financial market policies. The review recommended continued efforts in the following areas:

- Simplifying, assessing and reducing regulatory burdens that restrict economic growth, and addressing behind-the-border barriers that affect trade and investment;
- Competitiveness of labor and financial markets;
- Access to basic services and infrastructure; and
- Participation in labor markets by wider segments of society, including youth, older workers and women.

Currently the APEC Economic Committee (EC) is focusing on four pillars of work under the Enhanced APEC Agenda for Structural Reform (EAASR). These are: (a) creating an enabling environment for open, transparent, and competitive markets; (b) boosting business recovery and resilience against future shocks; (c) ensuring that all groups in society have equal access to opportunities for more inclusive, sustainable growth, and greater well-being; and (d) harnessing innovation, new technology, and skills development to boost productivity and digitalization.

In approaching structural reforms, the EC has agreed to adopt three approaches:

- Delivering the six core structural reforms (competition policy and law; strengthening economic legal infrastructure; ease of doing business; regulatory reform; public sector governance; corporate law and governance) to improve market function and transparency;
- Implementing specific market reforms to improve innovation and competitiveness of business and achieve pro-inclusion benefits; and
- Adopting a holistic approach to structural reform that combines core reforms, specific market reforms and broader policies to boost productivity and economic resilience.

The EC's work in 2022, there is an emphasis on the topic of green recovery. Its 2022 APEC Economic Policy Report, which is currently under development, prioritizes structural reform to combat climate change and other environmental challenges, with the objective of identifying reforms that promote sustainable recoveries from the COVID-19 and other future economic shocks. The main thrust of the study focuses on creating well-functioning environmental markets that meet the needs of a very diverse region as a central element of green recovery by addressing three aspects. These are efficient pricing of environmental services (e.g., taxes, carbon emissions trading, removal of subsidies), regulation and complementary enabling policies such as fostering green investment and innovation, providing information and investment in green skills, among others.

Still, much more needs to be done if economies are to succeed in meeting the growing challenges they now face. Many APEC member economies have high-to-moderate exposure to various risks related to dependence on international tourism, fiscal constraints, governance quality, health care system and income inequality, particularly in the developing economies. Most are grappling with rising debt burdens and interest costs, and several developing economies with high external debt and low concessional borrowing are facing the prospects of capital outflows with the tightening of monetary policies in advanced economies.

Mathematics and Science; and 8) World Bank Global Findex Indicators on Share of Population Making and Receiving Digital Payments in the last year (15+)

- ***No progress***: ILO Employment to Population Ratio
- ***No data*** (impossible to make data comparisons over time due to change in methodology): OECD Product Market Regulation (PMR) indicators

Most APEC member economies also have substantial dependence on Chinese demand and so are significantly exposed to a slowing of growth in the Chinese market. The expected doubling of the old-age dependency ratio by 2035 in most of these economies will require labor market reforms. With current stated policies and pledges by major carbon-emitting economies still not aligned to limit global temperature increases well below the Paris Agreement target, there is a high risk of more costly policy shifts down the road.

Structural Reform Priorities and Approaches for APEC: Promoting Sustainability

Sustainability has become, in the view of many, a priority area for structural reform. There are growing pressures on economies today to accelerate their transition toward alignment with SDGs and contributions to the realization of these goals. Lenders and investors have been the strongest channels of these pressures, which are pushing economies toward: (a) greater commitment to the Paris Agreement target of limiting global warming to 1.5^{o}C by 2050 by making immediate cuts to emissions and explicitly pledge to sustainable development; (b) more clarity on the practical steps to cut emissions, the roles of different stakeholders and pathway to net zero alignment; and (c) stronger coordination among governments and global regulators to create a supportive economic and regulatory framework and incentives for green investment.[7]

Moving toward greater sustainability presents various structural reform opportunities in a number of areas. Among them are resource efficiency (more efficient modes of transport and production and distribution processes; recycling; more efficient buildings; reduced water usage and consumption); energy sources (lower-emission energy sources; supportive policy incentives; new technologies; participation in carbon markets); products and services (low-emission goods and services; climate adaptation and insurance risk solutions; R&D and innovation to develop new products and services); markets (access to new markets; use of public sector incentives; access to new assets and locations needing insurance coverage); and resilience (participation in renewable energy programs; adoption of energy efficient measures; resource substitutes and diversification).

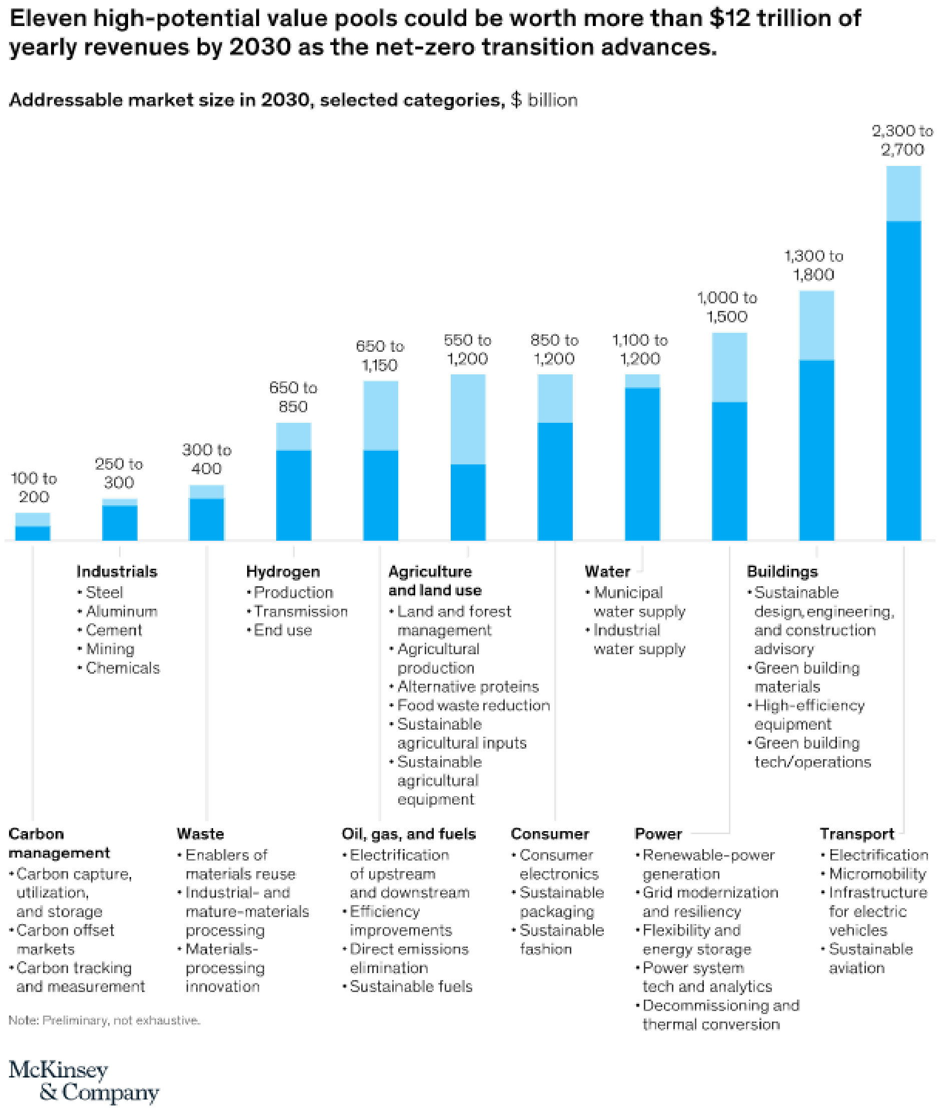
The requirements for transition to net zero emissions[8] by 2050 are very significant. One study[9] estimates that the annual expenditures on physical assets in land-use systems and energy alone through 2050 would have to be about 60 percent higher than what they are today. This scenario assumes, for example, steep reductions in the demand for coal, oil and natural gas, and zero-emissions vehicles completely replacing cars with internal combustion engines by 2050. It also assumes substantial reallocation of capital to new opportunities across the economy. For example, investments in eleven sectors with high potential for transition could generate upwards of an estimated USD 12 trillion in yearly revenues by 2030. [See Figure 1.]

[7] Glasgow Financial Alliance for Net Zero (GFANZ) Call to Action (October 11, 2021) [https://www.gfanzero.com/press/call-to-action/]

[8] The term net zero means achieving a balance between the carbon emitted into the atmosphere, and the carbon removed from it.

[9] McKinsey & Company, The net-zero transition: What it would cost, what it could bring [https://www.mckinsey.com/business-functions/sustainability/our-insights/the-net-zero-transition-what-it-would-cost-what-it-could-bring]

Figure 1: Allocation of Capital to New Opportunities



Policy actions are critical requirements for these investments to be realized. In the case of energy transition, for example, businesses and investors will need a number of very challenging supporting policies. First, economies need to decide who will pay for the transition and to what extent – whether it will be the public sector, private sector, corporates or consumers. Second, decisions will need to be made on subsidies and carbon taxes. Third, a policy on legacy fossil fuel infrastructure will need to be made. Fourth, there needs to be a clear strategy on retiring stranded fossil fuel assets[10] and their replacement by new sources of energy, which to reach the net zero goals will entail a much more rapid obsolescence of capital stock than what usually occurs in dynamic markets when old sunset products and industries are replaced by new ones, and which ultimately carries risks for financial stability, pensions and government finances. Finally, there needs to be a policy for renewable energy supply vis-à-vis infrastructure and demand.

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[10] Stranding of assets refers to the process by which expectations of future profits from investments in assets collapse in the face of disruptive policies or technological changes. In the case of investment in fossil fuel assets, the loss of value will be reflected in investors' expectations of the value of market prices of enterprises and stock market indices, resulting in wealth loss for ultimate owners of these assets and other indirectly connected entities. See Semieniuk, G., Holden, P.B., Mercure, JF. et al. *Stranded fossil-fuel assets translate to major losses for investors in advanced economies*. Nat. Clim. Chang. 12, 532–538 (2022) [https://doi.org/10.1038/s41558-022-01356-y].

These challenges should also be seen in an international context, where economies have so far been responding to the challenge of accelerating transition through internal policies with limited coordination among themselves. This lack of coordination among economies' responses is compounded by the multiplicity of uncoordinated or insufficiently coordinated initiatives being undertaken in international fora by a large number of stakeholders from public and private sectors to address various aspects of transition such as disclosure standards, data and taxonomy and overlapping capacity-building measures.

Within APEC, the response of ABAC to these challenges has been to promote, through the APFF Sustainable Finance Development Network (SFDN), a regional platform to provide an opportunity for these various initiatives and stakeholders to coordinate efforts[11] for the purpose of supporting APEC member economies in achieving alignment and inter-operability in key focus areas that would facilitate the use of ESG finance to incentivize transition of businesses across the region toward SDGs, including transition to net-zero carbon emissions by 2050.[12]

Ongoing efforts in the SFDN under these focus areas are geared toward the following objectives:

- Motivating Capital:
    - Credible and predictable sector-specific policies, targets and transition plans in setting economy-wide net zero targets for 2050 or earlier interim targets for 2025 and/or 2030
    - Promoting coherence in approaches among economies with respect to commitment to pricing the externalities of carbon emissions and allowing businesses to adequately prepare and fund the transition
    - Ensuring that global financial regulatory changes support increasing the level of finance deployment to emerging markets in support of the transition to net-zero emissions and supporting the work of multilateral development banks and development finance institutions in this space
    - Developing mechanisms to support the specific challenges facing MSMEs in undertaking transition
- Financial market structure changes:

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[11] Key baseline priorities and stakeholders currently being engaged on the SFDN platform are as follows:

- Taxonomies inter-operability/common recognition: Sustainable Finance Taxonomies, European Commission International Platform on Sustainable Finance, ASEAN Taxonomy Board, and Climate Bonds Initiative
- Disclosure: IFRS International Sustainable Standards Board (ISSB), Transition Plan Taskforce
- Common global frameworks for transition: Glasgow Financial Alliance for Net Zero
- Supporting data: Future of Sustainable Data Alliance (FoSDA), and Climate Data Steering Committee
- Policy alignment: G20 Sustainable Finance Working Group, UNDP SDG Finance Sector Hub

[12] These focus areas are defined in the SFDN's roadmap for sustainable finance (current iteration), which are:

- ***Motivating capital*** (addressing market failures to accelerate climate action from the real economy and enhance the flow of climate-aligned capital). Its building blocks include (a) carbon markets; (b) environmental and industrial policies; (c) fiscal and monetary incentives; (d) mitigation and adaptation of large and listed companies; (e) mitigation and adaptation of SMEs and unlisted companies; (f) sector-specific and general financing; (g) multi-sectoral collaboration; and (h) sustainable and urban infrastructure.
- ***Financial market structure changes*** (structural changes to make the climate finance market more efficient, transparent and scalable), Its building blocks include (a) ESG/climate disclosure; (b) global reporting and data repositories; (c) financing SMEs and unlisted companies; (d) financing product development; (e) derivatives; (f) taxonomies; (g) investor ESG integration; and (h) innovation.
- ***Climate risk management*** (actions needed to incorporate climate factors into risk management frameworks). Following are its building blocks: (a) preventing market fragmentation; and (b) socialization of best practices.
- ***Supporting paradigm and mindset-shift momentum*** (actions needed to support civil society, investor stewardship and other stakeholders' engagement to influence and bring change towards transitioning and alignment with SDGs and supporting efforts to lead corporate and financial sector organizations process towards prioritizing and accelerating the preparations for a low-carbon future). Its building blocks are as follows: (a) supporting civil society and other stakeholders' awareness; (b) investor stewardship and engagement; (c) corporate governance capacity building; (d) financial institutions' governance capacity-building; (e) market structures to support sustainable finance capacity and competence building and coordination.

  - Net zero targets: debt issuance alignment with sustainability goals and creating the market for net-zero aligned sovereign debt
  - Providing an enabling environment to support capital flows to finance innovation
  - Supporting the development of inter-operable green and transition taxonomies
  - Setting a target for TCFD-aligned risk management and disclosures as well as net-zero transition plans
  - Supporting work towards the creation and design of an open data public platform
  - Enabling regulatory policies for financial product development, with specific focus on MSMEs
- Global coordination to green the multilateral and international financial architecture for the achievement of the net-zero target:
  - Regulatory frameworks alignment to net zero target
  - Consistency and coherence across global regulatory frameworks aligned to net zero target (disclosure, metrics and methodologies)
  - Encouraging global coordination among regulators and timely action to ensure coherence
  - Specific climate change and net zero financial stability mandates for central banks and finance regulators
  - Collaborative review of the work to date on climate change by the bodies that make up the international financial architecture
- Supporting paradigm/mindset shift momentum:
  - Complementing net zero targets with clear communication to the private sector and consumers and an economy-wide transition plan
  - Creating incentives to help people, businesses and communities work toward a green recovery from the pandemic
  - Mobilizing capital flows to emerging markets through the development of local governance structures supporting and coordinating the development of sustainable finance and developing domestic mobilization platforms

Growing pressures to move toward a sustainable future have come at a time when Asia is in the process of developing its capital markets. Capital markets have huge potential to promote sustainability in the region as they are global in nature and involve participants from across the value chain of capital. However they can only play this role effectively under certain conditions. First, climate finance markets will need to scale within the capital markets to meet the region's investment needs. Second, markets need to be sufficiently stable, liquid and deep. Third, the financial industry needs a free, rigid and transparent rule-based market space and infrastructure. Fourth, seamless and efficient capital flows across borders will be critical to scaling markets at the unprecedented scale, speed and geographic scope required to achieve the net-zero targets. Creating and safeguarding this rule-based infrastructure is an important task for policy makers and regulators.

Liquid, efficient and transparent carbon markets have huge potential for promoting sustainable transition through carbon pricing. Both compliance markets (emissions trading systems or ETSs) and voluntary carbon markets (VCMs) can play significant and complementary roles in the de-carbonization of the global economy. However, around 80 percent of carbon emissions are currently not covered by regulated carbon pricing schemes. There is need for further scaling and enhancement of ETSs from today's USD170 billion to USD1 trillion (according to conservative estimates) before 2030 through increased geographic and sectoral coverage and more aggressive moves toward de-carbonization.

Delivering a clear price signal would require ETSs to adopt: (a) steep linear reductions per year in allowances; (b) fixed-cap (absolute emissions) systems as opposed to intensity-based systems to align with total carbon budgets; (c) classification of ETS allowances as financial instruments to safeguard markets and ensure integrity; (d) use of auctioning in lieu of free allocation; and (e) consideration of Carbon Border Adjustment Mechanisms when feasible to prevent leakage and maintain competitiveness. The ETS should be an integral part of a system of emissions reduction mechanism.

VCMs can play a complementary role as a transitionary mechanism that can cover sectors and jurisdictions that are not fully covered by ETS, as a long-term global marketplace for carbon removals for entities to neutralize residual emissions, and as a complementary mechanism for corporates and the financial services sector. Greater inter-operability among ETSs would be needed to align rates of de-carbonization and pathways across regions and thus to prevent dilution of de-carbonization ambitions. Inter-operability between ETSs and voluntary markets can serve to grow carbon markets while driving additional co-benefits.

In order for the market to develop, policy makers and regulators will need to play their critical roles. This includes rapid action to scale compliance markets and promote robust and complementary voluntary carbon markets. They need to expand ETSs through geographic and sectoral expansion and support for the development of associated products such as derivatives instruments. A market consensus on the role of VCM credits alongside transparent standards for measurement, reporting and verification to ensure verifiable “additional” emissions reductions will also be needed to facilitate the take-off of VCMs.

Taxonomies are central to the success of transition, providing a way to measure progress and when enabled by legislation can expand to serve as a metric in sustainable reporting and a benchmark for sustainable products and for risk management. Examples of their use include disclosures used for financial institutions and corporates to report exposures and for central banks to track the development of green loan markets; for launch of financial products such as green bonds in China; for encouraging and supervising financial institutions in granting sustainable loans and investments as in Malaysia and Bangladesh; and by financial institutions for the classification of their portfolios and loan books such as in Singapore.

The current landscape of taxonomies is characterized by fragmentation and divergence. There are currently close to 30 taxonomies, including official and industry-driven ones, across the globe, with no consistently applied definition of climate aligned finance. These vary in approaches – principles-based vis-à-vis prescriptive, project-based vis-à-vis activity or entity-based; include different transition activities; different treatment of green bonds vis-à-vis sustainability-linked bonds; providing quantitative thresholds vis-à-vis qualitative descriptions, among others. Over the next two years, various taxonomies will be entering into force, which will test their usability, flexibility, inter-operability, comparability and ability to continually evolve – characteristics that will be key for ESG finance to successfully incentivize transition toward sustainable development goals in the region.

Within APEC, special attention needs to be given to developing member economies. One study[13] highlighted the potential for viable green investment across Southeast Asian economies – an estimated USD3 trillion from 2016 to 2030 – that could help the region pivot towards a more sustainable growth trajectory. Given that combining its members together, ASEAN is projected to

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13 DBS and UN Environment Program, Green Finance Opportunities in ASEAN, 2017 [https://www.dbs.com/iwov-resources/images/sustainability/img/Green_Finance_Opportunities_in_ASEAN.pdf]

become the fourth largest economy by 2030 with an approximately 4 percent GDP growth rate, Southeast Asia's energy needs will see very significant increases. Financing the investment requirements for sustainable energy will be a challenge, as the public sector, which currently accounts for around 90 percent of the region's infrastructure investments, now face fiscal constraints in the wake of the COVID-19 pandemic and is expected to be able to finance no more than 50 percent of needed investments, thus emphasizing the importance of private sector contributions to infrastructure financing going forward.

Faced with realities on the ground, regulators in the region are signaling a more cautious and gradual progress toward a low carbon economy. A study by ASEAN central banks concluded that current social and economic structures and level of development of each member economy require central banks to adopt a "gradual and/or phased approach in promoting and facilitating the transition towards a low carbon and climate resilient economy; and exercising flexibility when adopting international best practices."[14] Capital market regulators acknowledge that "the heterogeneity of the levels of development [within ASEAN] signifies the possibilities of tiered approaches that certain nations can commit to as they transition to a sustainable economy."[15] In another report, it was also noted that "there has been a loud call for support to be given to those who are trying (or need) to move gradually to get to that 'perfect' point," conceding that "some progress is better than no progress with issuers who cannot meet the 'green' standards but who want to be less 'brown.'"[16]

Various challenges necessitate a just and more affordable transition approach for developing economies in the region. Challenges facing transition in ASEAN include the wide variety of starting points and trajectories, legacy infrastructure, resources bases and levels of reliance on fossil fuels, affordability especially with respect to MSMEs and the lack of financing options. Financing the transition of these economies faces the challenges of a lack of common standards and approaches, the difficulties of localizing global ambitions and approaches, the lack of clarity on how to assess eligibility, the lack of capacity in transition financing and a weak project pipeline.

Key to meeting these challenges is collaboration among stakeholders (governments, regulators, investors and financiers, users of capital, civil society organizations academia and the media) in forming coalitions, and undertaking advocacy, development, engagement and technical assistance to establish the needed policies and frameworks and generate the market action to create the supply and demand for sustainable finance. Structural enhancements with wide impact are needed for private capital providers, multilateral development banks, philanthropies and governments to drive transition. These include:

- Priority frameworks: (a) Inter-operable taxonomies that effectively orient the flow of capital toward sustainable activities and away from harmful ones; (b) a credible pathway toward a clearly understood orderly, just and affordable transition; and (c) standardized disclosures that provide credible, comprehensive and consistent information to multiple stakeholders.
- Policy drivers: (a) carbon pricing; (b) removal of subsidies; (c) energy policy (fossil fuel vis-à-vis renewables); (d) transition assistance; and (e) tax credits.

[14] https://asean.org/book/report-on-the-roles-of-asean-central-banks-in-managing-climate-and-environment-related-risks/

[15] ASEAN Capital Market Forum, Roadmap for ASEAN Sustainable Capital Markets [https://www.theacmf.org/initiatives/sustainable-finance/roadmap-for-asean-sustainable-capital-markets]

[16] ASEAN Working Committee on Capital Market Development, Report on Promoting Sustainable Finance in ASEAN [https://afcwp.asean.org/wp-content/uploads/2020/10/Report-on-Promoting-Sustainable-Finance-in-ASEAN-for-AFCDM-AFMGM.pdf]

- Instruments: (a) debt (sustainability-linked bonds and loans); (b) equity; (c) de-risking (guarantees, firs loss); (d) blended finance; (e) soft loans; and (f) early retirement structures.

In addition to these framework conditions, structural reforms will also need to focus on preparing the labor force for the paradigm shift toward a more sustainable society through education, retraining of workers in transitioning industries, and development of new skill sets. They should also address barriers to trade and investment that are needed to facilitate transition financing for developing economies.

These considerations underscore the importance of collaboration and coordination among multiple stakeholders and initiatives to reduce fragmentation and unnecessary duplication and focus efforts to assist APEC member economies, especially developing economies, in undertaking the relevant structural reforms needed to speed and facilitate their progress on their transition path. APEC can play an important role in enabling and facilitating this collaboration and coordination. The APFF SFDN is a platform that can bring key global and regional stakeholders, the public and private sectors and multilateral institutions to support APEC in this task.

Structural Reform Priorities and Approaches for APEC: Promoting Inclusive Digitalization

Much has been said about the benefits that digital technology can bring to advance the goal of financial inclusion. There is ample empirical evidence that expanded access to financial products such as payments, savings accounts, loans and insurance contributes positively to economic growth.[17] Access to finance is also a critical issue for MSMEs, which account for more than 97 percent of enterprises in the Asia-Pacific region, employ more than half of the region's labor force and serve as the key seedbed of innovation. Over the past few decades and particularly during the recent COVID-19 pandemic, much of the progress in financial inclusion has been due to the use of digital technology.[18]

Inasmuch as those population segments that remain financially excluded are in most cases those on the other side of the digital divide that lack access to the Internet, such as those living in rural areas or in remote locations in developing economies, providing the basic information and telecommunications infrastructure is essential. Unfortunately traditional telco models have not been able to support many low-income population areas and remote communities. While governments can help address this issue such as through improvements in competition and spectrum policy, they also need to develop new solutions that can provide low cost, high-speed, and easily accessible broadband internet in these areas, such as for example through the introduction of satellite technology.[19]

[17] Asli Demirgüç-Kunt and Dorothe Singer, Financial Inclusion and Inclusive Growth: A Review of Recent Empirical Evidence (World Bank Policy Research Working Paper No. 8040), 2017 [https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2958542#].

[18] Recent sharp increases in measures of financial inclusion in Latin America, particularly in Brazil, Argentina and Colombia, which reduced their unbanked population by 73, 18 and 8 percent, respectively, were brought about by channeling COVID-19 related social benefit programs through cloud-based payment applications and private digital wallet. Institute of International Finance, Cloud in Latin America: Opportunities and Challenges for Financial Services, February 2022 [https://www.iif.com/Publications/ID/4798/Cloud-in-Latin-America-Opportunities-and-Challenges-for-Financial-Services].

[19] For example, Asian Development Bank is partnering with Kacific Broadband Satellites International Ltd. (Kacific) to construct, launch, and operate Kacific 1, a geostationary satellite, that can provide broadband internet in Papua New Guinea. Asian Development Bank, Broadband Internet Satellite is Key to Achieving Papua New Guinea's Vision for Effective e-Government Services, December 2020 [https://www.adb.org/news/videos/broadband-internet-satellite-key-achieving-papua-new-guineas-vision-effective-e-government-services].

Promoting MSMEs' access to finance is an important component of APEC's agenda that can be significantly advanced through digitalization. The Roundtable discussed three important areas that can be prioritized to enable existing innovations to further expand their positive impact:

- Supply chain finance has been a very important source of funding for a growing number of MSMEs. By leveraging the higher credit standing of large buyers or sellers, MSMEs can obtain financing based on their receivables and inventory. Digital supply chain finance, which links up MSME suppliers and distributors with large buyers and sellers through e-platforms that enable online and instantaneous access to financial services, has made headway in several APEC member economies.[20] The development of e-platforms for supply chain finance will require legal, policy and regulatory reforms that enable the use of digital invoices, e-signatures and other digital documents, allow lending through third parties, provide legal protection for the interests of purchasers of receivables, permit e-platform operators to create their own parallel or subsidiary finance companies, remove the unnecessary requirement for full appraisal on suppliers under reverse factoring, and provide capital relief to finance providers that have availed of credit guarantees or risk sharing arrangements, among others.
- Digitalization of collateral and insolvency judicial services have been proven to substantially bring down costs for MSMEs.[21] Leveraging private e-commerce platforms and other digital judicial service systems for online proceedings[22] can provide a cheaper, faster and more efficient way for secured creditors to realize their interest in case of repossession of collateral, maximize recovery in case of borrower insolvency, and allow judges to see firms' financial situation. Such e-platforms for online judicial sale and auction of assets and for proceedings of insolvency cases and sale of insolvency assets, as well as for making judicial decisions available online, can be established by judicial authorities. Efficient functioning of these e-platforms would require good laws, a reliable judiciary and competent professional services. It would require policy and regulatory support in order to gain creditors' confidence, including online disclosure and transparent processing of commercial and insolvency cases, online enforcement of court decisions, unified online database of court decisions that are accessible to secured creditors and commercial law practitioners.
- Leveraging data and data analytics to facilitate financial services to MSMEs is another priority area that can enable remote, instantaneous and context-specific provision of financial services, as well as facilitation of compliance with Know-Your-Customer (KYC) rules. In markets where large data companies operate and the data infrastructure is well-developed,[23] an average bank has access to over a dozen third-party data and analytics sources (including public data) that enables approval of credit to MSMEs in a matter of seconds. The development of data-driven financial services will require the development of a data and data analytics market (in parallel to

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[20] There are currently 20 such e-platforms in Vietnam. In China, there are at least a thousand e-platforms of all varieties, which emerged as a result of enabling regulations in the movable asset finance market. One of these platforms alone has facilitated over USD 2 trillion in financing over a period of 7 years.

[21] Some developed economies already have online judicial auctions and open court documents. In China, nearly all of the 20,000 enterprise insolvencies filed per year are processed online through e-platforms such as the National Enterprise Bankruptcy Information Disclosure Platform established by the Supreme People's Court in 2016. In that year, the Court also established an online auction and sale mechanisms for the judicial sale of assets (e.g., repossessed collateral) that later expanded to the online sale of assets through seven accredited platform providers.

[22] Use cases include (a) judicial auction or sale of assets; (b) non-judicial sale of insolvency assets (restructuring or liquidation); and (c) processing of insolvency cases under a joint platform for creditors, debtors, administrators, judges and other service providers.

[23] New data infrastructure are being created in a number of economies, such as in Thailand, which has established the National Digital ID (NDID) platform, a decentralized digital infrastructure system based on blockchain technology. In China, over 90 percent of financial services are now being provided online, where data and analytics companies facilitate the provision of these services to MSMEs.

the existing formal credit reporting industry); a legal framework for the regulation of personal data, an independent regulator working together with industry membership bodies that act as self-regulatory organizations, complaints redress mechanisms and new data infrastructure. It also requires a supporting policy and regulatory environment that allows remote and digital KYC as well as data and analytics-driven monitoring, enables the electronic filing of documents, provides clarity on the difference between credit reporting service providers (CRSPs) and data and analytics firms, provides guidelines on financial institutions' use of third party data and analytics and promotes the development of good data governance in financial institutions.

Digitalization is also key to enabling more MSME exporters to access working capital. Cross-border trade is one of the indicators for the ease of doing business used by the World Bank and an area of structural reform identified by APEC. In many economies, inefficient processes, unnecessary requirements and redundant procedures heavily reliant on paper documents (e.g., original bills of lading, certificates of origin and invoices) compound the time and cost for border and documentary compliance. Paper documents are frequently requested in the financing process of physical goods, be it documentary credit or supply chain financing.

Currently, however, less than one percent of trade documents are fully digitized end-to-end, and with an estimated 4 billion documents moving across the trade ecosystem at any given time, this creates inefficiencies that slow trade down. Prolonged supply chain disruptions and associated increases in trade costs are fueling inflation and hampering economic recovery and growth.

A key concern that needs to be addressed is the growing digital fragmentation of the region both technical and legal. Over the past few years, there has been a very significant increase in digital regulations and rules across markets in the region. From January 2020 to June 2022, over 900 new such rules and regulations have been introduced in APEC member economies. While necessary and undertaken in pursuit of good objectives, their uncoordinated adoption and implementation across markets are posing challenges to inter-operability and further limiting MSMEs' ability to benefit from digital technology due to the high costs of complying with many ever-changing requirements.

Addressing this issue will require the following strategies:

- Shifting away from current policies that restrict data flows and digital trade and result in duplicated infrastructure, closed-loop systems and fragmented supervision and move toward digital economic cooperation through mutual recognition, inter-operability, establishment of trust mechanisms and promotion of cross-border data flows, trade facilitation and cooperative supervision.
- Establishment of mechanisms for coordination, collaboration and conflict resolution that include:
    a) Digital trade enablement: Nodular efforts, cross-border trade enablement, market access and growth enablers
    b) Protocols and standards: Inter-operable protocols and standards for information sharing, data flow, security and privacy
    c) Knowledge and skills: Digital economy and technology skills development
    d) Regulatory architecture: Proportionate regulation, ecosystem stability, coherence and equivalence, risk- and activity-based regulation
- Progressing digital trade agreements from localized through bilateral and nodal to multilateral.
- Moving away from location-based controls (which result in duplication across jurisdictions and prevent inter-operability) toward access-based controls using access and control protocols (encryption keys, APIs, standards and rules) to achieve inter-operability of APIs, optimization for

resilience and scale, standardized access controls and independence from space and time limitations.

For digitalization to play its critical role in addressing this challenge, two important requirements need to be met:

- Global standards and protocols are needed to drive inter-operability among various platforms, reduce fragmentation and improve end-to-end integration of supply-chain participants. Efforts to address this are currently being undertaken by the International Chamber of Commerce's Digital Standards Initiative, which has created an umbrella under which various standardization initiatives are being harmonized into one globally coordinated effort. Seed funded by the Asian Development Bank (ADB) and the Government of Singapore and strongly supported by the World Trade Organization and World Customs Organization, it has created an Industry Advisory Board with cross-regional and cross-industry representation, and co-published with the WTO a Standards Toolkit for Cross-Border Paperless Trade[24] to highlight the existing available standards that can help promote inter-operability.
- Governments need to adopt legislation that recognizes digital documents in law. This is necessary for digitalization to gain traction materially. The UN Commission for International Trade Law (UNCITRAL) has drafted the Model Law on Electronic Transferable Records, which will underpin a revolution in digital trade similar to that in e-commerce, where the Model Law on Electronic Commerce has been widely adopted around the world and helped remove legal obstacles and improved legal predictability for e-commerce. Several economies in APEC such as Singapore and Papua New Guinea have adopted legislation enabling the functional equivalence between paper and electronic documents. Several advanced economies are also making significant headway. In this process, individual economies and APEC as a region can collaborate with the Legal Reform Advisory Group that was established by the DSI comprising multilateral development banks, regional economic communities, industry associations and international organizations to advance the digitalization of trade.

Conclusions and Recommendations

Promoting structural reforms is an important issue for APEC and through the years continuous efforts have been undertaken in pursuit of this goal. Nevertheless, much remains to be done to reverse the secular decline of potential growth rates in many member economies that has become more apparent since the Global Financial Crisis. An important contributor to this process is the region's demographic evolution and inexorable transformation into an aging society, which calls for labor market reforms and increased productivity to offset its negative impact. In the context of the present situation, the expansion of economic capacity and the raising of potential growth rates through structural reforms to reinforce the resistance to inflationary pressures over the long run have become even more important and urgent.

Sustainable transition and inclusive digitalization are important areas to focus structural reforms, as they bring about a huge amount of capital expenditure and revolutionary innovation, both of which are the key drivers of potential growth. Financial markets play a critical role in advancing reforms in these areas. Given that public finance is not sufficient to accommodate the huge financing requirements, particularly in the present context, stable, liquid and deep financial markets that incentivize economies to undertake the needed structural reforms are necessary.

[24] https://iccwbo.org/publication/standards-toolkit-for-cross-border-paperless-trade

The requirements for transition to net-zero emissions by 2050 are very significant, and would involve substantial reallocation of capital to new opportunities and supporting policies that are not easy to undertake, technically and politically. Current efforts also face the challenge of fragmentation, both in the lack of international coordination among economies in introducing policies and regulations, as well as the multiplicity of insufficiently coordinated initiatives being undertaken in international fora by a large number of stakeholders to address various aspects of transition such as disclosure standards, data, taxonomy and capacity building measures. Finally, the task of promoting transition in the region's emerging markets that are in varying stages of development will be very challenging.

There is also a huge amount of work needed to advance inclusive digitalization. This includes overcoming the digital divide, creating the enabling environment for MSMEs' access to finance, transforming the current mostly paper-based and manual process for trade documents into a digital and automated one, and addressing growing digital fragmentation within the region.

Following are recommendations that flow from the discussions in the Roundtable to address these issues:

- APEC should provide a platform for collaboration and coordination among member economies to focus on the following structural reform elements: (a) developing inter-operable taxonomies; (b) charting a credible pathway toward a just and affordable transition, including for the region's MSMEs; (c) promoting standardized disclosures that provide credible, comprehensive and consistent information to multiple stakeholders; (d) assisting member economies in developing liquid, efficient and transparent carbon emissions trading markets that can be inter-operable in the future; (e) promoting the emergence of a pipeline of sustainable infrastructure projects; and (f) catalyzing innovations that can support sustainable transition. The APFF Sustainable Finance Development Network can support APEC in this task.
- APEC should provide a platform for capacity building to assist member economies in promoting inclusive digitalization, focused on the following: (a) promoting universal access to the Internet through competition and spectrum policy, as well as innovative solutions for low-cost, high-speed and easily accessible broadband internet in rural and remote areas; (b) introducing innovations and providing enabling legal, policy and regulatory frameworks for the digitalization of supply-chain finance and collateral and insolvency judicial services and for leveraging data and data analytics to facilitate financial services to MSMEs; (c) adoption of legislation recognizing digital documents in law; and (d) developing and implementing a strategy to reverse growing digital fragmentation in the region and encourage the flow of data across borders subject to rigorous protocols, standards and arrangements, including by building on digital economy and digital trade agreements being put in place by some leading regional economies with partner economies in region and elsewhere. The APFF Financial Infrastructure Development Network (FIDN) and Digital Trade Finance Lab can also support APEC in this area.

ANNEX: ROUNDTABLE AGENDA (*Times displayed are Japan Standard Time on 15 June 2022*)

1000-1010	**OPENING SESSION** **Welcome Remarks** Mr. Hiroshi Nakaso, Chair, ABAC Finance and Economics Working Group; and Chairman, Daiwa Institute of Research **Opening Remarks** Dr. Richard Cantor, Co-Chair, PECC; and Vice Chairman, Moody's Investors Service
1010-1100	**SESSION 1** **STRUCTURAL REFORM IN THE ASIA-PACIFIC REGION: THE STATE OF PLAY** Moderator: Professor Christopher Findlay, Honorary Professor, Crawford School of Public Policy, Australian National University; and Member, Australian Pacific Economic Cooperation Committee (AusPECC)
	Introductory Remarks by Moderator Dr. James Ding, Chair, APEC Economic Committee Mr. Eduardo Pedrosa, Secretary General, Pacific Economic Cooperation Council (PECC) Dr. Veronica Jacobsen, Director, Sapere Research Group Dr. Michael Taylor, Managing Director and Chief Credit Officer, Moody's Investors Service **Concluding Summary by Moderator**
1100 -1155	**SESSION 2** **PANEL DISCUSSION – IDENTIFYING STRUCTURAL REFORM PRIORITIES AND APPROACHES FOR APEC TO PROMOTE SUSTAINABILITY** Moderator: Mr. Rory McLeod, Director, Rory McLeod Consulting
	Introductory Remarks by Moderator Mr. Pablo Casaux, Sherpa, Asia-Pacific Financial Forum Sustainable Finance Development Network; and Latin America/APEC Head of Market Structure Strategy and Relations, Bloomberg LP Ms. Diana Parusheva-Lowery, Executive Director, Public Policy and Sustainable Finance, Asia Securities Industry & Financial Markets Association (ASIFMA) Mr. Eugene Wong, Chief Executive Officer, Sustainable Finance Institute Asia Limited Mr. Yuelin Yang, Deputy Group Managing Director, IMC Industrial Group; and Industry Advisory Council, Center of Governance, Institutions and Organizations, NUS Business School **Discussion** **Concluding Summary by Moderator**
1155-1250	**SESSION 3** **PANEL DISCUSSION – IDENTIFYING STRUCTURAL REFORM PRIORITIES AND APPROACHES FOR APEC TO PROMOTE INCLUSIVE DIGITALIZATION**

	Moderator: Ms. Penny Burtt, Head of Public Policy and Government Relations APAC, Stripe
	Introductory Remarks by Moderator
	Mr. Thomas E. Abell, Advisor, SDCC and Chief of Digital Technology for Development, Asian Development Bank
	Mr. Laurence White, Consultant Senior Advisor – Digital Finance Asia-Pacific, Institute of International Finance (IIF)
	Mr. Jinchang Lai, Principal Operations Officer, Financial Institutions Group Advisory Services, Asia & Pacific, International Finance Corporation (IFC)
	Ms. Eunice Huang, Head of Asia-Pacific Trade Policy, Google
	Ms. Hannah Nguyen, Director, Digital Ecosystems, International Chamber of Commerce (ICC) Digital Standards Initiative
	Discussion
	Concluding Summary by Moderator
1250-1300	**CLOSING SESSION**
	Closing Remarks Mr. Hiroshi Nakaso, Chair, ABAC Finance and Economics Working Group; and Chairman, Daiwa Institute of Research