

**PECC Statement
Meeting of APEC Ministers Responsible for Trade
Agenda Item 5: Updates from Official Observers
20-21 April 2013**

Surabaya

Mr. Jusuf Wanandi, Co-Chair, Pacific Economic Cooperation Council

We thank you for this opportunity to share our views from the second track on developments in trade policy in the Asia-Pacific region. Our statement today is based on discussions we held recently at a conference in Singapore as well as our regular work program. We were pleased to have the strong input of several high-ranking government officials from Indonesia, the ABAC Chair, the APEC Executive Director, as well as officials from other APEC economies. We also express our appreciation to Minister Lim Hng Kiang of Singapore for taking the time to share his views with us. Their contributions helped shape our discussions and focus on ideas we could contribute to APEC.

The Global Economy in Need of a Policy Boost

While the regional and global economic outlook is largely positive, we are concerned that economic growth remains volatile and in some cases reliant on stimulus from the public sector. These measures are having unintended consequences in exchange rate alignments that in turn have the potential to feed protectionist trade policy responses. Such responses must be avoided and in their place making progress in both the multilateral and regional trade negotiations should be given a high priority. Progress will give confidence to our business communities worried about their export competitiveness and reduce uncertainties about future policy direction. Perhaps even more important is that defensive responses are likely to backfire given the complexity of global supply chains which require businesses to import inputs; and instead such measures will increase their costs on the input side.

Over a slightly longer horizon, there are reasons to be optimistic, structural shifts in the regional economy including the appreciation of real exchange rates in some key economies which is analogous to the environment we witnessed in the late 1980s which in turn provided the context for the burst of unilateral opening of our economies that found its form with our commitment to the Bogor Goals.

APEC Must Show Leadership to Save the Multilateral Trading System

It is now 12 years since the Doha Development Round was launched with much optimism. This optimism has been replaced with a dire sense of pessimism and soul searching on the future of the rules-based multilateral trading system. Our annual survey showed a worrying lack of interest in the conclusion of the round, especially on the part of the business community. A mere 18 percent of respondents to our survey gave a high priority to the WTO DDA as an issue for leaders to discuss compared to 44 percent for regional economic integration. This percentage drops further to 11 percent for business respondents.

By no means does this mean that we would suggest not spending time discussing the DDA. At such a time it is critical that this region show real leadership by addressing difficult issues and finding solutions to them.

While there may be revealed preference for regional initiatives, there is a major risk of fault lines developing in the international trading system – lines that go well beyond trade rules and end up dividing the world instead of bringing it closer together. These issues are important for this region and more so for the many economies left out of the mega-trade deals now being discussed. The Bogor Leaders' Declaration set the goal of expanding and strengthening the open multilateral trading system – as part of that remit we should be thinking not only of how our economies can benefit from deals but the integrity of the system as a whole.

The foundation of the global trading system is the MFN principle and derogations from that principle are only permissible in RTAs/FTAs if they are 'WTO plus'. It has been almost 20 years since the Uruguay Round was completed. Since then, the nature of trade has changed considerably with the development of global supply

chains and increasing trade in services. In the absence of global trade agreement, there is no baseline against which RTAs/FTAs can be measured. In the interest of preserving the rules based system we must make every effort to ensure that the Bali Ministerial shows some real momentum in the global trade talks.

Agreement on Trade Facilitation Deal to Help Break Doha Impasse

In this regard, we urge APEC to take the lead in providing the leadership to conclude a deal on trade facilitation. Economic analysis suggests that the global benefits from such a deal are around US\$1 trillion for the global economy – or roughly half of the total stimulus injected at the height of the crisis. Moreover the biggest beneficiaries would be developing economies. Agreement on trade facilitation should not entail giving up on the single undertaking but success in this area could provide the confidence and momentum to reach agreement in other areas.

APEC Should Contribute to Services Agreement Formulation

As we look ahead to Bali and the WTO Ministerial, APEC should be paying attention if not playing a leading role in the formulation of the nascent international services agreement.

Our work on services was undertaken by a task force we established with the Asian Development Bank Institute. In a policy brief we submitted to the APEC Joint Ministerial Meeting in 2011 we suggested that APEC could establish a study group to better understand the ramifications of a services agreement and the incentives for APEC economies to join such an agreement. Indeed, such a group could help inform and shape the negotiations without members necessarily having to make a commitment to join at this stage. There are a number of models which exist which can be considered – the Information Technology Agreement and the Government Procurement Agreement which can inform the development of the agreement but we should be pursuing innovative approaches to this critical sector which underpins the competitiveness of our economies.

We would like to express our appreciation to APEC Senior Officials for giving us the opportunity to contribute with our colleagues from ABAC, a dialogue with APEC Senior Officials on Services a few days ago.

Attaining the Bogor Goals: Regional Blocs Need Guidance to Achieve FTAAP

We welcome efforts this year to look at the Bogor Goals in a more holistic way, noting that while a specific target was set for free and open trade and investment, the goals are best understood as a means to an end. That end is “equitable economic growth not only in the Asia-Pacific region, but throughout the world as well”.

At the time the Bogor Goals were set there was already a great deal of discussion in APEC on the role that RTAs/FTAs can play in achievement of these goals as well as their relationship to the global trading system. Since then we have seen the proliferation of these preferential trade deals to such an extent that there are now moves to consolidate them – in East Asia we have the ASEAN Regional Comprehensive Economic Partnership (RCEP); the Trans-Pacific Partnership, and others including the Pacific Alliance.

Our *State of the Region* report last year included a special thematic chapter looking at different pathways to the achievement of an FTAAP. We wish to re-emphasize three actions that APEC and other Asia-Pacific organizations could take to ensure that these initiatives lead to the achievement of the Bogor Goals and do not end up dividing our region between rival camps:

- Reconcile high standards with the capacities and needs of diverse economies. One operational goal might be to limit agreements to provisions that “lead by a decade”—that is, to standards that are high, but no higher than could be accepted by a reform-minded economy in 10 years.
- Include innovative provisions for outcome-based cooperation
- Establish a high-level dialogue that would guide the technical development of the different agreements. Such a dialogue could encourage substantive overlap between the tracks and also reduce political frictions. Formats might include technical exchanges, discussions among senior officials, or an Eminent Persons Group

One need only consider for a moment the economics of the different pathways being pursued to find a compelling logic to taking actions. The TPP (12 including Japan) and RCEP would result in increases to global GDP by \$223 billion and \$644 billion respectively but by far the biggest gains would come from a

convergence of the tracks into an FTAAP – at US\$1.9 trillion. The modelling estimates change as memberships of different groupings change and different assumptions are made about the degree of opening, but the underlying point is consistent – the biggest benefits from agreements that are inclusive and high quality.

We note that APEC senior officials have a reporting mechanism through which members share updates on their FTAs and RTAs. We hope that this dialogue can be strengthened to increase transparency about the different initiatives being pursued and help guide their technical development to ensure that they can converge and lead to the achievement of the FTAAP.

Time to Rethink Economic and Technical Cooperation

If APEC is to achieve its vision of a prosperous and integrated region, there is a need to reduce development gaps among and within regional economies. Gaining consensus both internationally and domestically on next generation issues as well as the traditional trade agenda will be increasingly difficult with rising income inequality in the region. This was the thinking that underpinned inclusion of ‘economic and technical cooperation’ as APEC’s third pillar. More than being a separate pillar one of the intentions had been to help developing economies participate in the process of trade and investment liberalization and facilitation and benefit from that process.

In this regard, we welcome this year’s focus on sustainable growth with equity as well as the connectivity initiative. As we discussed earlier with respect to regional economic integration, there are enormous benefits to be reaped from greater economic integration. However, while the benefits are potentially large, they are that – potential. To realize the benefits from integration we must have the infrastructure, policy frameworks and human capital in place that enable people to best fulfil their potential. This was articulated clearly in the Osaka Action Agenda and the Manila Action Plan for APEC.

We hope that this year, through the focus on sustainable growth with equity, APEC can put the weight behind initiatives that will support individual members’ efforts to reform their economies and fully engage in regional economic integration. These efforts should be targeted with clear goals and deadlines – just as we have for trade initiatives. These new initiatives should address the supply side constraints that many of our economies face in turning the potential benefits of integration into real jobs and higher incomes.

RTAs/FTAs and the Multilateral System

It is almost a mantra that we take for granted that the APEC region accounts for: 40 percent of world population, 44 percent of global trade and 53 percent of world GDP. But it is worth repeating in the context that we are faced with today – uncertainty about future growth, soul-searching in global institutions, and rising protectionism; given APEC’s weight in the global economy, it is incumbent on the region to display leadership in addressing these difficult issues. APEC’s tradition of being a non-binding forum, while often criticized, is also its strength in allowing for a genuine dialogue rather than a negotiation.

While the WTO Ministerial has much to deal with, our discussions touched on the future of the WTO and the role it can play. Some suggested that the era of the large all-encompassing trade round is over and, pending a conclusion of the Doha Round, it will be RTAs and plurilaterals from now on. APEC has taken a lead in developing model measures for FTAs and RTAs; APEC should consider going further by addressing the fundamental issue of how the RTAs and rules within them can be multilateralized.

Reforms in PECC

Over the past year we have been reviewing our priorities and the modalities through which we seek to achieve them. We thank colleagues in APEC for your input and suggestions. We will be discussing a set of recommendations for reform to PECC when we meet for our General Meeting in Vancouver on 3-5 June. Through this reform process we hope we will be able to better contribute to the future work that APEC is undertaking.

Thank you.