

PECC Statement
20th Meeting of APEC Ministers Responsible for Trade
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On behalf of PECC Co-chairs, Jusuf Wanandi and Donald Campbell

On the occasion of the 20th meeting of the APEC Ministers Responsible for Trade as well as the 25th anniversary of APEC we congratulate you all on a tremendous track record of achievement. It is worth pausing for a moment to consider the changes that have taken place over that period. Global output has increased from around US\$20 trillion to US\$74 trillion, of that increase APEC economies accounted for almost 58 percent. At the same time, APEC's exports of goods have increased from US\$1.5 trillion to US\$8.5 trillion and services from US\$260 billion to over US\$1.8 trillion.

Since the last meeting of APEC Ministers Responsible for Trade held in Surabaya we held our 21st General Meeting in Vancouver last June, a seminar on connectivity during APEC leaders' week in Bali and most recently a conference in Singapore that addressed the priorities set by China as this year's APEC host. Our statement today is based on these discussions as well as previous work we have undertaken of relevance to your agenda.

We focus our statement on two key issues: advancing regional economic integration and strengthening comprehensive connectivity.

Economic Context

This meeting takes place during a period of tremendous flux in the regional and global economies. At our General Meeting in Vancouver, we noted that there are some big fault lines developing in the region these include: growing income inequality; economic integration; and shifts in energy balances. Addressing these in a way that ensures continued prosperity requires greater cooperation and coordination. We therefore welcome the overall theme for this year of '*Shaping the Future through Asia-Pacific Partnership.*'

While the economic outlook is improving we are concerned that economic growth remains dependent on artificial stimulus and that the structural reforms needed to improve productivity have not been implemented. As was noted in the World Bank's Global Economic Prospects Report this year, many economies in the region are now growing at close to potential. This places even greater emphasis on the need for reform to boost potential growth. In this regard we look forward to your discussions on promoting innovative development and economic reform and growth.

The Development of the FTAAP Concept

As our leaders agreed 20 years ago in Bogor, the goal of APEC was for economic cooperation, which 'will enhance the prospects of an accelerated, balanced and equitable economic growth.' The means for achieving this was enhanced trade and investment in the Asia-Pacific region. While there has been substantial progress towards this goal many barriers still remain.

To this end, many, primarily the business community, frustrated by the lack of further progress, called for the establishment of a Free Trade Area of the Asia-Pacific (FTAAP). This has been adopted by APEC as a long-term vision.

Advancing Regional Economic Integration

The economics of the FTAAP are compelling. The TPP and RCEP would result in increases to global GDP by US\$223 billion and US\$644 billion respectively but by far the biggest gains would come from an FTAAP – at US\$1.9 trillion. While there are many different estimates that depend on the underlying assumptions made, one point is consistent – the biggest benefits come from agreements that are inclusive and of high quality.

We therefore welcome the emphasis this year on advancing regional economic integration and hope that this will lead to concrete progress and agreement on how to move from the various pathways to a high quality, inclusive trade regime. At our conference a few months ago, Singapore's Minister for Trade, Mr. Lim Hng Kiang, not only suggested that it was time for the region to develop principles that would bring the pathways together but also what some of those might be.

We are responding to Minister Lim's challenge and are establishing an expert group to further develop our thinking.

Global Value Chains and Trade Policy

One point that has come through our initial discussions on how to contribute the achievement of an FTAAP is that the production of goods and services is now largely done through global value chains. The shape and length of the value chain is determined by a number of factors, these include comparative advantage, trade policy and proximity to market. To 'capture' tasks or move up the value chain policy reforms are essential. Some of these reforms are best undertaken unilaterally, others in coordination. The biggest benefits in coordinated outcomes are arrived at when RTAs and the eventual market the goods and services are sold in are aligned.

We hope that through this framework that we are developing will provide a strong intellectual and practical foundation on which to build further progress towards an FTAAP. Moreover, they will help to guide the principles on which an FTAAP could be built.

There are many suggestions on what those principles should be, such as:

- Complete coverage
- Incorporating issues from the most contemporary agreements
- Bring to FTAAP the 'over ambitious and beneficial portions' of individual agreements
- Cumulative rules of origin
- Minimise non tariff barriers
- Adopt transparency and trade facilitation principles
- No backtracking
- A single undertaking
- Inclusivity
- Retain the end goal of global trade liberalisation

In our 2007 work on an FTAAP with ABAC, the following ideas were suggested:

- A unity of vision is necessary among the major economies
- The time frame of the process must not be too long
- An achievable outcome must be targeted
- There should be minimal interference from other RTA negotiations
- Chairmanship of the process should not be given to any of the major players
- Prior understanding on how to treat labor and the environment is necessary
- There must be willingness and an identified capacity to finance and support the negotiating process

Some of the recommendations on FTAAP PECC's *State of the Region Report 2012* were:

- The negotiations will have to 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.
- Another goal should be to include innovative provisions for cooperation to help reduce development gaps. Key areas for cooperation include improvement of economic institutions, upgrading of human resource quality, and the promotion of technology transfer.

- Trans-Pacific and Asian tracks of negotiations should be connected by a new, high-level dialogue. Such a dialogue could encourage substantive overlap between the tracks, ensure their compatibility with the end goal of region-wide free trade, and reduce political frictions.

A variety of more specific strategies have also been proposed in more recent debate: scheduling and step membership, RCEP first then TPP; identification of gaps and dialogue to close them, eg agreements on model chapters; complementary actions in other negotiations such as TiSA; multilateralisation

We will be building on the substantial work PECC has developed over the years on these issues. For example, in 2003, we proposed that APEC should develop a 'Common Understanding on RTAs.' In 2004, members of PECC debated and produced an Assessment of the Proposal for an FTAAP that was commissioned by our colleagues in ABAC. In 2007, again with ABAC, we undertook a study of the Political Economy of the FTAAP.

We commend this body of work to you but also believe that given the changes that have taken place in both the regional trade architecture as well as how businesses operate, there is an opportunity with the FTAAP to create a trade regime that is inclusive, business-friendly and job creating, and sets rules that could be multilateralized. This in essence will be the focus of the work we will be doing over the coming months to contribute to your efforts.

We hope that through our work we will be able to provide you with a clear and coherent set of recommendations underpinned by rigorous objective research that will lead to the best possible outcomes for the region.

The Global Trade System

The breakthrough in Bali at the WTO is a positive signal and that momentum must be carried forward. APEC which played such a critical role in the conclusion to the Uruguay Round should continue to support the WTO as the key global trade institution.

There is a need perhaps for greater reflection on the relationship of RTA/FTAs with the global trade system. While we are at pains to adhere to the Bogor Goals, we conveniently ignore that the same declaration eschewed the formation of an inward-looking trade bloc. The APEC Eminent Persons Group recommended that the principle of open sub-regionalism be applied to ensure the positive interaction between the various RTAs and the global system.

Since then the principle of ensuring that RTA/FTAs are supportive of the global system have been explicit and a variety of ideas have been floated. We hope that the current momentum for regional economic integration will similarly include language on this critical principle.

Strengthening Comprehensive Connectivity

While there is little dispute that increased regional economic integration would boost growth, it does little to help resolve the problem of growing income inequality. Our State of the Region survey last year revealed that 40 percent of opinion-leaders in Southeast Asia believed that trade and investment liberalization have increased income inequality in their economy. An even larger group, 52 percent thought that the benefits of economic integration to their economy have been limited due to supply side constraints.

We emphasize that this survey is of opinion-leaders who work on Asia-Pacific issues – whether in government, business or civil society and the academe. This is a community that understands the economic rationale behind regional integration. The concern is that this reflects a weakening of the political constituency for the vision of an integrated Asia-Pacific that must be addressed.

APEC's work on connectivity has the potential to do this. The supply side constraints are not just perceived but are well-known. The point that we make is that the connectivity work should be placed within the context

of achieving APEC's goals including regional economic integration as well as inclusive growth. For example, the literature on the economic benefits of integration reveals that some members gain more than others. This unevenness provides a case for further narrowing development gaps by providing financial and technical support for low-income economies, particularly with respect to trade-related infrastructure, customs modernization, enhancing SME development, and capacity building.¹

Our recent discussions focused primarily on infrastructure element – physical – of the connectivity agenda. Previous PECC work has addressed many different aspects of connectivity in the region – including the potential for energy trade. This is a large and complex issue.

Another aspect of connectivity on which our community has worked on is people-to-people connectivity especially labor mobility. The key conclusions of that joint PECC- ABAC² task force were that the ongoing demographic transitions in the region; widening differences in economic and educational development, and regionalization and globalization of industry would drive the pressure for increased movements of labor. In formulating our work in this area, the point was made that economic analyses clearly show that higher labor mobility brings more benefits than costs to economic growth in both importing and exporting economies.

This work was undertaken some six years ago, since then, the findings of our annual State of the Region survey indicate that these pressures are indeed increasing. In our 2013 survey, the shortage of available talent/skills was the ninth highest risk to economic growth. However, amongst business respondents, the shortage of available talent/skills ranked the third highest risk to growth, while for government respondents it was only the eleventh highest, indicating a need for much greater dialogue between stakeholders and the government on this issue.

Ministers, there is insufficient time here to go into depth on this issue, but as with all the other points we have raised, we offer years of work based on objective analysis on issues that we believe critical to the future of the region.

Finally, our next General Meeting will be held in Beijing in early September. We look forward to welcoming you there. It will be an excellent opportunity for officials to engage more directly with the stakeholder and thought-leader community that shapes public opinion on the issues that you address here in APEC.

¹ Asian FTAs: Trends, Prospects and Challenges, By Masahiro Kawai Asian Development Bank Institute and Ganeshan Wignaraja, Asian Development Bank 30 June 2010 Presented at PECC-ADBI Conference on Post 2010 Trade Agenda.”

² <http://www.pecc.org/resources/labor/1950-demographic-change-a-international-labor-mobility-in-the-asia-pacific-region-synthesis-report>