

**H.E. DR MARI ELKA PANGESTU
MINISTER OF TRADE
REPUBLIC OF INDONESIA**

**SQUARING FTAs WITH THE BOGOR GOALS:
HOW CAN IT BE DONE?**

**THE 16TH GENERAL MEETING OF PACIFIC ECONOMIC COOPERATION COUNCIL
(PECC XVI)**

5-7 SEPTEMBER 2005

SEOUL, KOREA

Distinguished Guests
Ladies and Gentlemen

It is a great pleasure to be at PECC XVI. My congratulations to the Chairman Dr Kim Kihwan and KOPECC for doing a wonderful job in organizing this general meeting. As many of you know, I have been involved in the PECC forum for a long time and I don't think I have missed one since I have been involved. I have always enjoyed attending the PECC General Meetings and I am glad to be invited back again this year in my new capacity. I would like to pay a personal tribute to PECC, that the 15 years that I have been involved with PECC, especially the Trade Policy Forum, has prepared me well for my current job in terms of substance, networks, and approaches. Thank you PECC.

Most of us in this room can also appreciate that PECC has brought innovative ideas and strong support to APEC. Over its 25 year history, it has helped focus APEC's future agenda. Shaping APEC's future agenda and renewing the commitment toward a Pacific Community are again the key elements of this meeting ... especially on the topic of how to achieve the Bogor goals of open trade and investment in the region, in the face of proliferating FTAs, uncertainties about the outcome of the WTO, and trade tensions across the Pacific .

My aim today is to suggest a way to move towards the Bogor goals in the context of APEC's existing framework. I hope to make a worthwhile contribution in this area because in recent years, this debate has become increasingly complex for APEC members.

This debate is being conducted at a level where we are unable to see the forest because of the trees. I think it is time to put ourselves above the forest so that we can see the trees. This means going back to focusing on APEC strength's. This needs to be done in the context of the reason for APEC's existence and APEC's way of doing business. I have always been a firm believer that the most important value added of APEC out of all the international fora that Asia Pacific economies are members of, is the process itself --- that a group of 21 economies comprising of 50 percent of world trade can meet every year from the leaders, ministers and senior officials level to discuss informally and not negotiate, the issues of trade, finance and other strategic issues. Given this important caveat and APEC's main tenet of open regionalism, let us keep in mind how to regain momentum in the APEC process itself, rather than the deliverables its. And how the principle of 'open regionalism', by definition a process whereby members progressively remove their trade and investment barriers on a non-discriminatory basis, can be maintained. The main reason for wanting to maintain the process rest on practical reason as I will explain below.

I would like to suggest a number of ways that APEC can contribute to the achievement of the Bogor Goals given the proliferation of FTAs (many of which are bilateral rather than plurilateral) in the region. These are not new ideas and in a sense we have come full circle. After having thought about these ideas for some time prior to becoming Minister, and as now someone sitting in the policy maker's seat, I remain convinced that we need to go back to basics and revitalize the basic processes that have worked for APEC in the past, and could and should be revitalized again.

Before I answer the question of the role of APEC, a slight diversion to remind everyone about the reality of the challenges faced by many policy maker of the developing APEC members, such as myself.

The Challenge of Trade and Development

First let us accept the reality of today's world and developments in the trading system. That is, there is uncertainty in the outcomes of the multilateral process; for various reasons, countries are having to engage in regional and bilateral trade agreements; and that many of the APEC countries are democracies which have to deal with domestic constituencies in 'selling' any trade package or 'deal'. It is no longer a top down world, where believing that the gains of policy reform are mainly to the country itself, is sufficient to carry out the reforms.

Given these realities, what does it mean for policy makers from developing countries, such as myself, to do what we have to do, that is implement a multi track policy of trade negotiations, whereby there is consistency between tracks and optimizes our national interest. To answer this key question, one needs a clear trade strategy that addresses the essential question of "How do we channel the gains from trade into development?"

Many developing countries lack such a trade strategy. Trade policy is usually reactionary and ad hoc to the demands of external developments and international trade institutions. Many trade policies are also too narrowly focused and fail to take account of the ever expanding trade agenda and interlinkages between sectors. When trade reform is undertaken, there is usually no clear plan beforehand that analyses the potential effects of such reforms or how they will feed into achieving the development goals of a country, including the Millennium Development Goals that have become the overarching goals for all.

Such a trade strategy needs to include essential components of using market access strategies and trade liberalization strategies that feed into development, and thus how to determine the process of opening up one's economy – including the behind border measures. This may seem to be simple, but few developing countries have clearly articulated their trade strategy and priorities.

We all know that trade policy is after all a means to achieve development, not an end in itself. Openness of one's economy does not guarantee sustained growth and poverty reduction; much depends on complementary policies and how the process of economic opening up is undertaken, that is whether it is broad based and participatory. On the other hand it is also sure that closed economies do not grow. Therefore what will be important is how developing countries can best undertake a trade, investment and development strategy suited to its initial conditions and constraints, and commensurate with the building up of institutional capacity and removal of supply constraints. The real target of trade and investment policy in development is to increase productivity and thus competitiveness, trade policy alone cannot achieve this --- there must be complementary policies such as investment in human capital, technological capacity building, supporting infrastructure and services and so on.

Therefore one must look at the necessary policy clusters that will work in unison to alleviate poverty in any one country out of which trade policy is only one means. Policy clusters include investment in human development; facilitation of small farmers to raise productivity and break out of subsistence farming and hunger; developing industrial development policies to push non traditional private sector activities (development of small and medium sized enterprises, export processing zones, incentives to promote R&D, unskilled labor movement, etc.); human rights and social equity so that marginalized people are not left behind; and environmental sustainability and urban management.

In some instances countries will be able to use their own resources to fund the resource needs and have the capacity to design their trade and development strategy, but in other instances donor assistance and capacity building program will be needed to invest in human development, provide key infrastructure to support economic diversification and development, and assistance to design the appropriate policies and institutions. Agriculture policies to enhance productivity and industrial development policies to diversify the production and export base for longer term growth led by the private sector, should also be a key pillar for many developing countries who are already out of the poverty trap.

It should also be remembered that sustained economic growth is only part of the answer. While an average increase in national income will raise poor people above income poverty line, income inequality can dissipate the benefits so the benefits must be broad based. This would mean expanding access to basic and critical assets: such as securing land tenure, SME development, supporting labor intensive exports, broadening access to microfinance, and public investment in education, basic infrastructure, disease control and health. There is also a lot that can be done to reduce non income poverty and provide necessary preconditions to raise worker skills and productivity.

Developing Countries and the Multitrack Strategy: the key challenge for policy makers

Now let us get back to the reality of trade negotiations facing developing countries today.

Most countries in APEC are now pursuing the multitrack strategy, many out of necessity rather than profound beliefs. This is the practical and political reality we live in. So not only, must these multi-track process of negotiations be consistent with each other, countries such as Indonesia must begin negotiations with national interest uppermost in their mind and decide what can and should be achieved under multilateral, regional and bilateral negotiations. Our job description should be “getting the best deal” for our country that will maximize our national interest and trade and development strategy.

So how can APEC really help what we must do simultaneously as policy makers: concerted unilateral liberalization and facilitation of trade and investment policy, negotiate as part of regional bodies and/or bilaterally with key partners in the region and outside of the region partly because others are doing so, and also negotiate on the multilateral front under the auspices of WTO? All with limited negotiations capacity and often lack of a clear national strategy.

The answer seems to be back to basics. Let me begin with my conclusion. My conclusion is that to reach Bogor Goals as the region is facing proliferation of FTAs, we must pursue in parallel all those tracks – unilateral, bilateral, regional and multilateral tracks of trade negotiations and commitments --- but the challenge will be keeping them all in place and proceeding with them in a consistent way, and without overtly straining one’s resources (financial, human and otherwise) and not losing sight of the national interest.

And the bottom line is that the unilateral process of reform is what will matter most in achieving the Bogor Goals. With some exceptions, major in some sectors and countries, is

that for the most part many of the APEC members economies are already quite open especially in the goods and investment. In services the right of establishment is already opening up, but there remain issues of domestic regulation and other restrictions and in some cases countries do have a plan in place to address these issues.

However there are so many behind the border issues related to standards, IPR, customs and domestic regulations, and the “exception” that remain both for developing and developed countries. So what is the role of WTO and RTAs; it appears it is to “bind” these commitments and prevent reversals, and to address the behind border and new issues not yet included in the unilateral reform agenda.

The basic question seems to me to be whether WTO and RTAs can in fact include “major exceptions” such as sensitive sectors (e.g. agriculture) excluded by unilateral reforms and address behind the border issues? The answer is mixed. Some new age RTAs appear to have better success in being more “comprehensive” and actually include “sensitive” sectors not fully in WTO yet, albeit with long time tables; stronger commitments in services than their WTO ones; and include facilitation and behind the border issues which are often linked to capacity building (an approach clearly similar to APEC).

Therefore in the interim as we continue negotiations, the main game for many countries will remain the unilateral reforms. We continue WTO as it will be imperative to safeguarding the multilateral trading system and RTAs because of political and other imperatives, but the main gains and game will be unilateral reforms. Many of the RTAs because of their nature, between small countries and partnerships between small partners or one small and one big partner, will yield small gains. The WTO will yield the biggest gains as we all know, but will take time to deliver. So in the meantime we will continue to negotiate, where the main consistency should be with unilateral trade and development agenda of the country; the use of WTO and RTAs to keep the external pressure on wherever necessary and the main game will thus still be the unilateral process.

Concerted Unilateral Liberalization and the Importance of Peer Pressure

This is the best process of open regionalism because one achieves opening up in a non discriminatory way and it should be based on a national strategy.

Just a little reminder, in case you have forgotten, about APEC’s way of doing business. It is through encouraging member economies to move forward together by meeting their

unilateral and voluntary trade liberalization commitments motivated by a combination of self-interest, peer pressure and confidence building measures through others doing similar reforms and through capacity building as part of the economic and technical cooperation pillar of APEC.

There are several instruments and vehicles that APEC has used in this process. One was for host countries to take a leadership role in undertaking a unilateral action, "to show the way". Since the mid 1990s this instrument has waned somewhat, but it does not mean it could not be revived again. Another instrument which has not been as effective as it could be is the individual action plans (IAP) which are subject to peer review mechanism, and this year there is also the additional mid term review to achieving the Bogor Goals. From personal experience in this process I do believe that countries do look at each other's IAPs to find out what other countries are doing in some areas. For instance the APEC Investment Guidebook and the parts of the IAP dealing with investment are reviewed closely to compare investment regimes between APEC countries. As has been discussed on many occasions the IAP process can be made more effective in several ways. First is to make them go beyond reporting exercises on what economies have done in different work areas of APEC, but also one that is forward looking and as a vehicle for indicating the general direction the economy is heading towards. Second to make the peer review mechanism more broad and critical, and that they should be exercises that are meaningful for the private sector who will look to them for guidance to make investment and business decisions. Third the mid term review of the Bogor goals should be completed with a thorough introspection of where we are in achieving the goals, and also how we plan to achieve the remaining stretch towards the goals --- 5 more years for developed countries and 15 more years for developing countries. For the latter group, the capacity building needs to achieve the Bogor Goals ought to be outlined specifically and in an integrated way with the liberalization and facilitation goals. Fourth, the capacity to design national strategies and most importantly "package" the strategy given the political and national interests of the country in question. How can we best sell our messages?

These are not new ideas, but they have not really been optimal. APEC should take on these challenges and deliver progress on these various aspects.

APEC's Role in the WTO Process

The concept of 'open regionalism' reflects the support from APEC for the WTO as the custodian and administrator of the global trading system. The achievement of the Bogor

goals can directly feed into supporting the Doha Development Round and longer term progressive trade liberalization under the WTO.

This framework is APEC's strength. It is a framework under which APEC members have come a long way since the formulation of the Bogor goals in 1994. Investment has expanded and trade barriers have been reduced for goods and services.

Not only have barriers come down, APEC has also facilitated the movement towards the Bogor goals through a number of other areas for which it is internationally renowned. APEC is well known for its work on trade facilitation. Other prominent areas include capacity building, investment and services. It should also be pointed out that a lot of this work has been achieved with the intellectual support of PECC.

While APEC members have come a long way, there is still a long way to go. Important breakthroughs in trade liberalization are needed, particularly in sensitive sectors. This need is more pressing for developed APEC members than developing APEC members. The 2010 target for free and open trade and investment is rapidly approaching for developed APEC members.

This implies that APEC should still play a role in catalyzing and ensuring the DDA process does not run aground and continues on a more coherent path with some concrete outcomes in December 2005. APEC should continue sending consistent messages as it did in the APEC Trade Ministers Statement in June, but ultimately it must take a leadership role if it is to achieve a breakthrough in some of the dead lock or gateway issues.

APEC's Role in Best Design FTAs

Whilst the best way that APEC can maximize the benefits from trade and investment and then achieve the Bogor goals, in recent years the actions of APEC members' have changed and most APEC members have negotiated or are actively seeking out new FTAs with other APEC members and non-members, including those APEC countries which previously were against the preferential trade arrangements approach such as Japan and China.

Non-discriminatory trade liberalization is obviously preferred but FTAs are a reality. They are a reality for APEC now and for the foreseeable future. Moving towards the Bogor goals will need to be in the context of this 'FTA reality'. So this raises the question of ... How can APEC member economies move towards the Bogor goals in the context of the 'FTA reality'?

FTAs can 'help' or 'hinder' the progress towards the Bogor goals. The objective is to obviously harness the benefits of FTAs to 'help' the achievement of the Bogor goals.

Ultimately, FTAs that 'help' contribute to the Bogor goals are those FTAs that will eventually extend preferential reductions in protection among members to non-members. It can be a stepping stone towards non-discriminatory trade liberalization for APEC members. In this way, FTA members move from narrow preferential arrangements to APEC wide non-discriminatory arrangements.

In reaching this ultimate target, ***it is important that FTAs encourage integration rather than fragmentation of markets***. Afterall, FTAs are a means to facilitate market driven forces. FTAs that do not facilitate market driven forces will only contribute to higher business costs and market fragmentation.

The 2004 'APEC Best Practices on RTAs/FTAs' guidelines is a mechanism through which to square the FTAs with the Bogor goals. The Best Practice guidelines suggest a design of FTAs that facilitate market driven forces and 'help' the movement towards the Bogor goals.

These Best Practice guidelines, I am proud to say, were inspired by the extensive and innovative work undertaken by many of my good friends in PECC. PECC produced the 'Proposals for an APEC Common Understanding on RTAs' which were more comprehensive than the APEC Best Practice guidelines.

Some of the key components of these Best Practice guidelines are that they are consistent with APEC Principles and Goals, consistent with the WTO disciplines and that the extent of trade liberalization goes beyond WTO commitments.

Let's recall that one of the most important principles of APEC, coming out of the 1995 OAA, is 'Comprehensiveness'. Thus given this principle, even when combined with that of 'flexibility', is how to lower protection in sensitive sectors. The 'Comprehensiveness' guideline calls for trade and investment liberalization in all sectors and that the 'carve outs' granted in sensitive sectors are kept to a minimum, one which is based on clearly acceptable guidelines.

The onus for complying with these guidelines ultimately lies with APEC members. And this should be viewed as an opportunity for APEC members. It is an opportunity to set an example to the rest of the world in applying Best Practice principles in the negotiation and

design of FTAs. APEC members applying the guidelines will further strengthen APEC in its leadership role.

APEC members can also directly benefit. FTAs designed in compliance with these Best Practice guidelines will facilitate market driven forces that will produce greater gains to individual APEC members.

But these Best Practice guidelines and the initiative of APEC members alone is not enough. Effective implementation requires a policing and oversight role for APEC. This is needed to ensure that there is a robust process for reviewing APEC member FTAs for consistency with the Best Practice guidelines.

An alternative that is being debated to achieve the Bogor goals is the formation of a Free Trade Area of the Asia Pacific. This is a topic that is receiving very active discussion in APEC, PECC, ABAC and many other forums.

The concept of the FTA of the Asia Pacific goes against the grain of APEC. The concept of APEC and its way of doing business is very different to that implied by a legally binding trade agreement.

The Bogor goals are pursued through self interest and peer pressure under the umbrella of 'open regionalism'. This approach is deeply rooted and has been widely understood to signify that APEC would not seek to establish itself as a preferential trading bloc.

The practicalities required for realizing such an agreement are also great. The negotiation of an FTA of the Asia Pacific would be one of the most complex regional arrangements to be negotiated in history.

APEC is one of the most diverse forums in the world. Membership ranges from the United States to Papua New Guinea. Trying to achieve consensus on an FTA among such a diverse range of members would indeed take considerable time. It can take up to 5 years just to conclude a bilateral FTA. An FTA with 21 diverse members would take much longer.

APEC members would also have difficulty coping with the negotiation of another major trade agreement. APEC members, particularly developing APEC members, are already struggling with the over-crowded trade agenda.

In the past 15 years, the trade agenda has moved from 'at-the-border' issues to now encompass a whole range of 'behind-the-border' issues. This includes trade in services, intellectual property rights and competition policy. On top of that, there is the proliferation of FTAs and the WTO negotiations are underway.

If we assumed for a moment that an FTA of the Asia Pacific were pursued, could we really assure ourselves that it would be concluded within the timeframe already agreed for the Bogor goals?

Now is not the time for an FTA of the Asia Pacific.

The Best Practice guidelines are a mechanism to move towards the Bogor goals. But there is much more that APEC can do. There are many other areas of expertise that APEC can draw on in support of the Bogor goals.

Moving towards the Bogor goals is essentially about managing change and transforming our economies into being more dynamic and responsive to a whole range of market signals. It is about managing change towards greater international competitiveness as APEC members move towards more open trade and investment regimes.

APEC can assist members to manage change by focusing on two major components which underpin the Bogor goals – trade and investment facilitation and technical cooperation or what is commonly known as capacity building. These are two areas where APEC has a clear 'comparative advantage'.

Trade and investment facilitation is fundamental to the Bogor goals. And it is a much more important component for business than could have been envisaged in 1994. Business will now tell you that it is non-tariff measures, standards, licensing, inefficient customs procedures and so on that cost real money and slows down the economic integration process. Cutting the impediments in complex supply chains spanning many markets is one of business's highest priorities.

The APEC Trade Facilitation Action Plan lays down the objective of reducing transaction costs by 5 per cent by the end of 2006. This is actually a modest goal. The gains in this area can be significant and APEC should be looking to put in place more ambitious goals beyond 2006 for trade facilitation.

Trade facilitation has also become complicated by the security environment which has placed a new imperative on the process of getting goods to market. But as my PECC friends have pointed out to APEC – solutions that solve the security issues will also ultimately bring more efficient systems to facilitate trade. More work on this would help APEC members to achieve our targets on trade facilitation.

Another area of APEC ‘comparative advantage’ is capacity building.

There is a great divide between developed and developing APEC members in the demands that are placed upon them to manage change from trade liberalization and economic growth. Developed APEC members with their abundant intellectual capital and policy resources can successfully manage and greatly benefit from trade liberalization. And these mature economies generally do not grow as rapidly as developing economies and therefore do not undergo rapid and comprehensive change.

Developing APEC economies must cope with these structural changes as well as changes from the trade liberalization process. Most of us in developing economies have insufficient intellectual capital and policy resources to effectively channel the gains from trade into development.

This is why capacity building is such a vital part of the APEC agenda. It is not actually a separate pillar of APEC that can be put to one side – it is the muscle that gives strength to the APEC body.

Capacity building is now being achieved through dialogue and sharing of experiences. But we need to build and strengthen APEC members with better knowledge and resources so they can analyze their interests and options in trade and investment liberalization. Essentially, this is the ‘how to’ part of the APEC agenda which enables economies to move forward with greater confidence.

APEC’s capacity building efforts suffer from some essential deficiencies. Past capacity building efforts have been ad hoc, lacked coordination and are compartmentalized. They have also lacked adequate funding, tended to focus on the topical issues of the day and are provided in areas that are of most interest to developed APEC members.

I pleased to say that not only has PECC contributed directly to capacity building in APEC, but it has been a driver for change in approaches. Let me say I support these ideas,

especially that capacity building needs to be much more focused around outcomes.

Developing APEC members can also obviously do more. They need to better articulate their interests and priorities, and use their resources on things that really matter.

APEC can also do more. As such an influential international forum, it should be aiming to use its political weight with international and regional institutions to attract financial support and expertise for capacity building.

This is not about the developed helping the developing. It is about a sense of community and a shared sense of destiny. It is fundamental to APEC in building a region in which we can have the confidence and ability to become economically interdependent.

Distinguished Guests

Ladies and Gentlemen

It is time for APEC to get back to the main game and focus on APEC's strengths.

It is time for APEC members to focus on moving to the Bogor goals through non-discriminatory processes. Where APEC members feel it necessary to pursue FTAs, they should be in compliance with the 'APEC's Best Practices on RTAs/FTAs'. In other words, in line with the spirit of cooperation laid out by our PECC and APEC founders.

It is time for APEC to build on its existing areas of 'comparative advantage'. APEC has expertise in many areas and just two of those areas are trade facilitation and capacity building. They are areas that, correctly focused and delivered, can directly support the achievement of the Bogor goals, and most importantly support and provide confidence to continue the process of unilateral reforms.

I hope that one of the key outputs of this meeting will be concrete steps on a way forward for APEC members in achieving the Bogor goals. Concrete steps that focus on APEC's strengths.

Development of these concrete steps is yet another opportunity for PECC to become influential in shaping the future of APEC.

Thank you.