



**Asia-Pacific  
Economic Cooperation**

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## **PECC Statement to APEC Ministers Responsible for Trade**

Purpose: Information  
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**Ministers Responsible for Trade Meeting  
Big Sky, United States  
19-20 May 2011**

**Statement to APEC Ministers Responsible for Trade**  
**Big Sky, Montana**  
**18-19 May 2011**  
**Dr Charles E. Morrison**  
**Co-chair, Pacific Economic Cooperation Council**

Thank you for this opportunity to talk to you about our views on trade and regional economic integration in the Asia Pacific region. Founded in 1980, our organization, the Pacific Economic Cooperation Council is a forerunner of APEC. While our footprint is much the same as APEC's, our membership is broader, drawing on experts from business, government, and civil society.

We establish task forces to focus on issues we believe of importance to the promotion of regional cooperation in the Asia Pacific region.

**Post-2010 Trade Agenda for the Region**

Two years ago we established a task force to consider the trade policy challenges facing the region post-2010. The view of the task force was that 2010 was a watershed year as a result of the systemic changes wrought by the financial crisis; the 2010 Bogor Goal deadline; and the widely held view that the Doha Development Round would need to be completed by this time. The task force considered trade policy challenges for the region at two levels: the multilateral and the regional. This statement is largely based on the work of that task force.

**The World Trade Organization**

When our task force met there were hopes that the sequence of high-level meetings at the end of 2010 would give the political impetus to reach a conclusion in the Doha Round. Strong statements of support in both the G20 and APEC meetings stimulated renewed efforts in early 2011 but this has now given way to a profound sense of despair as it has become apparent that leaders in the major economies are not prepared to spend the political capital necessary to complete the Round. Under these circumstances we frankly doubt the value of statements of support for the Round that are not backed up by concrete demonstrations of a clear intent to constructively address the key issues.

**Need to Emphasize Institutional Value of WTO**

We are especially alarmed at how quickly the view appears to be gaining ground even among the strongest supporters of the WTO system that the latest developments in the Doha Round threaten the very viability of the WTO as an international institution. We therefore wish to emphasize the vital importance of the WTO in today's global economy not only as a venue for trade negotiations but also as an international treaty through which its members agree to abide by the rules of the game and as an international organization providing a venue for dispute resolution. These latter functions will be increasingly important in the international trading system as it confronts the formidable challenges that loom in the future, such as those posed by demands for carbon tariffs as part of the policy response to climate change, or the threat of increasing use of both import and export restrictions in the name of food security.

**Trade in Services**

One area of trade that offers enormous potential for gains in global as well as regional welfare is trade in services. The services sector now accounts for 68 per cent of value-add in the Asia Pacific region making it the biggest sector in the regional economy. However, while services have come to dominate the modern economy, international trade in services lags behind. Exports of goods from APEC member economies are 5 times larger than exports of services.

This points to large benefits that can be reaped by new thinking about services trade. We note the increasing gap between commitments made in bilateral and regional trade agreements and the WTO, although this is still fairly limited across the APEC region. A key conclusion from our trade task force is that the current approach to services trade liberalization is simply not working. It was noted that services offers on the table in the Doha Round contain "not one iota" of genuine liberalization in the form of new market access, and that some members still appear unprepared to enter into commitments binding current levels of liberalization. It was also emphasized that the modalities currently being used for services trade liberalization are not seen by business as meaningfully connected with the way that services trade is structured and conducted in reality. We have established a task force with the Asian Development Bank Institute to consider these changes and

consider innovative ways in which services trade can help deepen economic integration in our region. Our work will bring together experts from business, government, the research community and regional and multilateral institutions including the WTO, World Bank, OECD, and ASEAN. We will present our findings to you at SOM 3.

### **Food Security**

Another area we addressed in this project is food security. The international food economy faces a range of formidable challenges, including increasingly frequent supply disturbances caused by natural phenomena, increased pressure on key resources such as water and fisheries, competition for land from energy-related demands for biofuel, changing demand patterns reflecting demographic changes and rising incomes, and associated requirements for major improvements in agricultural productivity and heightened concerns over food safety. Well-functioning international markets have a key contribution to make to enhancing the security of food supplies to the global community.

The diversity in our region offers a unique environment to caucus on food trade issues and food security issues, exploring how more open trade in agriculture can contribute to more stable and secure food supplies at the same time as we search for politically palatable solutions to the Doha impasse.

A more comprehensive approach is clearly needed to these issues. One example of the new elements that need to be embraced in such a comprehensive approach is an agreement to refrain from export restrictions which could do far more for global food security than trying simply to address a symptom of the problem such as by creating food reserve mechanisms.

### **Regional Economic Integration**

There is no doubt that the region is becoming increasingly integrated. Our index of economic integration tracks this process across a number of dimensions and demonstrates that flows in goods, investment and people are increasing throughout our entire region.

There are two main processes being pursued for policy-led integration in the Asia-Pacific: the ASEAN plus agreements and the Trans-Pacific Partnership. Our task force discussed both platforms during their deliberations last year.

### **Pathways to a Free Trade Area of the Asia Pacific (FTAAP)**

When we undertook a study on the Free Trade Area of the Asia-Pacific (FTAAP) with ABAC in 2006, we noted that a high-quality agreement would be desirable but that the region faced complex political economy questions. We recommended APEC adopt a building block approach which should include deepening the WTO, aligning existing free trade agreements, extending outreach, and undertaking organizational reforms.

Our annual survey of opinion-leaders conducted in 2010 reflected a degree of ambivalence on the pathways available to pursue an FTAAP, with around 36 per cent of respondents preferring the TPP path and 38 per cent preferring the ASEAN plus agreements. However, when asked if regional economic integration should be pursued on multiple tracks, close to 70 per cent of respondents were in agreement. We note that APEC leaders have given equal endorsement to each of the possible paths – ASEAN Plus Three (EAFTA), ASEAN Plus Six (CEPEA) and TPP. Our trade task force has analyzed the progress to date and prerequisites for further progress in each of these paths.

### **The Missing Link in ASEAN Plus Approaches: China-Japan-Korea**

One critical element missing from both ASEAN Plus proposals is a commitment to economic integration among China, Japan and Korea. Among the three, there have been various studies and attempts to negotiate an agreement. Bilateral initiatives between Japan and Korea and between China and Korea have made varying degrees of progress at different times. On a more positive note, agreements on the rules of origin signed by East Asia's three biggest economies are showing a degree of convergence especially in their deals with developed partners. We have no doubt that a decision to move ahead on economic integration among China, Japan and Korea would impart a powerful impetus to the dynamic of integration both among the ASEAN Plus participants and across the Asia-Pacific region as a whole.

### **The Trans-Pacific Partnership**

The aforementioned PECC-ABAC 2006 study also looked at the then nascent P4 agreement as another pathway to FTAAP now known as the Trans-Pacific Partnership (TPP). Momentum has been gaining on the TPP pathway since 2006 with nine APEC member economies including the United States now negotiating the expansion of the agreement beyond the original four.

Although it is a newcomer to the equation, the TPP is now into its sixth round of negotiations. It is an ambitious effort to address old trade policy issues in a 21<sup>st</sup> century way as well as address next generation trade policy issues.

The work ahead cannot be underestimated, but significant results (even if not a final agreement) by the November APEC meeting are possible. This would send a welcome signal of the region's continuing pursuit of deeper integration and would represent a breakthrough in the consolidation of bilateral and plurilateral agreements.

If the TPP is to be an effective pathway to the FTAAP. It is crucial that the agreement should be designed with a view to the eventual inclusion of all APEC economies, even not all are ready to make the adjustments needed to join now. Inclusiveness should not be sacrificed to the narrow pursuit of the interests of individual participants.

### **Next Generation Trade Issues**

We note with interest the effort being made by APEC to address regulatory issues and other behind the border issues. We believe this work will have great support from our community. In our annual survey, the top impediments to doing business in the region were: poor intellectual property rights protection; multiple standards for products and services; and regulatory impediments.

### **SMEs and RTA/FTA Utilization**

We welcome the holding of a joint session between Ministers Responsible for Trade and Ministers Responsible for Small and Medium Enterprises. We hope this dialogue will shed light on the difficulties our region's SMEs have in entering global chains and promoting the most efficient use of resources. This initiative is critical to broadening domestic support for the trade liberalization.

Studies by PECC and others show that the utilization rate of RTAs/FTAs is low especially by SMEs. However, data is uneven and analysis is more anecdotal than based on hard facts. There are two concrete initiatives APEC could adopt in this regard: the first would be to consolidate existing data to give policy-makers a better understanding of the challenges SMEs face in using preferential agreements; and the second would be to encourage all APEC members, perhaps through a pathfinder agreement at first, to ask customs agencies to collect data on usage and obstacles to usage.

### **Expanding the Constituency for Asia Pacific Cooperation**

In these challenging times for regional and global cooperation, there is an urgent need to proactively reach out to stakeholders. We stand ready to help in this effort through our member committees. Our member committees organize events throughout the year on various issues related to Asia-Pacific cooperation. For example, immediately after this meeting our US committee will hold its annual Washington Conference, just a week after these meetings our China Committee is holding the bi-annual PECC trade and investment fair in Tianjin and at the end of June our Singapore Committee also be holding a conference on the challenges facing APEC economies.

### **The Asia-Pacific and the Global System**

Much has been made in recent months of the shift in the global economy towards the Asia-Pacific region. Both PECC and APEC were created in recognition of the increased interdependence within our region as well as its increased weight as a whole in the global economic system. We hope that this regional community will as represented here will take up both the benefits that this shift brings as well as the responsibility as a steward for the global economic system.