

**PECC Statement to the Meeting of APEC Ministers Responsible for Trade (MRT)
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On behalf of the members of the Pacific Economic Cooperation Council, we appreciate the opportunity to address APEC Ministers Responsible for Trade (MRT). We commend the host, the Republic of Korea, in shaping this year's agenda for the MRT and APEC more broadly and for and for initiating deliverables related to "Artificial Intelligence (AI) Cooperation" and "Response to Demographic Changes in the Asia-Pacific Region." These elements are timely and important. They not only address the technological transformation that is sweeping the world economy but also the demographic realities that will shape the region's economic future. Aligned with this vision, PECC's priorities focus on four key trade-related areas: (1) seizing the opportunities and managing the risks from AI innovation; (2) addressing challenges in global trade through "good regulatory practices;" (3) lending support to the multilateral trading system, (4) promoting sustainable supply chains.

Opportunities of AI Innovation and Potential Cooperation Areas

Artificial Intelligence (AI) and digital technologies are unlocking new avenues for business growth and operational efficiency. In logistics, AI-driven optimization tools streamline supply chains, and reduce transit times and costs by automating complex routing and customs procedures. The benefits of these technologies are reaped not only by large corporations but also small and medium-sized enterprises (SMEs). The latter are now in a better position than before to participate in global supply chains.

AI serves as a catalyst for innovation in several sectors. In healthcare, AI enables new methods of medical diagnosis and the expansion of telemedicine. In e-commerce, it facilitates seamless cross-border service delivery. The digitalization of trade is so pronounced that approximately 60 percent of services are now traded digitally, underscoring the important role played by new technologies in today's economy.

Despite these benefits, the rapid adoption of AI in trade facilitation presents regulatory challenges that require further international cooperation. Harmonization of rules and regulations is essential to prevent fragmentation and ensure that digital trade flourishes across borders. While the Blueprint on Good Regulatory Practices for APEC was adopted in 2023, the implementation is still missing in a number of areas. This highlights the need for continued dialogue and coordinated action to advance best practices.

A critical area for cooperation is the development of a comprehensive regulatory framework for AI within APEC and beyond. Policymakers could consider whether such frameworks should encompass both goods and services, and whether a general approach to AI regulation should be complemented by sector-specific guidelines, particularly for services that deliver AI-based applications

AI Risks and Challenges to Address

The integration of AI into trade facilitation is not without risks. Crafting regulations that are proportionate to the risks posed by AI such as privacy violations, algorithmic bias, and the potential manipulation of consumer behavior is a pressing challenge. Hence, policymakers should ensure that regulations protect consumers and uphold ethical standards without stifling innovation or inadvertently serving as disguised protectionism that restricts cross-border trade.

Another challenge stems from the fact that AI is blurring boundaries between goods and services. As AI becomes embedded in physical products, such as autonomous vehicles, it complicates the traditional distinction between goods and services in trade agreements. This phenomenon necessitates the creation of rules that both facilitate cross-border service delivery and ensure that AI-enabled products meet safety and quality standards to protect consumers.

Finally, the success of AI-driven trade facilitation depends on robust digital infrastructure, a skilled workforce, and a supportive policy environment. Without these foundational elements, the benefits of digital transformation may remain out of reach for many economies, particularly less developed ones.

Reform to Address Challenges in Global Trade

Structural reform is vital to realizing the Putrajaya Vision 2040, which aspires to create an open, dynamic, resilient, and peaceful Asia-Pacific community by 2040. The adoption of the Enhanced APEC Agenda for Structural Reform (EAASR) in 2021 marked a significant milestone toward improving regulatory quality through Individual Action Plans (IAPs). However, PECC's analysis found that while progress has been made, important gaps persist.

Despite the endorsement of the Good Regulatory Practices (GRP) Blueprint for APEC in 2023, only a handful of economies have published self-assessments using the APEC-OECD Checklist. This shortfall underscores the need for greater transparency and more robust implementation across the region. Enhanced transparency is not merely a procedural improvement but also fundamental to building trust and ensuring that regulatory reforms deliver tangible benefits to businesses and people in the region.

Furthermore, the current IAPs under the EAASR have largely excluded service sector reform. PECC's policy brief on "Good Regulatory Practice for Services" under our signature project on "FTAAP Pathways to Prosperity - Dialogue on future directions and next steps" recommends that APEC prioritize capacity-building to help economies implement the World Trade Organization (WTO) disciplines on services domestic regulation and the comprehensive areas outlined in the GRP Blueprint. Deepening cooperation in digital trade, including the

development of a common regional regulatory framework, is crucial for unlocking the full potential of the digital economy.

APEC’s Role in Supporting the Multilateral Trading System and WTO MC14

PECC’s SOTR 2024-2025 reveals a grave concern among people in the region with regard to the spillovers of geopolitics in the trade realm. The SOTR survey respondents exhibited worries about rising trade protectionism. They selected “geopolitical tensions and associated sanctions” and “increased protectionism and trade wars” as the first and second highest risk to growth for their economies respectively. In addition, the respondents chose “Ameliorating geopolitical and trade conflicts in the region” as Number 1 priorities for APEC Leaders in 2025. This showcases the regional demands for APEC to address these challenges.

Notably, the perceived importance of supporting the WTO among regional stakeholders has declined. The SOTR 2024-2025 found that only 26 percent of the respondents chose “Supporting the multilateral trading system/WTO” as a top priority for APEC Leaders for this year. This number has been reduced from 50 percent when we conducted the opinion survey in 2007. The result may reflect several possibilities such as a reduced focus on multilateral platforms vis-à-vis regional ones to advance trade, or challenges faced by the WTO (including its dysfunctional dispute settlement system), or a need to address new and emerging issues (e.g. rapid digitalization, climate change and trade), among others.

Nevertheless, the WTO’s role as the world’s largest trade grouping with 166 members remains relevant important, particularly for economies with limited free trade agreements. The WTO provides a platform for negotiation and dialogue, helping to prevent misunderstandings and mitigate trade conflicts. For APEC, supporting the multilateral trading system is not only consistent with the Putrajaya Vision 2040 but also essential for safeguarding the interests of all member economies.

To ensure meaningful outcomes at the upcoming WTO Ministerial Conference (MC14), APEC economies should accelerate implementation of MC13 outcomes, support plurilateral agreements, such as Joint Statement Initiatives (JSIs), which have emerged as practical solutions when multilateral consensus is absent and align domestic policy measures with the WTO principles.

Policies to Support the Private Sector in Improving Sustainable Supply Chains

One of the findings in SOTR 2024-2025 is that there exists regional demands for APEC to address supply chain problems. For instance, the survey respondents chose “Global supply chain issues” as the third highest risk to growth for their economies. They also chose “Enhancing supply chain resilience” as one of Top 5 priorities for APEC Leaders for this year.

Under the PECC’s “FTAAP Pathways to Prosperity” project, a policy brief on “Trade and Climate Change” reveals a nuanced policy story which policymakers can consider when crafting policies to support the private sector to improve sustainable supply chains. The analysis found that such support can create protectionist forces in the domestic economy. Governments, particularly in developed economies, encourage their private sector to specialize in the

production of downstream products (i.e. finished goods) which are both environmentally cleaner and technologically more sophisticated. However, such measure bolsters companies' lobbying for higher protection for their downstream products. As a result, tariffs on "cleanest" industries are four times higher than those on "dirtiest" industries (at 9% compared to 2%). This paradox reminds us that governments should think about ways to not only support businesses to 'go green', but also how to mitigate or eliminate the unintended effects of their policies which can hamper cross-border trade in green goods and green supply chain development.

Key Priorities for APEC for Sustainable Supply Chains

To ensure that efforts to improve sustainable supply chains reinforce free trade, our "FTAAP Pathways to Prosperity" project recommends that APEC focus on four key policy areas: (1) Exploring approaches to minimizing the impacts of carbon leakage, including a comparison of different approaches to lowering emissions; (2) Lowering tariff and non-tariff barrier escalations for goods with emission-intensive inputs; (3) Reducing and eliminating environmentally harmful subsidies; and (4) Considering the consistency of trade and investment rules with climate change action. Also, APEC should build upon its existing work on environmental goods and services, leveraging analysis, policy dialogue, peer review, and capacity building to develop policy guidance and model provisions that support the FTAAP vision and beyond.