

**Summary of Symposium**  
***“FTAAP: Asia Pacific Economic Cooperation by 2020 and Beyond”***  
**Recommendations for FTAAP Collective Strategic Study**

On October 15-16, 2015, the China National Committee for Pacific Economic Cooperation (CNCPEC) organized a symposium on “FTAAP: Asia Pacific Economic Cooperation by 2020 and beyond”. The objective of the symposium was to generate recommendations for the reference of the APEC Friends of the Chair Group on Strengthening REI and Advancing FTAAP,

Experts were drawn from the various PECC committees and beyond from Australia, Canada, Chile, China, Indonesia, Korea, Malaysia, New Zealand, Peru, the Philippines, Singapore, Chinese Taipei, the United States, the APEC Policy Support Unit and the PECC International Secretariat also attended the symposium.

The participants discussed the following issues:

1. The Bogor Goals and Asia-Pacific Economic Cooperation;
2. The Role and Positioning of FTAAP;
3. Three aspects of FTAAP, namely, Trade in Goods, Investment and Service, 21st Century New Issues;
4. An Outlook of the Substantial Contents of FTAAP; and
5. Possible Difficulties and Challenges in Realizing FTAAP.

On the basis of the discussion on these issues, the experts suggested a series of recommendations on how to promote the FTAAP. Their ideas and views are summarized as follows.

**1. The Collective Strategic Study (CSS) should take into account the changes and developments that have taken place since the adoption of the Bogor Goals. These developments constitute the context for the pursuit of FTAAP.**

- a) Since the adoption of the Bogor Goals, the Asia Pacific has made great progress in economic integration, with intra-regional trade at 65%, and average applied tariff rates falling from 16.9% in 1989 to 5.8% in 2013.
- b) However, the Bogor Goals cannot be realized without greater community building and unilateral liberalization supplemented by regional and multilateral liberalization. Furthermore, the integration of the region will require effectively addressing both at the border, across-the-border and behind-the-border issue, improving physical, institutional and people-to-people connectivity, while promoting a competitive business environment and inclusive growth;
- c) The Asia-Pacific remains the most dynamic growth center of the world largely

due to economic cooperation and integration. In 2014, APEC economies accounted for 57% of world GDP and 49% of total world trade. The economic weight of the region is ever growing, with the US, China and Japan being the first, the second, and the third biggest economies in the world;

- d) The Asia-Pacific is also characterized by diversity with different levels of economic development. The rapid economic development of the region has moved a couple of economies to the high-income group, and many more to the mid-income group;
- e) The twelve-fold increase in the number of RTA/FTAs in the Asia-Pacific has promoted regional economic integration and at the same time has caused fragmentation. Some of the concerns expressed about the “spaghetti bowl” effect are that it has: negatively affected the evolution of supply chains and value chains; discriminated against small and medium enterprises; and resulted in low utilization rates of the FTAs.
- f) The appearance of mega-FTAs, like Trans-Pacific Partnership (TPP), Regional Comprehensive Economic Partnership (RCEP), and Pacific Alliance (PA) reflects the necessity to turn the “spaghetti bowl” of FTAs into a “lasagna dish”;
- g) The rapid development of new growth engines such as the Internet Economy, the Blue Economy and the Green Economy are transforming the regional economic landscape. These changes impacting everyday lives as well as trade in profound ways but one salient feature of these developments is the pace of change leaving many governments inadequately prepared to effectively engage and benefit from these new drivers;
- h) In sectors where Global Value Chains (GVCs) have become prevalent, the challenge for APEC economies is to identify where and how they should position themselves in these GVCs in order to derive the greatest potential value from their participation. APEC should promote understanding of the relevant issues, encourage the emergence of efficient GVCs, and assist member economies to develop the capacity to participate effectively in these GVCs;
- i) The regional economies have generally realized the paramount importance of promoting physical, institutional and people-to-people connectivity and of implementing APEC Connectivity Framework and APEC Connectivity Blueprint for 2015-2025. The Belt and Road Initiative and the Asia Infrastructure Investment Bank will help to promote the connectivity cooperation in the Asia-Pacific;

- j) Since the Global Financial Crisis (GFC), economic reform, new economy, innovative growth, inclusive support, and urbanization are regarded as pillars for further economic growth; and
- k) However, the GFC has also raised new obstacles to deeper economic integration with rising protectionism. The political economy for free trade and investment has turned less favorable with the social cost of further trade and investment liberalization; economic transformation and structural reform becoming prominent issues in political debates. Powerful interest groups have raised the political costs of liberalization for governments. Anti-globalization NGOs challenge the legitimacy of free trade and the politicization of FTAs has become a negative factor for regional economic integration.

In spite of the challenges, the FTAAP provides an important way to sustain the region's dynamism and serve as an engine of the world economic growth as it has done in the past decades.

## **2. The participants recognize the remarkable values of the promotion and the realization of FTAAP.**

- a) APEC's pursuit of the Bogor Goals has played an important role in pushing the process of Asia-Pacific economic integration and that the FTAAP concept will contribute to the realization of Bogor Goals as well as serve as a vehicle to promote regional economic integration after 2020. The greatest benefit that FTAAP can bring about is to build an Asia-Pacific economic community;
- b) Estimates suggest that the FTAAP would bring about much larger economic benefits than any of the existing regional trade agreements. TPP members, RCEP members, and all the APEC members will all get the most from consolidation into the FTAAP. According to Peter Petri et. Al., by 2025 their incomes will increase by 2.3%, 3.5% and 3.5% respectively as against the baseline of 2013. Kawasaki (2014) has also estimated that the income of the APEC economies as a whole would increase by 1.2% by TPP, 2.1% by RCEP and 4.3% by FTAAP. Similar estimates were reached by other simulations such as Sangkyom Kim et. al. Peter Petri et. al. further point out the TPP alone will only bring about an increase of 0.9% for its members, and 0.4% for RCEP members; while the RCEP alone will increase the incomes by 1.8% for its members, and 0.5% for the current 12 TPP members. TPP will only bring about an increase of 0.4% for APEC members in aggregate, while the RCEP will do better with an increase of 0.9%;
- c) The trade diversion effects will deteriorate the economic welfare of the non-member economies of the regional mega-FTAs like TPP and RCEP, while FTAAP can avert trade diversion effects among APEC members;

- d) FTAAP will be helpful to streamline the Rules of Origin (ROOs) and turn the “spaghetti bowl” of FTAs into a “lasagna dish”, to the great benefits of businesses; and
- e) The FTAAP should facilitate the participation of economies into regional production networks and regional value chains which are under the risk of being fragmented with the proliferation of RTAs/FTAs in the region.
- f) Participants welcomed the work being undertaken by APEC to address these issues through the Beijing Roadmap for APEC’s Contribution to the Realization of FTAAP as adopted by the APEC economic leaders in 2014. They welcome the progress that the relevant working groups has made according to the “Beijing Roadmap” and believed that FTAAP work is on the solid track of development.

**3. The participants recommend that the FTAAP as a regional arrangement should follow the following principles:**

- a) The FTAAP should be pursued on the basis of supporting and complementing the multilateral trading system;
- b) The FTAAP should continue to promote the Bogor Goals--trade and investment liberalization and facilitation--by 2020 and beyond, and promote eco-tech cooperation;
- c) The FTAAP should be comprehensive and high quality, and incorporate and address ‘next generation’ trade and investment issues. The purpose is to promote trade and investment liberalization and facilitation, capacity building and connectivity, to adapt to the ongoing economic transformation and new modes of production and doing business, and to promote GVCs and improve supply chains;
- d) Given the diversity of the Asia-Pacific, the FTAAP should be promoted on a step-by-step, flexible, transparent, and consensus-based approach. It was suggested that the level of ambition should differ across issues - high ambition in market access, but not necessarily in issues of environment, labor, State-Owned Enterprises (SOEs), competition policy, government procurement, and investor-state dispute settlement. There should be comfortable room for transition;
- e) The FTAAP should be inclusive. It should be oriented to community building and common development as well as promoting free trade and investment;

- f) The FTAAP should be realized as early as possible by building on ongoing regional undertakings, including TPP, RCEP, PA, and AEC, etc; and
- g) Open regionalism should be practiced in determining FTAAP members, yet for an early realization of FTAAP, the initial members could include members of APEC, TPP, RCEP and PA.

**4. The participants put forward the following recommendations in relation to trade in goods:**

- a) The CSS should emphasize the importance of trade in goods agreement since the estimation shows that about one half of the benefits of the next-generation agreements comes from liberalization of trade in goods. Participants highlighted that economies gain most from the removal of their own trade barriers;
- b) A coverage of at least 90% of trade is recommended for tariff reduction in FTAAP, if not a complete product coverage for market process. Special attention should be paid to agriculture tariffs, tariff peaks and tariff escalations;
- c) Non-tariff barriers should be duly addressed in the FTAAP as the removal of the non-tariff barriers and trade distortion measures could yield much more substantial benefits than the benefits achievable from tariff reduction;
- d) The ROOs of FTAAP should be considerably simple, flexible and predictable to facilitate trade, enhance use of FTAAP, and promote the development of regional supply chains and value chains. Regional value-added content (RVC), together with changes in tariff classification, should be the cornerstone of ROOs, which should be set at non-prohibitive levels. It is advisable that FTAAP take a full cumulation approach. Unification of ROOs within APEC is recommended by participants, while one participant proposes Pan-Asia-Pacific Cumulation System (PAPCS); and
- e) The Operational Certification Procedures of FTAAP should be robust, transparent and practical to avoid unnecessary cost, uncertainties and risk, and self-certification should be adopted as the first option. Good practices in ROO administration should be disseminated to reduce transactions costs and increase use of FTAs by businesses.

**5. The participants put forward the following recommendations in relation to service and investment:**

- a) The CSS should emphasize the significance of services and investment as they

are essential to promote high-quality, inclusive, balanced, and sustainable green growth, and increased connectivity;

- b) The efficient provision of services is a vital requirement for increasing productivity and competitiveness in our economies, and is a key to the successful operation of supply chains;
- c) The FTAAP should help to expand the market access of services and investment by improving policy predictability, openness and transparency, and by reducing the high level of restrictions on services trade that currently exist among APEC economies. MFN and national treatment should be promoted in both service and investment liberalization;
- d) The arrangement on service and investment should be considerably ambitious to make trade in services and investment in goods and services meaningful, effective and efficiency-enhancing;
- e) To facilitate services trade and investment liberalization, the FTAAP should promote institutional connectivity and regulatory coherence, especially the coherence of the behind-the-border measures; and
- f) For investment specifically, the practice of performance requirement should be duly tackled.

**6. The participants put forward the following recommendations in relation to next generation issues:**

- a) Since next generation issues appear as a result of both deeper economic integration and the development of new economy, and APEC has started to identify next generation issues, a list of next generation issues should be identified on the basis of consultative consensus and with different levels of development taken into account;
- b) The list should be both meaningful and ambitious, and implementable and comfortable. It should be extended step-by-step and commensurate with the development of the region as a whole and that of each economy;
- c) The rules for the next generation issues should be set on the basis of sound economic principles, taking account of the interests of all participants, and with a view to setting precedents for WTO rules of the 21st century;
- d) The FTAAP should promote intellectual property protection in an adequate, balanced and optimized way so that it can both promote innovation with incentives for broad distribution of knowledge and patented materials and

ensure social well being by avoiding overuse of protection;

- e) With the rising stock of knowledge, diminishing novelty, and the shortening technology cycles, as one participant argued, the IP protection period should be shortened rather than protracted;
- f) The FTAAP should give due coverage on the relevant issues in order to encourage digital trade and e-commerce. Although it is not common for the next-generation agreements to tackle these issues, space should be arranged in FTAAP to accommodate them;
- g) The FTAAP should include competition policy. Competitive neutrality should be emphasized, and the diverse regimes of the various economies should be well accommodated; and
- h) The State Owned Enterprise issue should be properly handled to reflect the diversity of economic development and economic governance, as well as consistency with the principles of the FTAAP provisions on competition policy. Government procurement should be arranged to enhance transparency.

**7. The participants recommend a series of measures to promote FTAAP:**

- a) APEC should continue to play the role of incubator and all members of APEC should jointly promote the FTAAP process to move forward in a parallel way. As an incubator of FTAAP, APEC has achieved, and should continue to contribute a lot in both trade and investment liberalization and facilitation, capacity building and development cooperation, and connectivity promotion. These achievements should be duly put into FTAAP;
- b) The FTAAP should be pursued with some urgency. With the conclusion of the TPP negotiations and the subsequent fast development of RCEP and other sub-regional trade arrangements, it would be opportune to consider the substantial start of FTAAP feasibility study, right after the CSS;
- c) The CSS should define a timetable for the conclusion of FTAAP negotiations, say 10 years;
- d) FTAAP should be based on the strengths of various FTAs. The signing of TPP, the great progress of RCEP and PA, and the on-time completion of ASEAN Economic Community (AEC) may provide good impetus to the promotion of FTAAP. In the same manner, the participants encourage relevant parties to be actively engaged in China-Japan-Korea FTA and China-US Bilateral Investment Treaty;

- e) Most participants favor FTAAP as the main channel for regional economic integration, or an umbrella to incorporate other mega-FTAs, including pathways of TPP and RCEP. A few participants tend to favor the TPP expansion approach as the most viable pathway to FTAAP;
- f) One expert proposes a three-stage program, with the first stage of FTAAP negotiations to be concluded in 2025 with RCEP as the benchmark, the second stage to be concluded in 2030 with standards between RCEP and TPP, and the third stage to be finished in 2035 drawing closer to the TPP standards;
- g) Another expert envisages two parallel processes, i.e. the APEC process paralleling with FTAAP, which parallels with the existing mega-FTAs. He suggests another three-stage negotiation process, with the first stage to be started in 2018 at the latest and concluded by 2022, and implemented by the developed economies by 2025 and by developing economies by 2030. This package will be a combination of a basic liberalization agreement and a cooperation and development agreement;
- h) The information sharing mechanism should be enhanced for the purpose of exploring pathways to FTAAP;
- i) More efforts should be made to strengthen capacity building. For instance, the potential FTAAP members could hardly embrace liberalization in services and investment until such endeavor proves “safe” and beneficial through a set of measures, including knowledge dissemination, experience sharing, extension of best practices and capacity building. In the same vein, it is necessary to promote regulatory cooperation and reduce the digital divide between members, especially on sensitive issues such as privacy, cross-border data flow, and cyber-security, among others;
- j) The FTAAP endeavor requires a spirit of true partnership and mutual trust among potential member economies. The various parties are advised to avoid politicizing FTAAP. The participants highlighted the need for political will, constructive attitude and collective rule-setting; and
- k) Proactive leadership is of paramount significance and holds the key to success and progress of FTAAP. As some participants point out the United States and China remain two essential ingredients to the “lasagna dish” of FTAAP and the whole-hearted cooperation between the two economies constitute the key to the success of FTAAP.