

## **2012 APEC Workshop on FTA Implementation**

November 15-16, 2012, Jeju, Republic of Korea

### **Executive Summary**

Securing the implementation of FTA commitments is every economy's urgent concern. Any non-implementation is damaging the very foundation of reciprocity of FTA mechanism. How to effectively facilitate FTA implementation remains imperative particularly in such diverse political and economic environment of Asia-Pacific.

For the proper implementation of FTAs, the governments must check any possible inconsistency between treaty commitments and existing laws and regulations. Any inconsistency problem needs to be solved by revising laws and regulations and administrative guidelines. Equipping relevant regulatory organizations and agencies with required knowledge and capacities for the implementation is a critical part of preparation for the implementation. In particular, customs administrations need to be fully ready to administer preferential tariff rates and verification of origin.

Cooperative interactions between the administrative and legislative bodies are also instrumental in enhancing implementation capacities of APEC economies. For this purpose, Korea enacted the Trade Procedure Act in January 2012. This kind of legislative solution can help increase transparency in the trade policy process while institutionalizing the scope of mutually amicable interactions between the government and the parliament in a highly political environment of FTA implementation.

Moreover, the implementation of trade agreements involves activities to foster business communities' utilization of FTA benefits. Governments need to provide assistance to their enterprises, in particular, to help them deal with the difficulties they experience in meeting the requirements of preferential rules of origin (ROOs). Divergent ROOs are one of the main causes of raising business costs in the era of proliferating FTAs. Simple, consistent, and predictable ROOs are more likely to foster the growth of cross-country production networks in the world trading system. The Pan-European Cumulation System shows a good example of harmonizing ROOs on a regional basis. Therefore, APEC needs to pursue the long-term goal of harmonizing ROOs in Asia-Pacific, while making immediate efforts to converge ROOs of FTAs concluded among APEC economies.

Government assistance also needs to be targeted at the sectors affected adversely by FTAs to enhance their competitiveness or to facilitate structural adjustments. How to systematically attend to disadvantaged business groups is also related to the necessity to secure legitimacy of the trade deal at issue and it will also garner further supports for any future deal. As necessary it is, this industrial adjustment issue is always a politically sensitive task, requiring government's engagement in a two-level game.

In playing the game, the Korean government has made continuous efforts to balance economic welfare with political reality by delaying tariff elimination for sensitive products and paying substantial compensation to farmers. Such a balancing task has easily been challenged by anti-FTA groups and any surrender to such challenge has only generated more challenges and eventually moral hazard. Even the Investor-State Dispute Settlement mechanism, once an obscure topic understood only by arbitrators and law professors, has swiftly entered public consciousness, and criticisms about the mechanism were used by anti-FTA groups to pose another challenge to the legitimacy of FTA liberalization policy. .

As a way to deal with these challenges in a systemic manner, Korea adopted the Trade Adjustment Assistance (TAA) program. This program proved its utility in persuading opponent groups and gaining people's agreement on the FTA deal and its domestic implementation. It needs to be remembered, however, that in the process of extracting this political utility economic efficiency has largely been sacrificed in operating the program. A future task of Korea would be to make the political instrument more economically efficient.

To better pursue the two-level game, governmental authorities need to share information on controversial issues and to have enough consultations with stake-holding industries and the general public. The authorities should try to reflect as many compromised opinions of the issues into the FTA negotiation. Without such procedures of active internal consultation or engagement, any outcome of international negotiation could be vulnerable to criticism and challenges from interest groups, hindering implementation of the FTA.

Promotion of benefits and public awareness of FTAs is also a critical tool in the game. In the process of promotion of the Korea-US FTA, Korea had to pay incalculable

amount of social costs, as anti-liberalization organizations developed their organizational capabilities in a systematic manner and demonstrated powerful solidarity. The negotiation and implementation authorities need to execute intensive public relation activities to reach out to the people. The point that FTAs will bring about business opportunities even to disadvantaged sectors needs to be clearly understood by the business people in those sectors, and their productivity enhancing endeavors need to be efficiently supported by governmental domestic measures. FTA parties may work jointly to promote the benefits of FTAs. It would be a good idea to establish an FTA Promotion Mechanism at the APEC level to promote the benefits of FTAs regionally.

If FTA benefits are not utilized by users, what is the use of implementing FTAs? Another urgent task and responsibility of APEC economies is to promote SME's FTA utilization. To encourage SMEs to actively utilize FTAs, more collaboration among APEC members is needed in such areas including customs, origin determinations, harmonizing product specific rules of origin, and sharing information and experiences. It is about time to formulate common guideline for origin verification among FTA partners in Asia Pacific such as NAFTA Verification Manual. In the end, APEC enterprises need to look at FTAs through a global supply chain lens where business processes are unbundled and where sales, marketing, manufacturing and sourcing raw materials are internationalised. Business communities need to understand how to use the FTA tool to their best.

Sometimes, FTA implementation and compliance may be constrained by the central-local protectionism. An increasing level of local power due to democratization is a new trend in many economies of Asia Pacific. In this practical environment, if a local government feels that the implementation of certain provision is not conducive to its economic growth, it may be unwilling to genuinely enforce such provision in its territory. A typical example would be a local government's lax enforcement of environmental and labor commitments under FTAs. Attention should be paid among APEC economies to establishing operative and effective implementation mechanism that is based on a cooperative spirit between central and local governments.

The implementation of complex trade agreements often poses a great challenge to developing countries. How to assist developing economies in implementing FTAs is also becoming a prevailing concern as more FTAs are concluded between developed and developing economies in Asia Pacific.

Given the significance of monitoring FTA implementation, it is about time to pay attention to, and to know, any huddles and barriers in the process of FTA implementation. APEC economies in particular need to discuss this topic and raise their voices towards each other as well as towards outside. This discussion could find some useful solutions and share even painful experiences or process of trial and errors with APEC economies. This kind of effort will contribute to genuine regional integration of APEC economies including the integration that will be achieved by the FTAAP initiative.

## **Workshop on FTA Implementation**

15-16 November, 2012, Jeju, Korea

### **Analysis of the Results of Participants Feedback**

The Workshop on FTA implementation was held in Jeju, Korea on 15th-16th November, 2012. During the workshop, 18 speakers presented on various contentious issues ranging from promoting public awareness of FTAs and enhancing utilization of FTAs to addressing negatively impacted sectors in FTA implementation. 37 participants from 17 APEC economies participated in the workshop and actively shared their economies' experiences on FTA implementation. For evaluation purposes, Korea conducted a feedback survey, and 35 participants responded.

According to the survey, the majority of the respondents (97%) evaluated the entire workshop to be "satisfactory" or "good" where as the rest (3%) evaluated it to be "fair." No respondents thought the workshop was "not good" or "not satisfactory." The respondents commented that sharing Korea's experience provided participants with better understanding of FTA implementation as well as precious insights on useful tools to be applied to their economies. Also, they highly appreciated the session 7, "sharing experiences of APEC economies" where 5 speakers from Chile, China, Indonesia, New Zealand, and the U.S. briefly presented on their own FTA implementation experiences.

When asked how well the workshop met its objectives, 51% of the respondents marked "satisfactory", while 40% and 9% marked "good" and "fair," respectively. Several respondents (22%) commented that it would have been better to have more opportunities to interact with participants and speakers. They suggested that having more time for Q&A or additional break-out sessions for networking and informal discussions would improve the quality of this kind of workshops.

Regarding the appropriateness of the participants (speakers and audience) of the workshop, the majority of the respondents (85%) answered it was "satisfactory" or "good," and 11% "fair." Some participants commented that business sectors should be included.

When asked how this workshop will benefit or change their work, organization and/or economy, many of the respondents stated that they became more aware of the importance of FTA implementation and the necessities of putting more focus on the issue in their economies. They also mentioned that for this purpose, they will report the workshop results with their own recommendations to future activities within relevant ministries to improve FTA implementations, particularly on enhancing public awareness and utilization, will inform their respective parliaments of the importance of trade adjustment assistance, will refer to best practices, particularly Korea's experiences in establishing their FTA implementation mechanisms for more engaging interest groups concerned and providing FTA information services, and will consult more often with other ministries and business associations in order to take into account various points of view in implementing FTAs.

Many respondents pointed out that the workshop should have been held for a longer period of time and suggested follow-up workshops with broader topics as follows: 1) sector-based in-depth analysis (agriculture, ROO, etc.); 2) chapter-based in-depth analysis (legal, economic, administrative, and public approaches, etc.); 3) services and investment liberalization as well as tariff liberalization; 4) more comparative analysis on APEC economies' situation; 5) recommendation for the development of FTAAP and TPP; and 5) specific case studies regarding challenges that APEC economies have faced.

As for the subsequent activities to be pursued by APEC in order to build on the results of the workshop, the respondents suggested as follows: 1) hold follow-up implementation workshops; 2) consolidate and circulate members' experiences; 3) publish more materials for trade policy experts; 4) conduct further survey on the needs of members in terms of capacity building for FTA implementation; 5) cooperate to find solutions to increase utilization rate and practices in their economies; 6) continuously provide information on FTA implementation to all participants; and 7) build a network of FTA implementation and provide with participants a contact list to help participants to communicate each other.

## 2012 APEC Workshop on FTA Implementation

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November 15-16, 2012, Jeju, Republic of Korea

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