



**Asia-Pacific
Economic Cooperation**

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**Executive Summary of the Collective Strategic
Study on Issues Related to the Realization of the
FTAAP**

Purpose: Consideration
Submitted by: CTI Chair



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Collective Strategic Study on Issues Related to the Realization of the FTAAP*

EXECUTIVE SUMMARY

In their 1994 Bogor Declaration, APEC Leaders agreed to common goals of free and open trade and investment by 2010 for industrialised economies and 2020 for developing economies. These targets, known as the Bogor Goals, reflected the shared belief that free and open trade and investment are essential to realise the region's growth potential and enhance economic and social outcomes for all APEC economies. Since then, APEC's role in facilitating regional economic growth and cooperation has helped to achieve increased prosperity and stability in the Asia-Pacific region. From 1989 to 2014, the average applied tariffs of APEC economies fell by more than 10 percentage points and, as a result, there has been a seven-fold increase in both intra-APEC merchandise trade and APEC's total trade.

On the recommendation of APEC's Business Advisory Council in 2004, APEC Leaders agreed in 2006 to examine the long-term prospect of a Free Trade Area of the Asia-Pacific (FTAAP). In 2010, Leaders established that the realization of an FTAAP would build on ongoing regional undertakings such as the Trans-Pacific Partnership (TPP) and the Regional Comprehensive Economic Partnership (RCEP). The 2014 Beijing Roadmap for APEC's Contribution to the Realization of FTAAP endorsed by Leaders in 2014 called for a Collective Strategic Study on Issues Related to the Realization of the FTAAP with any recommendations by the end of 2016.

This Study is to help identify key issues that are essential for APEC economies to advance towards realisation of an FTAAP. It has been prepared against the background of emerging voices of support for protectionist policies which risk eroding national prosperity in economies in the Asia-Pacific. Globalisation and accompanying policies that support more open trade and investment have lifted millions of people throughout the region out of poverty and delivered improved living standards to many more. But there is a constituency that believes it has been adversely affected by globalisation. The case that free and open trade and investment promotes economic prosperity, improved job opportunities and stronger growth needs to be strengthened and made again.

Further advancement of trade and investment liberalization in the Asia-Pacific could bring great opportunities and lead to an eventual FTAAP. Reducing barriers to trade and investment could increase connectivity and help bring many enterprises and workers into the mainstream of the global production system so as to lead to inclusive economic growth. Progress towards realisation of an FTAAP should continue to build on regional and bilateral trade agreements (RTAs/FTAs) and other regional undertakings which are open and transparent.

A strong foundation of unilateral liberalization of economic and investment policies, trade facilitation, and economic and technical cooperation is essential to demonstrate APEC's continued commitment towards free and open trade and investment in the Asia-Pacific which would contribute to eventual realization of an FTAAP. It is a testament to APEC's strength, rooted in non-binding, consensus-based cooperation that APEC has been able to advance work on issues that have struggled to gain traction in other settings. The goal of a high-quality and comprehensive FTAAP which will address next generation trade and investment issues requires much practical work in APEC to help economies prepare to be able to participate in such an agreement.

The needs and interests of APEC economies vary significantly and there is a particular challenge in meeting the capacity-building needs of developing economies. APEC should continue its role as an incubator of issues and engage in concrete work to bring about eventual realisation of an FTAAP. New trade and investment issues that would benefit from closer examination by APEC include: identifying market access commitments under the agreed pathways to an FTAAP; working with business to identify NTMs; supporting the APEC Services Competitiveness Roadmap; identifying areas of convergence in investment agreements; and exploring best practice in customs origins procedures. A stock-take of new issues dealt with in existing RTAs/FTAs and in the existing Pathways should precede this work.

The Study makes six core points:

- APEC is highly integrated in economic terms and makes a strong contribution to the global economy;
- An eventual FTAAP could be a major instrument to further regional economic integration;
- The groundwork for making progress toward an FTAAP has been advanced, including through APEC's work on emerging trade issues, progress at the sub-regional level with FTAs and initiatives such as improving supply chain connectivity;
- The Trans-Pacific Partnership (TPP) and the Regional Comprehensive Economic Partnership (RCEP) provide possible future pathways to an FTAAP. Other regional integration undertakings also provide potential lessons to the eventual realization of the FTAAP;
- The economic case for an eventual FTAAP is strong; however, significant barriers to trade and investment remain;
- Progress towards realisation of an FTAAP will need to build on APEC's core strength of economic and technical cooperation through practical work including targeted capacity building.

Chapter 1: Overview

This chapter provides an historical overview of the discussions in APEC of an eventual FTAAP, which led to the development of the Collective Strategic Study. It also introduces the background, describes the objectives, and previews the contents of the Study.

Chapter 2: Review of the APEC Region's Economy

This chapter looks at the APEC region's trade and investment relationships. It focuses on: (i) basic trends in intra-APEC and extra-APEC trade and investment since the mid-1990s, and the diversity of patterns around those trends at the economy level; (ii) factors behind evolving patterns of trade and investment specialization across the region, such as changes in revealed comparative advantage and factors that contribute to competitiveness; and (iii) the implications for the APEC region of the weakening relationship between growth in world trade and economic growth since the 2009 global financial crisis.

Chapter 3: Next Generation Trade and Investment Issues

This chapter touches on the next generation trade and investment issues that should be considered in an eventual FTAAP. The potential issues identified in this chapter go beyond those previously identified by APEC member economies (APEC member economies have been involved in a process to identify such issues since 2011). Given this, the issues identified in the chapter should not be used to set and/or prejudge the scope of an FTAAP.

Chapter 4: Measures Affecting Trade and Investment

This chapter describes the current state-of-play in the Asia-Pacific in relation to the various measures that affect trade and investment, including tariffs and non-tariff measures, measures affecting services, and investment regimes. It also analyses the impact of those measures, reviews the work that APEC has done to address issues related to the measures, and considers what might be done by APEC in the future.

Chapter 5: Stocktaking of Existing RTAs/FTAs in the Asia-Pacific Region

This chapter evaluates the level of coverage and ambition of existing RTAs/FTAs in the region, and identifies how well they support the multilateral trading system. It examines the impact of overlapping FTAs in the region, which creates the so-called ‘spaghetti bowl’ effect, and identifies some recent trends.

Chapter 6: Stocktaking of Initiatives and Outcomes Relevant to an FTAAP

This chapter discusses selected APEC initiatives and outcomes that lay the foundation in support of the eventual realization of the FTAAP. It describes several initiatives on trade and investment liberalization and facilitation, including best practices for RTAs/FTAs, and looks at achievements in specific sectors, such as environmental goods, customs and next generation trade and investment issues.

Chapter 7: Update of Other Analytical Work

This chapter revisits APEC’s 2009 *Further Analytical Study on the Likely Economic Impact of an FTAAP*. Like the 2009 study, it supports the view that deeper integration, through either enhanced trade facilitation or freer trade in services, is a more desirable outcome compared to shallow integration based solely on elimination of tariffs. It suggests that APEC set an ambitious liberalization goal that involves deeper integration beyond tariff elimination.

The second part of the chapter provides an update on the 2008 APEC report on *Identifying Convergences and Divergences in APEC RTAs/FTAs*. It reviews 10 recently concluded RTAs/FTAs based on the analytical framework of the 2008 report. While divergences remain in many areas, the level of convergence appears to be increasing. Common elements and practices in RTAs/FTAs across a wide range of trade issues could create a solid foundation for an eventual FTAAP.

Chapter 8: Ongoing Regional Undertakings

This chapter describes regional undertakings that could serve as pathways to the FTAAP: the TPP and the RCEP. Other regional initiatives covered are the Pacific Alliance, the Eurasian Economic Union (EAEU) and ASEAN economic integration initiatives. The chapter also briefly describes APEC’s contribution to two recently concluded WTO agreements: the expanded Information Technology Agreement (ITA) and the Trade Facilitation Agreement (TFA).

Chapter 9: Opportunities and Challenges

This chapter summarises the Study and presents some opportunities and challenges arising from global and region-wide economic change. It concludes with the Study’s recommendations.

* The issues addressed in the Study are based on collective inputs from APEC economies and do not necessarily represent the future policy positions of individual APEC economies.