Background Paper: Integration 4.0

Purpose: Information
Submitted by: Chile
Background Paper

Introduction

Physical, institutional, and people to people connectivity are instrumental for trade, and many efforts are in place in APEC and other fora to advance it. However, connectivity is a means to an end — integration. In the 21st-century globalization is a reality that will only accelerate and deepen as even remote areas far from hubs are increasingly integrated, changing the way companies, workers and consumers interact. Fast and ubiquitous are the main attributes in the new era. This demands the coordination of global production lines with production units scattered across different continents. Governments have reacted, but still lack agility and digital presence.

Integration 4.0 is the foundation for the 4th industrial revolution, which anticipates a digitalized world with adjusted perceptions of time and space. A data-driven, logistics-dependent and machine-intermediated era where frictionless movement of people, goods, services, capital, knowledge, skills, technology and data are building a new set of comparative advantages. While connectivity is a necessary condition for such a world, as it paves the way for community protection, modernization, and economic development, it is far from sufficient.

Unlike the first generation of twentieth century tariff-centric reciprocal agreements, based on preferential treatment, this next generation calls for a new era of trade policy and regional integration, which aims to reduce frictions and facilitate movement at the border, across the border, and behind the border. Frictionless trade is inherently non-discriminatory. It benefits every actor and becomes a public good by disregarding origin or “the other party”. Today’s comparative advantages are dynamic and will evolve in line with the network effects supported by “many parties”. It is a world where location is no longer underpinned by factor availability — because they have all become mobile (with exception of natural resources), or by preferential market access. In the end, those economies that most effectively integrate vertical and horizontal value-chains will be more competitive.

The next generation issues of Integration 4.0 call for a disruption of the framework of traditional trade agreements. Trade facilitation, customs-coordination, border management automation, regulatory convergence, next generation trade and investments issues, participation in global value chains, people and knowledge mobility, coupled with investments in infrastructure (such as data highways) are more relevant than ever and are essential in progressing a Free Trade Area of the Asia-Pacific. Governments will have an impact on the comparative and competitive advantages of its companies in a way previously unseen. Interdependence along the supply chain calls for cooperation rather than competition among economies.

Integration started as a matter of market access for goods, limited in coverage. Now, we have more comprehensive agreements and the digital era is changing the way we integrate. The future is global optimization along integrated networks. Webs of interconnected companies specialize in differentiated tasks, adding value to a final good of multiple origin. Growth becomes globalized and exponential as the network effect benefits every member of its ecosystem, regardless of location.
Relevance for APEC

Integration 4.0 supports the integration of supply chains, entailing political, economic and legal challenges and calling for a new era of supply chain liberalization. This will influence the next generation of trade negotiation disciplines of Integration 4.0 and the commitments required to synchronize the international regulatory architecture with technological change. In terms of trade policies, it will reward coordinated measures.

As a consolidated, heterogeneous regional forum, with the ability to influence its members, APEC is well positioned to discuss - Integration 4.0 and showcase best practices. There are several initiatives that seek the promotion of broader and deeper integration in the global and regional context. The following are reference points for Chile’s proposal:

*The World Trade Organization Trade Facilitation Agreement (TFA)*: in force since February 2017 and ratified by all APEC Economies, contains provisions that expedite the movement, release and customs clearance of goods, including those in transit, and establishes measures for effective cooperation between customs.

*APEC 2015-2025 Connectivity Blueprint (ACB)*: sets a pathway to advance efforts for an interconnected Asia-Pacific, building on past initiatives and current activities.

*APEC Strategic Blueprint for Promoting Global Value Chains Development and Cooperation*: seeks to provide an enabling environment for the development of GVCs through activities of promotion and cooperation, which aims to reduce trade and investments barriers that impact GVCs.

*APEC Supply Chain Connectivity Framework Action Plan (SCFAP)*: seeks to improve the connectivity of supply chains and address the barriers of each economy regarding customs procedures, infrastructure in transportation and services, logistics services, regulatory cooperation; and development infrastructure and regulation for electronic commerce.

*The Beijing Roadmap for APEC’s Contribution to the Realization of the FTAAP*: endorsed by Leaders in 2014, outlines a comprehensive and systematic manner towards the eventual realization of the FTAAP.

*The 2016 APEC Leaders Lima Declaration on FTAAP*: recommends overall goals and principles and sets a reporting mechanism to Leaders on progress towards the realization of the FTAAP.

*The Boracay Action Agenda to Globalize Micro, Small and Medium Enterprises*: seeks to advance trade facilitation with an emphasis on MSMEs, simplifying customs regulations and facilitating compliance to help them integrate into international markets.

*The APEC Customs 3M Strategic Framework*: initiative of “Mutual Recognition of Control, Mutual Assistance of Enforcement and Mutual Sharing of Information”, to promote APEC Customs cooperation in a systematic approach.
Key Issues

1. Engagement in Global Value Chains

1.1 Enhancing APEC Economies Integration into Global Value Chains (GVCs)

In 2013, APEC Leaders agreed to promote development and cooperation on GVCs, building on the existing work on connectivity within the fora. In 2014, a “Strategic Plan” (Blueprint) was approved. After five years, it is time to review the implementation process in order; to identify progress and gaps, and to align it with new initiatives in other areas of APEC’s work. This will allow us to outline a comprehensive strategy and a concrete workplan to revisit and improve the implementation of the original objectives of the Blueprint and other ongoing work, such as the Boracay Action Agenda to Globalize Micro, Small and Medium Enterprises (MSMEs) and the WTO Trade Facilitation Agreement, with a view of addressing new issues that are affecting GVCs.

➢ Activities and Outcomes:

- Carry out an APEC stock take of the work undertaken to date and the key initiatives for promoting the participation of developing economies and MSMEs in GVCs. The goal is to assess policy gaps as well as streamline efforts towards greater and more efficient integration into GVCs, considering other new issues that are affecting GVCs (CTI in the margins of SOM1, 2019);

- Organize a Policy Dialogue to discuss the findings of the stock take and propose a series of public policies that could enhance the participation of developing economies in GVCs, including advances in the APEC TiVA database development and implementation (CTI in the margins of SOM2, 2019);

- Submit the “Enhanced APEC Strategic Blueprint for Promoting Global Value Chains Development”, to streamline APEC efforts to improve APEC economies participation in GVCs (CTI - SOM2 & endorsement before SOM3, 2019).

2. Smart borders

2.1 Promote Interoperability of Trade e-Single Window systems in APEC

APEC economies acknowledge the importance of Trade Electronic Single Windows (ESW) to facilitate, streamline and increase transparency in trade documentation. Advancing the interoperability of ESW thorough the System of International Interoperability will benefit regional trade and support initiatives on GVCs, MSMEs, and Developing Economies. Since economies are at various stages of SWS implementation, our aim is to inculcate a climate of trust to strengthen debate on issues like: security, privacy, confidentiality, harmonization and standardization1.

➢ Activities and Outcomes:

- To work on a pilot using blockchain or other technologies to demonstrate trust, efficiency and effectiveness alongside usability and scalability (in accordance with the conclusions of the Study on Single Window Systems” International

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1 Study on Single Window Systems’ International Interoperability: Key Issues for its Implementation (APEC Policy Support Unit, 2018).
Interoperability: Key Issues for its Implementation (SCCP & CTI, in the margins of SOM1, 2019);


3. Smart logistics

3.1 Improving awareness of the benefits and challenges of Authorized Economic Operator programs within APEC

Authorized Economic Operator (AEO) programs facilitate international trade and benefit both the private and public agents involved in trade operations. The development of cooperation programs focused on promoting AEOs and to increase its use by SMEs are good opportunities for the Asia-Pacific region. Cooperation would allow economies implementing AEOs to learn from best practices and experience, especially in terms of accommodating SME characteristics into the programs.

Activities and Outcomes:

- To organize a workshop to exchange best practices and propose technical training activities for greater access to information for SMEs (SOM3, 2019);

- To develop a Manual of Good Practices to meet AEO certification requirements addressed to SMEs (before SOM3, 2019).

3.2 Standards for AEO Programs within APEC to encourage the adoption of Mutual Recognition Agreements among member economies.

The APEC region is home to the largest number of AEOs worldwide. This calls for a coordinated effort to ensure mutual recognition of these programs across APEC. Mutual Recognition Agreements (MRAs) for AEO have been an integral part of the APEC Subcommittee on Customs Procedures agenda, which is appropriate for technical debate. The development of Common Standards for AEO programs across APEC economies would contribute towards the harmonization of regulations and procedures within the APEC region.

Activities and Outcomes:

- To carry out a stock take of the different AEO programs within each of the APEC economies, identifying common elements and best practices (SCCP in the margins of SOM1, 2019);

- To carry out a stock take of the MRAs signed to date between APEC economies, to identify gaps and opportunities (intersessional between SOM1 and SOM3 2019);

- To submit a draft paper with these findings to be discussed at SCCP and subsequently submitted to CTI (SCCP in the margins of SOM3);
3.3 Transit and Transhipment Customs Practices and Regulations within APEC to enhance the utilization and efficiency of Free Trade Agreements among APEC member economies.

The SCCP endorsed the APEC Customs Transit Guidelines during 2014 and the group has been working on the issue of the implementation of these tools among the APEC Economies. Today, Member Economies need to consider reformulating these guidelines and give them a new content approach which take into consideration key elements on the issue of Non-Alteration of the goods in transit and the documentation requirements.

Activities and Outcomes:

- To submit a draft paper with proposal to update the Transit Guidelines to be discussed at SCCP and subsequently submitted to CTI (at SCCP1 2019 and subsequently throughout the first 2 quarters of 2019);

- To organize a workshop to exchange best practices and propose technical training activities for greater access to information for SMEs (SOM3, 2019);

4. Smart Trade

4.1 Integrating Good Regulatory Practices as a work area of the FTAAP

The development of provisions on Good Regulatory Practices (GRP) in RTAs is a significant innovation that have occurred globally and across APEC economies. GRP is a next generation issue to encompass trade and investment, essential to Integration 4.0. An important tool for GRP and in facilitating trade and reducing non-tariff barriers (NTBs) is International Regulatory Cooperation (IRC) which might include a Regulatory Impact Assessments or Analysis (RIAs) in the rule making process.

IRC provides a framework that ensure regulations are no more restrictive than necessary to meet a public policy objective — a goal of both FTAs and WTO agreements. Across APEC, several economies have adopted IRC as part of their GRP, as an instrument to address trade effects of the rule making process which includes non-tariff measures (NTM) in order to ensure they do not become a NTBs, as identified by the endorsed “APEC Cross-Cutting Principles on NTM”.

Through continuing work on GRP with a focus on IRC, APEC would contribute towards the realization of FTAAP and place a pathway on the next generation trade and investment (NexGenTI) disciplines. APEC will develop a set of recommendations that guide economies’ approach in developing GRP requirements, implement existing provisions in bilateral or regional trade agreements, and build a common understanding of best practice in IRC which may include the development of a RIAs framework. These recommendations would complement existing work on and GRP under the CTI and SCSC, as well as the Economic Committee coordination.

Activities and Outcomes

- To submit a concept note and circulate a stock-take template to be approved by economies (before SCSC in the margins of SOM1, 2019);

- To carry out an “APEC Stock-take on Good Regulatory Practice” within each of the APEC economies, identifying the common methods and the best practices (intersessional between SOM1 and SOM2 2019, in consultation with EC);
- To submit a draft paper with the findings and set of recommendations to SCSC and subsequently to CTI to be discussed and endorsed as a guiding reference for APEC’s work on FTAAP (SCSC & CTI in the margins of SOM3).

5. Exchanging views on FTAAP

For more than 15 years one of APEC’s flagships to deeper and wider regional economic integration has been the Free Trade Area of the Asia Pacific (FTAAP), first proposed by the APEC Business Advisory Council (ABAC) during APEC Chile 2004. However, economic integration efforts in the Asia-Pacific region have entered a critical stage, and are now facing both challenges and opportunities, including the FTAAP. It is now apparent that views of economies regarding the FTAAP have shifted, affecting our collective ability to advance work in this area.

It is important that APEC moves forward in its discussion on a future FTAAP and how it will be realized, through exposing current views on FTAAP and the identification of areas of commonalities among APEC economies.

5.1 To share different views of the realisation of FTAAP

In order to better implement the Lima Declaration on FTAAP, to inform a future work program on FTAAP and to allow APEC to move forward on areas of FTAAP which have consensus among economies, Chile proposes to conduct a survey and a Policy Dialogue to take place during CTI1 2019 for discussions on the survey findings. Following the survey and preliminary discussions, we will prepare a report detailing the different views and interpretations presented. The Report will not name individual economies.

The survey will ask economies, ABAC and APEC observers what the FTAAP means to them, how they envisage its realization, what areas should be covered by it, and what could form a future work program on FTAAP in APEC.

➢ Activities and Outcomes:

- To conduct a survey with all APEC economies, ABAC and observer organisations (before CTI1 in late February);

- To hold a discussion on the survey’s findings in order to identify commonalities between APEC economies on their views of an eventual FTAAP (CTI1 Policy Dialogue on FTAAP);

- To develop a report of the survey and discussions during the Policy Dialogue and present it at CTI2;

- To table the final report during CTI3 for endorsement and for potential presentation to the AMM.
6. Smart Talent

6.1 To enhance skills mobility within the APEC region

People mobility and people-to-people connectivity are often limited by barriers to skills recognition across borders. Today, demographic trends among APEC economies are accelerated by migration flows, automation, and the so-called “geek-economy” (digital marketplaces that supply skills for on-demand tasks). The criteria for work permits and visas varies widely among APEC members.

On the other hand, some economies have successfully used special visa programs to attract talent to fill specific skills gaps. There is an opportunity to build on this work at a regional level to increase employment opportunities across the APEC region. Improving the transferability of skills has positive benefits for workers, companies, and the economy as a whole.

Economies could consider upgrading cooperation programs on people-to-people connectivity building on current commitments and through cross-border training exchange and skills mobility. We propose that APEC undertakes a stock-take of initiatives in the region such as “work and holiday” visa programs and Smart Visas in APEC. This could help our economies to have a common understanding of such mechanisms in the region in order to enhance people-to-people interaction and integration among APEC members, and use this data to improve key aspects of the occupational market information within APEC.

➢ Activities and Outcomes:

- To collect information related to Visa Skills-related Programs among APEC Economies and (intersessional between January and April 2019);

- To organize a workshop to discuss and analyze the data collected -identifying gaps and opportunities, and taking into account different agreements-, in the APEC region to share domestic best practices on integrated processes at the border (BMG in the margins SOM3, 2019);

- To develop a Compendium that comprises best practices on facilitating cross-border people’s mobility and Visa Skills-related Programs among APEC member economies to promote information sharing on skills mobility in the APEC region (SOM 1, Intersessional after SOM1, SOM 3 2019).