

# **Summary Report on the Free Trade Area of Asia-Pacific (FTAAP)**

## **Capacity Building Workshop on Tariffs**

(23 August 2019, Puerto Varas, Chile)

### **BACKGROUND**

The Lima Declaration on the FTAAP endorsed by APEC Leaders in 2016 instructed Officials to, among others, embark on work programs to build consensus and capacity for economies in a number of areas, including tariffs. To take forward the Lima Declaration on FTAAP, a work program on tariffs had been endorsed in 2017 under the Committee on Trade and Investment (CTI) which includes (i) a study which aims to provide a better understanding of the impact of possibly lowering tariffs and to examine market access commitments under potential FTAAP pathways to find areas of convergence and divergence; and (ii) a capacity-building workshop to enable economies to understand the impact of possibly lowering tariffs.

As part of the work program on tariffs, Hong Kong, China organized the FTAAP Capacity Building Workshop on Tariffs on 23 August 2019 in Puerto Varas, Chile with the aims to:

- provide a better understanding of the impact of possibly lowering remaining tariffs among member economies;
- examine market access commitments under potential pathways to find areas of convergence and divergence; and
- put forward for discussion at CTI recommendations and initiatives, such as exploring opportunities for, and challenges of, lowering remaining tariffs.

### **SUMMARY OF DISCUSSIONS**

#### Session One: Outcomes of the Study on Tariffs

*Mr Carlos Kuriyama (Senior Analyst, APEC Policy Support Unit (PSU))* released the key findings of the Study on Tariffs. The first part of the study involved updating of the tariff analysis as reported in the 2016 Collective Strategic Study on Issues Related to the Realization of FTAAP with the latest figures. The study showed that tariffs had been falling and the number of zero-tariff product lines in the APEC region had, in general, been increasing. Yet, tariffs in agricultural sectors remained high. The increase of zero-tariff products was found in most sectors, with the highest percentage of duty free tariff lines in

sectors producing inputs for manufactures and capital goods. The study also looked into the impact of tariffs in other economic indicators, and found that tariffs reduction could benefit the domestic labour market and lead economies to greater participation in global value chains (GVCs).

The second part of the study reviewed 17 studies that used computable general equilibrium (CGE) modelling to determine the impact of tariffs reduction in the APEC region. The review found that FTAAP would be expected to bring positive gains, in terms of income, welfare and trade gains, for the APEC region as a whole. Yet, the impact on economies and sectors would differ depending on economic structure, availability of factors of production, market size, development level as well as network of FTA partners, and those economies excluded from the pathways would lose out.

The third and final component of the study focused on the market access commitments of the potential pathways of FTAAP was briefly introduced. While extensive immediate liberalization was observed, there were also cases with long liberalization periods to address the concerns regarding different development levels and sensitive products of the participating economies. Detailed analysis of this study component was further discussed in the fourth session of the workshop.

#### Session Two: Developments in the World Trade Organization (WTO)

*Mr Xiaobing Tang (Senior Counsellor, Market Access Division of the WTO Secretariat)* gave an account of the developments in the WTO on tariffs liberalization since its establishment in 1995. While there had been a 15% reduction in average tariffs applied by WTO Members over the past two decades, the average world applied MFN tariffs declined by merely one percentage point since 2008. He highlighted that although only 3% of the tariffs were non ad-valorem, those were prevalent for agricultural products and were levied mostly by developed economies.

*Mr Tang* cited that tariffs liberalization in the WTO after its establishment had been achieved mainly through plurilateral initiatives on specific sector, such as the Information Technology Agreement (ITA) in 1996 and the Expansion of the Information Technology Agreement (ITAII) in 2015, and the accession of new WTO Members since 1995. He further explained the product coverage and implementation of ITA and ITA II in details, highlighting the careful design of the attachments of the agreements in the way to allow flexibility to accommodate future technological development of IT products and address differences in the domestic classification of IT products. *Mr Tang* added that a lot of WTO Members, including members of APEC, had the potential to participate in the ITA and ITAII to achieve further tariffs reduction in the sector. In addition to ITA and ITAII,

WTO Members had also explored several modalities for tariffs negotiations in the Doha Round and after, including the attempts for the Environmental Goods Agreement (EGA).

### Session Three: Experience Sharing on Trade Adjustment Policies and Programmes

*Mr Brad McDonald (Deputy Chief, External Policy Division of the International Monetary Fund (IMF))* shared economies' practices in implementing trade adjustment policies for trade and technological changes. He started by commenting that openness and inclusiveness were not essentially in conflict, as open trade and investment would bring about growth. Contrary to popular belief, he considered that the increase in overall inequality was mainly resulted from technological changes instead of openness in trade. Having said that, it was also evident that trade would hurt some vulnerable workers and communities as the changes in trade patterns triggered shifts in demand for workers and skills. Hence, adjustment to trade policies was essential, even though such adjustment could be painful as it might be costly or difficult to access new employment opportunities due to frictions in the labour market, skills mismatches, policy distortions, geographic frictions and capital mobility.

Citing the experiences of Denmark and Korea as examples, *Mr McDonald* introduced how governments could help sharing the gains from trade more widely in the society by imposing adequate policies to mitigate adjustment costs. Externally, early announcement and gradual implementation of trade policies could provide time for transforming communities. Maintaining reversibility in trade policy such as implementing temporary safeguards in exceptional circumstances could also be another useful trade policy for mitigating adjustment costs. Internally, adequate domestic policies could help balancing the objectives of openness in trade and inclusiveness. Adjustment policies on labour market policies would include both active labour market policies (e.g. training programs, job search assistance, wage subsidies, re-employment bonuses) for facilitating workers to take active steps for prompt re-employment, and passive labour market policies (e.g. unemployment insurance, minimum wage, employment protection, income support) for providing income security for workers impacted by import competition. Other policies including macro stabilization policies and complimentary policies such as housing, credit and education policies could also enhance worker mobility.

### Session Four: Market Access Commitments of Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)

*Mr Carlos Kuriyama (Senior Analyst, PSU)* outlined the study findings on market access commitments of the CPTPP. In order to address the concerns of CPTPP participating economies, the tariff liberalization under CPTPP was uneven across sectors. In general,

sectors covering capital goods (e.g. machinery and equipment) and intermediate products (e.g. chemicals, iron and steel) were found to enjoy full immediate liberalization across all CPTPP parties. Products that were subject to slower or partial liberalization, or even excluded from the tariff liberalization process, were mostly labour-intensive (e.g. textiles and apparel, footwear), important for rural areas (e.g. agricultural products, leather), have negative externalities to the society (e.g. tobacco, alcohol) or were part of strategic industries for some CPTPP parties (e.g. vehicles).

#### Questions and Answers Session

Participants of the Workshop actively participated in the discussions with the speakers after their presentations. One participant raised the question on the possible sectoral areas for further tariffs liberalization. On the WTO front, *Mr Tang* recalled that there were discussions on the expansion of ITA by including those IT products left out by ITAII. *Mr Kuriyama* echoed the further expansion of the scope of ITA, and added that the 54 products under the APEC Environmental Goods List would also be a good starting point for discussion on further tariffs liberalization.

Although the level of ambition in tariffs liberalization in the CPTPP seemed to be lower than those bilateral free trade agreements signed between CPTPP parties, *Mr Kuriyama* pointed out that the value of CPTPP was the introduction of new innovative disciplines in free trade agreements, such as e-commerce, customs administration and trade facilitation, intellectual property, competition policy and state-owned enterprises, among others.

Another participant enquired which type of trade adjustment policies would be more effective. *Mr McDonald* said there was no one size fits all solution, and commented that a complementary set of policies tailoring the conditions of individual economies should be developed. Pacing and sequencing strategies in designing trade reform would also be essential. He recommended governments to start experimenting trade adjustment policies so as to test and measure what trade adjustment policies would be more useful.

On possible collaboration among the WTO, IMF and APEC so as to complement the work of each other, all speakers welcomed the idea. They recognized APEC's role as an incubator of ideas. APEC could serve as a useful forum for economies to find common ground on a non-binding basis before developing those ideas further to binding commitments in other fronts. They highlighted the examples of ITA and Environmental Goods Agreement (EGA) which were both stemmed from APEC initiatives.

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