
RECORD OF DISCUSSIONS

Seizing the moment: APEC 2010 and 2011

Public Forum

Peterson Institute of International Economics

Washington, D.C, April 16, 2010

Overview

The forum provided an opportunity to assess work by Japan and the United States to prepare for forthcoming APEC meetings in Yokohama in late 2010, then in Honolulu in 2011.

Senior officials from the two governments explained that they were cooperating closely on a strategy for cooperation beyond 2010. As outlined in a recent (May 29, 2010) joint press release by United States Secretary of State Clinton and Japanese Foreign Minister Okada on March 29, 2010, it is a strategy to promote balanced, inclusive and sustainable growth of all Asia Pacific economies.

Further integration of Asia Pacific economies was a major component of this effort, but is not the sole priority. Deeper integration is to be complemented by other structural reforms reflecting the need for inclusive and sustainable growth.

The presentations by officials and other panelists, indicated that the agenda of regional economic integration needs to respond due to remarkable changes in the nature of international commerce. Since the 1980s, production networks and supply chains had become increasingly important, and the relative importance of obstacles to trade and investment has changed. Traditional border barriers were no longer the main impediments to trade.

Accordingly, attention needs to shift away from former preoccupation with traditional border barriers to trade to dealing with across-the-border and behind-the-border impediments to international commerce. Work on these issues could be guided by a unifying vision for economic integration. Any new vision would need to be credible and backed by means of measuring progress towards medium-term milestones.

Fred Bergsten used his introductory remarks to reiterate that the highest priority for 2010 and 2011 was to negotiate a Trans-Pacific Partnership (TPP) among eight members of APEC. In his view, trade liberalisation remains the core objective of APEC and the TPP would be the best way to reinvigorate liberalisation and to sustain trans-Pacific cooperation by demonstrating the continued commitment of the United States to Asia.

Bergsten noted the potential trade-offs between the time needed to complete negotiations, the coverage and quality of a potential agreement and expanding participation beyond the eight economies currently involved. His priority is to achieve

the best deal with widest possible participation by the 2011 meeting, even if this meant that some sensitive products had to be exempted from a potential agreement.

Panelists discussed the potential scope of a TPP, which is being negotiated in parallel with the APEC process itself. The consensus was that, in addition to encouraging a high quality TPP outcome, APEC needed to work on many other issues, involving all member economies, to implement its agreed strategy to promote and shape growth. It was also important to contribute to global issues, such as ongoing WTO negotiations and to the agenda of the new G20. These challenges are summarised below.

The issues covered were also discussed at a meeting organised on the preceding day, April 15, by the Mansfield Foundation, the United States National Center for APEC and the Australian National University.

An overview of discussions at that meeting is attached to this record of the meeting at PIIE. A full transcript of the PIIE meeting is available at:

http://www.piie.com/events/event_detail.cfm?EventID=148

Introductory remarks by Walter F Mondale, Chairman, Mansfield Foundation

Former Vice President Mondale recalled the remarkable enthusiasm of APEC leaders when they met for the first time on Blake Island in 1993 and the high hopes they had for APEC to promote close cooperation to fuel the future growth and mutually beneficial integration of Asia Pacific economies.

He summarised the achievements of APEC since its early years. At the same time, he noted that there was now less confidence in APEC's potential to contribute to sustain this performance. Many believe that APEC has lost much of its earlier momentum and had allowed its agenda to become overextended.

APEC was no longer the only vehicle for international economic cooperation. There are new groups evolving in East Asia and the G20 at the global level. To retain the attention of political leaders and the private sector, it is essential answer questions such as :

- have the 2010 goals been met?
- is APEC contributing to intra-regional trade liberalisation?
- is the process making effective contributions to resolve global issues?

It will be essential to use the next two meetings of APEC leaders as 'forcing moments' to restore momentum.

He noted that the Trans-Pacific Partnership (TPP) negotiations, endorsed by President Obama, offered an important opportunity to advance regional economic integration. These negotiations should be based on sophisticated and careful preparation.

Speech by C Fred Bergsten (Director, PIIE)

Bergsten's expanded version of his remarks to the April 15 meeting opened by stating his view that the TPP was the means of "seizing the moment" and initial negotiations should be completed in time to be endorsed at the 2011 meeting of APEC leaders.

He reviewed some early successes of APEC, including its contribution to concluding the Uruguay Round of WTO negotiations, its role in pioneering the WTO's sectoral agreement to ensure ongoing free trade in information technology products. In his view, there had been no appreciable progress on trade liberalisation during the 1990s.

He welcomed the call for a Free Trade Area of the Asia Pacific by ABAC in 2004 and its 2006 endorsement by President G W Bush which had placed the proposal on the APEC agenda. He believes that the emerging institutions of East Asian cooperation will lead inevitably to an Asia-only trading bloc, which would draw a line down the Pacific and discriminate against the United States. The most effective way to avoid

such and outcome would be a FTAAP. The TPP, which builds on the P4 agreement was a welcome first step to that objective.

A TPP could be a traditional preferential trade deal, or a broader economic partnership agreement which covered additional issues. Issues to be considered in negotiating a TPP included:

1. Content: should the agreement cover matters other than economic integration, such as renewable energy and the digital economy?
2. Coverage: should it seek to go beyond border barriers to deal with behind-the-border issues?
3. Quality: should it seek to be a high quality agreement leading to substantial liberalisation?
4. Participation: should more than the current eight economies be engaged in negotiations?
5. Timing: can the agreement be concluded in time for the late 2011 APEC leaders meeting chaired by the United States?

His comment on these issues indicated that:

- behind-the-border policies which influence trade could all be dealt with readily in chapters of a potential TPP;
- it was highly desirable to include more than the eight governments already engaged in negotiations;
- the 2011 meeting of leaders should be a 'forcing moment' to ensure rapid conclusion of negotiations, even if this meant reducing the coverage or standard of the outcome.

Panel I: Prospects for APEC's core agenda

Moderator: [Peter Drysdale \(ANU\)](#)

Drysdale opened the panel session by noting the responsibility of APEC to ensure a constructive Asia Pacific input into managing global problems. In turn, Japan and the United States now have the joint responsibility to make sure APEC continues to fulfil this potential.

The discussion of the previous day had confirmed that APEC has, in very large part, achieved the expectations embodied in the 2010 Bogor goal. The next step was to shape a new post-Bogor vision based on current realities.

A TPP was firmly on the table as a means of advancing the trade liberalisation agenda. However, that is only one of the challenges for APEC has to meet. It needs to work on issues in an inclusive way to promote and shape growth, supported by facilitating further regional economic integration within a global economic environment.

[Shigeru Nakamura \(MOFA, Japan\)](#)

Nakamura's presentation underlined the significant role of APEC economies in global production and trade as well the very significant steps by Asia Pacific governments to liberalise and facilitate trade.

The Bogor goals created a unifying vision for APEC, with a focus on integrating the economies of the region. Obstacles to trade and investment were to be eliminated by 2010 for developed and 2020 for developing economies, respectively. This year, APEC will assess the progress made by the first of these deadlines on reducing traditional border barriers to trade and investment and on many other concerted initiatives by APEC governments to make it cheaper, easier and faster to move products across borders.

When the Bogor goals were set in 1994, only 5 member economies agreed to commit to the 2010 target for free and open trade. Now 7 others have volunteered to be assessed against that commitments in order to demonstrate the progress they had made. He expected this review would indicate significant progress by all of these as well as by developing economies.

He discussed three priorities beyond 2010. On one of these, regional economic integration, APEC should continue to explore pathways to an FTAAP, including the TPP. Such negotiations would take place in parallel with APEC, which was not a negotiating forum.

He noted that the content of trade agreements needed to reach beyond border barriers, such as policies to promote cheaper, easier and faster trade. This was to be addressed by adding relevant chapters to future agreements. It will need quite some time to reach a TPP agreement among the eight economies involved.

He noted that the negotiations are taking place alongside other integration in the region, for example work towards a potential East Asia Comprehensive Economic Partnership, which was also expected to lead to negotiations for a preferential trade arrangement.

In addition to trade negotiations parallel to the APEC process, APEC would implement the work on connectivity towards the target of reducing business costs adopted at APEC's 2009 meetings.

APEC's work on human security, including food security and emergency preparedness would also continue. APEC's work on all these issues was part of an overarching strategy to promote growth and to shape knowledge-based growth to ensure it was adequately balanced, inclusive, sustainable and secure. Economic and technical cooperation will be promoted for the capacity-building needed to back up this strategy.

[Wendy Cutler \(USTR\)](#)

Cutler recalled that trade tensions had dominated US and Japan relations in the early 1990s. The APEC process has helped to transform relations into a cooperative

engagement to promote mutual benefit based on growing awareness of interests, including many shared interests. The hosting of APEC 2011 can be a valuable opportunity to inform people in the United States about the nature of changes in the Asia Pacific region.

To remain valuable, APEC needed to retain continuity in its priorities from year to year and do more to follow through on commitments made by leaders and ministers. The United States hosts would help ensure continuity by working with Japan in 2010 to set out an agreed strategy to promote and shape growth as outlined by Ambassador Nakamura. Priorities would need to be set within that to avoid an overextended agenda.

Regional economic integration was one of these priorities. She noted that APEC leaders had adopted a FTAAP as a long term prospect. From the United States point of view the TPP negotiations offered the most promising pathway towards such an agreement.

TPP negotiations were proceeding parallel to, rather than within APEC. Officials from all member economies continued to be engaged in work on new 'cutting edge' issues, including work on enhancing the efficiency of supply chains. That was one example of cooperation to promote cheaper, easier and faster trade.

There was shared interest in implement cooperative arrangements to reduce costs and delays. The business welcomed attention to this new emphasis and were feeding their ideas into APEC working groups.

Work on trade issues since the end of the Uruguay Round is increasingly concerned with non-traditional barriers, often described as behind-the-border impediments to trade and investment. The analytical and policy development work of APEC groups is proving to be very helpful to understanding these issues and way reducing impediments to regional economic integration. She expected that cooperative arrangements emerging from such work would lead to agreements to be included in potential trade agreements such as the TPP.

Turning to the Bogor goals, she agreed with Ambassador Nakamura that APEC governments will be able to point to worthwhile achievement in the review of progress towards free and open trade and investment.

Looking ahead, the trade policy agenda had changed since the Uruguay Round was completed in the 1990s. In addition to traditional trade liberalisation other matters, such as transparency, e-commerce and competition policy were being discussed by trade negotiators. Most behind-the-border impediments to international commerce had trade policy implications.

Drysdale noted that the Bogor goals had been a unifying frame of reference for dealing with reducing impediments to international trade and investment. As a result of progress since 1994, traditional trade barriers no longer concerned most of the business people involved in international commerce. Therefore, it may be appropriate to agree on a new vision for APEC's post-Bogor agenda.

Jeffrey J Schott (PIIE)

He saw regional economic integration as the core agenda for APEC. In his view, APEC's voluntary cooperation has not led to much policy change. Trade agreements were needed to provide assurance of policy continuity, so an FTAAP is the ultimate objective for regional economic integration.

This work could build on several existing sub-regional trade agreements, ranging from the Australia- New Zealand of the 1980's and NAFTA in the 1990s, to the recent P4 among Brunei, Chile, New Zealand and Singapore. APEC's contribution was to promote a convergence of interests which would make it possible achieve a FTAAP, by melding all these arrangements of varying quality and coverage of sensitive products.

Negotiating a TPP will need to find a way to deal with what had proved to be 'no-go' areas in other trade negotiations. Success should not be held up by a few intractable issues. For example, liberalisation of sensitive agricultural sectors would need to be left aside while dealing with less sensitive issues such as food security.

The TPP builds on the P4. Those involved (Australia, Peru, the United States and Viet Nam) draw in APEC economies from other sub-regional trade arrangements. It would be highly desirable to include others. Involving Hong Kong could be a stepping stone towards involving China which has not shown much interest in the TPP.

Drysdale noted that a potential TPP among only some member economies would ultimately need to be reconciled with APEC's objective of inclusiveness. An FTAAP could achieve that, but it would take a long time to negotiate, and may not prove to be possible. He questioned whether APEC governments needed to pursue this pathway towards regional economic integration when there were many other opportunities available for economic cooperation.

Paul Tighe (DFAT, Australia)

Began by endorsing the need for continuity in pursuing the growth agenda that is taking shape during Japan and United States hosting of APEC.

There are some residual traditional trade barriers. However, the intellectual debate has been resolved in favour of getting rid of them. Accordingly, the time has come for a new core agenda for regional economic integration, focusing on issues beyond trade liberalisation. APEC has started to work on measures to improve connectivity/trade logistics.

He cited research which indicated very large potential gains from coordinated reforms to make trade cheaper, easier and faster. Some of these gains could flow from policy development work on investment in infrastructure. Research also indicated that international direct foreign investment links are somewhat below potential. Promoting policies to facilitate investment was part of a comprehensive APEC agenda to promote and shape economic growth.

The G20 was an important forum which could advance the Asia Pacific's global interests. For APEC to be relevant to the new process, Asia Pacific governments would need to use APEC's policy development capacity to make substantive contributions to the G20 agenda.

Turning from the agenda for APEC to the TPP, he pointed out that Australia was one of the initiators of Trans-Pacific Partnership and wants it to succeed. If these negotiations are to add value in terms of trade liberalisation, then the TPP should have comprehensive coverage, rather than exempt all sensitive areas. The TPP should not be rushed if it is to be a useful stepping stone towards a worthwhile FTAAP. In the 21st century, arrangements like the TPP and a potential FTAAP will need to be arrangements which are more than traditional preferential trade agreements.

Tighe commented that support for multilateral trade seems to be out of fashion these days. However, the WTO and the success of the Doha Round is vital if we want to integrate all Asia Pacific economies and want to promote integration beyond the region.

Questions and answers

After the presentations by the four panelists, Drysdale noted the emphasis on a multi-year work program to promote and shape the growth of Asia Pacific economies. He asked the Ambassador Nakamura panelists what kind of unifying vision might be useful to ensure ongoing commitment to the strategy.

Nakamura noted that, beyond 2010, regional economic integration was seen as one component of an overarching strategy to promote balanced, inclusive and sustainable growth of Asia Pacific economies.

Drysdale then asked Wendy Cutler whether progress towards a single market in the Asia Pacific could help promote a coherent agenda for regional economic integration.

She accepted the potential value of a new vision and guiding principles to help set clear priorities within a potentially very broad agenda covering traditional as well as behind-the-border trade policy issues. At the same time, any new vision would need to be credible. APEC must not continue to be seen as failing to meet objectives leaders set for themselves.

Drysdale asked Jeffrey Schott whether all dimensions of closer economic integration needed to be negotiated and whether APEC could pursue progress in some areas without needing negotiations.

Schott responded that negotiators should avoid becoming stuck on issues which are now relative insignificant obstacles to overall trade, but where reducing trade barriers is politically very sensitive. The pace and benefits of integration during the past two decades have exceeded expectations. This should convince governments to reduce trade barriers ahead of commitments to other, in order to benefit from their own liberalisation.

The final question to Paul Tighe was on behind-the-border impediments to trade and investment.

Paul Tighe

Many behind-the-border policies have implications for economic integration and trade negotiations can play some role to reform regulations to reduce cost and risks of international commerce. At the same time, in the context of APEC's broader strategy to promote growth we need to reform domestic markets, not just international markets.

Such work needs to involve officials from sectoral ministries, rather than just trade officials. A growing part of the policy challenge is to encourage domestic reform.

Panel II: Beyond Trade:

APEC's role in Regional Cooperation on Climate Change, Sustainable Development, Inclusive Growth and Other Areas

Moderator (Norman Y. Mineta, Vice Chairman, Hill & Knowlton and Member, The Maureen and Mike Mansfield Foundation Board of Directors)

Takashi Omori (Cabinet Office, Japan and Chair of APEC Economic Committee)

Omori explained that since Asia Pacific economies are already highly integrated, APEC's agenda is shifting towards promoting structural reforms to complement further work towards lowering impediments to trade and investment.

The first phase of work on the APEC Leaders Agenda for Implementing Structural Reform (LAISR) dealt with matters such as competition policy, public and corporate governance; that phase is being completed. The next phase of work to support structural reforms will be informed by the experience of, and recovery from the global financial crisis.

In the next few years, growth in the Asia Pacific will be driven by emerging economies. These economies have significant structural problems which will need to be addressed. Other APEC economies can help promote these reforms in a sensitive way, in line with APEC non-binding nature. Economies can be encouraged to identify the issues they want to address and officials and researchers from other economies can share their experience of such reform.

He also noted the need to involve more and more ministries in policy development, helping them to become aware of the international implications of their policy decisions.

It was important to ensure to follow policy development work, for example by agreeing on check-lists and guiding principles for best practice. Where possible, progress should be assessed by means of peer reviews or using indices, such as the World Bank's indicators of the ease of doing business.

Peter A Petri (Brandeis University)

Petri believed that APEC should be a fruitful process.

The assessment of progress up to 2010 will demonstrate significant achievements, but we need to accept that this progress is not widely recognised. APEC now faces competition from other layers of institutions; the G20 at the global level as well as East Asian forums. APEC has several useful assets for dealing with future challenges, including the leaders' meetings and its trans-Pacific reach.

The APEC process can also use its non-binding approach to build consensus on options for cooperative reforms and then work towards agreed guiding principles of codes of conduct. APEC's pathfinder approach has proved very useful by allowing

some member economies to take initiatives and set positive examples which others can join later.

The two-year cooperation between Japan and the United States is welcome, overcoming the problem of combining the need for continuity with results to be achieved by each host of APEC. In 2010 and 2011, it should be possible to define the content of the growth-promotion strategy set out by Ambassador Nakamura.

The TPP represents the top priority in the regional economic integration agenda. The TPP can be seen as a pathfinder initiative, as some economies look for ways to combine further trade liberalisation with tackling non-traditional behind-the-border impediments to trade. He warned against putting all of APEC's eggs into the TPP basket, since it is hard to predict the pace of negotiations and not all member economies are involved.

APEC should also work on programs to improve connectivity to facilitate trade and investment and demonstrate how its policy development efforts contribute to creating jobs and investment. APEC's structural adjustment work should also consider the challenge of financing an aging population.

[Gary C Hufbauer \(PIIE\)](#)

Hufbauer's presentation dealt with climate change. The Copenhagen meeting has shown the limits of a top-down approach, so APEC should not try that option. A bottom-up approach to limiting emissions is taking shape, with governments making concerted unilateral commitments.

APEC could contribute to this approach. He suggested that Japan could offer to measure progress of economies in terms of reducing emissions, while other economies develop the capacity to monitor their own emissions.

Recalling that Australia's work to measure agricultural subsidies had helped to bring agriculture under WTO disciplines, he recommended work to measure subsidies to the extraction and use of fossil fuels. Reducing these subsidies would help to reduce emissions more effectively than subsidising renewable energy.

APEC could seek a WTO agreement on a 'peace clause' to avoid trade measures being used as sanctions against economies for climate change or other environmental reasons. Governments should agree to allow international competition in supplying environmental goods. Agreement on free trade in environmental goods is highly desirable and ethanol should definitely be treated as an environmental product.

[Kurt W Tong \(United States Department of State\)](#)

Tong confirmed that United States continues to see APEC as the premier institution for its Asia Pacific engagement. He agreed that APEC's assets included its ability to bridge the Pacific and bring leaders together. APEC is an effective international economic forum because the private sector is closely involved and APEC supports

economic and technical cooperation programs to create the capacity to implement agreed policy options.

Significant achievements included the WTO information technology (IT) agreement to ensure IT products will remain freely traded. In 2007, APEC was the first forum to call for quantified efforts to reduce greenhouse gas emissions.

He welcomed the opportunity to work with Japan in a joint effort to evolve the APEC agenda beyond trade policy to adopt a strategy to promote balanced, inclusive and sustainable growth. When implementing this strategy, it will be essential to be specific, developing and implementing policies which give content to each of its dimensions. For example, work on inclusive growth can look at retraining workers in skills needed in sectors of new comparative advantage and social safety nets to reduce the short-term costs of structural change.

APEC will need deal with many issues, but this work should be seen as part of progress towards a well understood ambitious objective, measured again medium-term benchmarks.

Questions and answers

Mineta noted that APEC was to develop agreed approaches to dealing with a wide range of issues. He asked the panel whether there was an adequate data base for making and monitoring commitments to cooperative action.

Tong explained that, for each dimension of policy development working groups assemble relevant facts then look for best practice ways of tackling issues. That can lead to guiding principles or codes of conduct and where possible ways to measure progress.

Hufbauer noted the need to gather data to back policy. For example, research showing that few jobs are likely to shift in response to different limits on greenhouse gases emissions can help avoid new forms of protectionism.

Petri explained how APEC's non-binding investment principles have led to policy convergence and Nakamura noted the availability of indicators to measure progress in terms of reducing the costs of doing business.

Roundtable on Regional Arrangements in East Asia: APEC 2010 and 2011

Washington, D.C, April 15, 2010

Overview

Asia Pacific Economic Cooperation (APEC) governments have made significant progress towards their joint Bogor commitment free and open trade and investment. Traditional border barriers to trade have been reduced to negligible rates, except for a few sensitive products. Policy development in APEC working groups has led to many cooperative arrangements to make trade cheaper, easier and faster.

2010 provides an opportunity for APEC to take credit for these achievements and to adopt a new agenda to promote balanced, inclusive and sustainable growth in the Asia Pacific.

Regional economic integration remained a vital ingredient of this strategy. The nature of international commerce has changed substantially in the past two decades. Production networks and supply chains, which are increasingly global, rather than regional, have become very important. In this new environment, attention needs to shift away from traditional border barriers in order to deal with across-the-border and behind-the-border impediments.

Asia Pacific governments are keen to participate in new production networks and want to make sure that products can enter and leave their economies more cheaply, easily and rapidly. Negotiations are not necessary to deal with many non-traditional impediments to trade and investment. APEC can help share the experience needed to create the capacity to implement coordinated reforms to deal with new issues. Asia Pacific governments can set examples for each other, and for the rest of the world.

A unifying post-Bogor vision, such as single market in the Asia Pacific, could provide a unifying vision for the many things which can promote economic integration in the region. Any overarching vision needs to be backed by milestones to demonstrate progress achieved by APEC economies along the path to this vision and APEC to take credit for supporting progress.

The keynote speech by Fred Bergsten called for a concentration of effort on negotiating a Trans-Pacific Partnership (TPP) as a means of reinvigorating APEC's trade liberalisation efforts and sustain trans-Pacific cooperation by demonstrating the continued commitment of the United States to Asia.

Private sector participants noted that the free trade area negotiating model was based on the business model of the 1980s. Nevertheless, a high quality TPP which sought to deal with new realities could make a useful contribution towards a broader effort to promote cooperation. Negotiations for a TPP would be in parallel, rather than within the APEC process.

The discussions summarised below, led to a consensus that there was much more to be done. APEC should pursue its own agenda to promote and shape growth, including a regional economic integration effort which reflected:

- fundamental changes in the nature of international commerce, and
- the need for APEC to play a constructive role in global as well as regional cooperation, including the need to complement the work of the new G20 forum.