

# APEC: Outcomes of 2011 and Outlook for 2012

**A**mbassador Muhammad Noor Yacob, Executive Director, Apec Secretariat, Singapore spoke on the above topic at an ISIS International Affairs Forum held on 18<sup>th</sup> January 2012, at Kuala Lumpur. The forum was chaired by **Dato' Dr Mahani Zainal Abidin**, Chief Executive ISIS Malaysia. ISIS Senior Analyst **Dr Jorah Ramlan** reports.

The Apec Leaders' meeting, held in Hawaii in November 2011, and themed 'The Future Redefined,' addressed the future of the world as a result of dramatic regional and global developments in technology, politics and the natural world.

At a time of global economic uncertainty, growth has weakened in many economies, particularly in Europe and the US. But there are signs that the US economy is improving, with the latest figures showing that employment is growing. Nevertheless, significant risks remain, including those stemming from the Eurozone crisis. Closer to home, a series of natural disasters had impacts on the supply chain of certain industries, particularly in Japan and Thailand, but these nations are recovering.

As the best way forward, Apec Leaders reinforced their commitment to closer cooperation and building consensus. They firmly resolved to work together to further break down barriers to free trade and investment, recognizing that this was critical to job creation and greater economic prosperity for all of our economies.

## Outcomes of Apec Summit 2011

Apart from the Apec Leaders' meeting, chaired by President Obama, the Apec Trade and Foreign Ministers' meetings were held to discuss Apec's goals, targets and policy directions, while Finance Ministers gathered and pledged to take coordinated action to strengthen global recovery, reinforce financial sector stability, and maintain open markets.



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At this meeting, Apec Leaders issued a declaration titled, 'Towards a Seamless Regional Economy,' which pledged to take concrete steps in three priority areas, all of which are geared towards generating growth, and creating new jobs through free trade and investment.

The first priority was **strengthening regional economic integration**. Apec Leaders agreed in 2010 to take concrete steps towards achieving a Free Trade Area of the Asia-Pacific (FTAAP) in a comprehensive, region-wide agreement. This could be developed by building on existing architecture such as the Trans-Pacific Partnership and Asean Plus, among others.

Apec has therefore been making important and meaningful contributions to achieving a FTAAP by defining, shaping and addressing the 'next generation' of trade and investment issues. These issues include fostering the participation of small and medium-sized enterprises (SMEs) in global production chains. SMEs account for up to 90 per cent of all businesses in some economies and employ as many as 60 per cent of the workforce. Increasing their participation in global markets is therefore vital.

Another 'next generation' issue involves fostering innovation, which will increase productivity and enhance economic growth. Leaders further agreed to advance a set of policies to promote effective, non-discriminatory and market-driven innovation.

Other actions include taking steps to:

- Establish commercially useful *de minimis* values in economies that will exempt low-value express and postal shipments from customs duties, and streamline entry documentation requirements.
- Implement Apec's New Strategy for Structural Reform plans by 2015 in order to reduce behind-the-border barriers to trade and promote balanced, inclusive and sustainable growth. Apec has been focusing on reforms that promote open, transparent and competitive markets; better functioning and effectively regulated financial markets; labour market opportunities; sustainable SME development; and effective and fiscally sustainable social safety net programmes.
- Launch the Apec Travel Facilitation Initiative to explore ways to make travel in the region faster, easier and more secure.

The second priority, ***promoting green growth***, saw the leaders agreeing to the reduction in applied tariff rates on environmental goods to five per cent or less by 2015, taking into account

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economic circumstances. Members will work to develop a list of environmental goods that would be subject to those tariff cuts by the end of 2012.

Current estimates suggest that tens of trillions of dollars of investment will be required to meeting the goals of clean energy, clean air, sanitation and other environmental goals in the coming years. Lowering tariffs on green goods will increase their availability and use at lower prices regionally, thus also supporting green industries and jobs and promoting sustainable growth.

Steps to be taken to promote green growth include:

- To phase out inefficient fossil-fuel subsidies which encourage wasteful consumption. A voluntary reporting mechanism will be set up to review progress on reform in this area, on an annual basis;
- To reduce Apec's energy intensity by 45 per cent by 2035, across the region. This target was reached after analysis showed Apec will far exceed the previous target set by Leaders in 2007, of at least 25 per cent reduction by 2030.
- To promote energy efficiency by taking specific steps related to areas such as transport, buildings and power grids. The first-ever joint Transportation and Energy Ministerial meeting was held in September 2011 in San Francisco, where Apec Ministers agreed on initiatives to make transportation in the region cleaner and more energy-efficient.

- To enhance knowledge-sharing and education in support of energy-smart, low-carbon communities. This is being implemented through numerous Apec projects, including workshops on smart grid deployment and renewable energy sources; and
- To implement measures to prohibit trade in illegally-harvested forest products, and undertake additional activities to combat illegal logging and associated trade.

The third priority is ***advancing regulatory convergence and cooperation***. Leaders made a commitment to take specific steps by 2013 to implement Good Regulatory Practices in their economies. These include ensuring internal coordination of regulatory work, assessing regulatory impacts, and conducting public consultations.

Apec economies also declared their commitment to establishing a Regulatory Cooperation Action Plan to help advance cooperation regionally to improve the efficiency and effectiveness of regulations, build public trust in regulations, and improve consumer confidence in products. The action plan will guide Apec's activities to advance regulatory cooperation by ensuring that these efforts promote better alignment with international standards and conformance systems, and engage key stakeholders.

In addition to the above priorities, it was agreed that good governance would be Apec's continuing priority. US Secretary of State Hillary Clinton hosted a high-level policy dialogue on open governance at which Ministers released a joint statement emphasizing as Apec's priority, good

governance, the fight against corruption, and the encouraging of ethical business practices.

Finally, the issue of reducing disaster risk and strengthening resilience was identified as a priority area. In the wake of the Japan earthquake and tsunami, and other recent natural disasters in the region, a second high-level policy dialogue was held on reducing disaster risk and strengthening resilience. Ministers at that meeting called on officials to work to improve disaster resilience by providing businesses with tools that would help them to be better prepared, assisting with the movement of goods and services during disasters, and supporting research and education on this subject.

#### **Outlook for Apec Summit 2012**

Russia took over the stewardship of Apec from the United States in 2012 and set out the priorities for the year ahead, following an informal meeting of Apec Senior Officials in St Petersburg in December 2011. Four priority areas have been identified as follows: liberalizing trade and investment and expanding regional economic integration; strengthening food security; strengthening supply chains; and cooperating to foster innovative growth.

First, ***liberalizing trade and investment and expanding regional economic integration***, builds on the important work undertaken in 2011. Apec will continue to address 'next generation' trade issues in future free trade agreements and seek new ways to align technical standards and regulations across the region, making it easier, cheaper and faster for businesses to trade across borders. This is expected to move the economies closer towards the long-term goal of a Free Trade Area of the Asia-Pacific (FTAAP).

Second, ***strengthening food security***, is a crucial issue for this region as it is vulnerable to food security risks and is frequently exposed to natural disasters. Apec is focusing on raising the quality and safety of food, including enhancing

***...Apec's priority, good governance, the fight against corruption, and the encouraging of ethical business practices***

conformity to food safety standards. In a forum in Montana in May 2011, economies committed to work together to strengthen their food safety systems and harmonize their domestic and international food safety standards. One method of achieving this objective is through supporting sustainable development of the agricultural sector. This includes implementing projects across the region to promote transparency of food markets, such as monitoring and exchanging information on supply, demand and production of food. In addition, it involves implementing projects that reduce the costs and losses of producing food, and getting these goods to the market. Apec and the World Bank signed an MOU last year agreeing to work together to carry out capacity-building projects across the region to promote food safety and supply.

Third, ***strengthening supply chains***, is critical in today's globalized world. Goods are no longer made in one economy but rather produced by sourcing components from all over the region and indeed the world. Therefore, strengthening the region's supply chain will reduce the time, cost and uncertainty of moving goods and services throughout the region. The goal, by 2015, is a 10 per cent improvement by addressing eight priority chokepoints. These chokepoints relate to regulatory impediments, customs inefficiencies and inadequate transport networks and infrastructure. Particular attention is given to operational safety and the protection of transportation facilities, which involves conducting capacity-building activities on emergency preparedness and disaster relief.

Fourth, ***cooperating to foster innovative growth***, is a priority continuum of the 2011 declaration. Leaders stressed the need for policies that further foster competition, promote access to technology and encourage development of innovation. One area of interest is fostering cooperation across the region on major innovation projects, and networking among businesses, academia and government institutions, while another area is addressing barriers to investment in high-technology sectors.

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#### **Commitments versus the Apec Principles**

Apec has no binding treaty to ensure that commitments are met. Instead, Apec operates on the basis of open dialogue and consensus. This non-combative environment allows new ideas to be tested, and mutual understanding and closer collaboration to develop between members and other stakeholders, including business and academia. This non-binding nature is a particularly valuable tool, given the social and economic diversity of Apec's 21 members. Apec uses a pathfinder approach that allows members who are ready, to introduce reforms, and for others to join the initiative when circumstances permit.

Although Apec does not impose rules on its members, it does set targets, including numerical ones. It then assesses the work done in achieving these targets to ensure the achievement of its goals. In 1994, Leaders set a clear target for Apec by agreeing on the Bogor Goals of free and open trade and investment in the Asia-Pacific region. Leaders set two broad timetables of 2010 for developed economies and 2020 for developing ones. Members' progress on these goals is monitored annually through a peer review mechanism.

In 2010, an assessment of the progress towards the Bogor Goals was carried out by Apec's Policy Support (PSU) using data from member countries as well as those from the World Bank and other international bodies. The assessment showed significant progress in breaking down barriers to trade at, across, and behind the border. The use of third-party data ensured the scientific vigour of the assessment.

### **Economic and Technical (ECOTECH) Agenda**

To help achieve its goals, Apec builds the capacity of its member economies, particularly developing ones, through economic and technical cooperation. Projects are implemented around the region on everything from standards and conformance issues to micro-finance and customs procedures. These projects help transfer skills, knowledge and best practices, between officials, encourage reform, and turn Apec strategies into concrete action.

Over 1600 projects have been undertaken since 1993 when Apec's capacity-building work started. More than 150 projects are implemented at any one time. During the last financial year, Apec committed more than US\$14 million to this important work. While this figure may seem relatively small compared to other development institutions, it is important to remember that Apec is focused on soft infrastructure, like improving trade policy and structural reform measures, rather than hard infrastructure projects which are the focus of the international development agencies such as the World Bank and the ADB. Developing member countries regard Apec's ECOTECH agenda as critical for them.

### **Apec's Achievements**

Apec has achieved significant and tangible results since its inception. Looking at average tariffs in the region, one will find that they have fallen from 17 per cent in 1989 to 5.8 per cent in 2010. This translates to substantial savings for consumers and reduced costs for manufacturers who use imported components in their supply chain.

Non-tariff barriers have also been substantially reduced across Apec economies. Most of these are WTO-consistent measures. This progress on advancing free trade has created a much greater level of regional economic integration than would otherwise be expected. An almost six-fold increase in merchandise trade among Apec members was

recorded between 1989 and 2010 — from US\$1.7 trillion to US\$9.9 trillion, respectively. This accounts for 67 per cent of Apec's total merchandise trade.

Apec's work on free trade has contributed to real and concrete benefits for people living across the Asia-Pacific region. Over a span of ten years, that is, from 1999 to 2009, the GDP of Apec economies grew by 29.2 per cent and employment by 10.8 per cent, while poverty was reduced by 35 per cent (poverty levels are measured by calculating the percentage of the population living on less than US\$2 a day).

Turning to Apec's work on streamlining the flow of trade or trade facilitation, Apec reached its target of reducing trade transaction costs by five per cent across the region, between 2007 and 2010, following a successful rollout of its Trade Facilitation Action Plan 2 or TFAP2. This reduction is in addition to an initial five per cent drop achieved between 2002 and 2006, under the first action plan. The latest reduction represents for businesses total savings of US\$58.7 billion.

As part of TFAP2, Apec has been carrying out projects around the region to encourage economies to undertake reforms and improvements to streamline trade in four priority areas: (1) customs procedures; (2) standards and conformance; (3) business mobility; (4) and electronic commerce.

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### **Conclusion**

Apec attempts to push ahead with its mission to further integrate all member economies and liberalize trade and investment, recognizing that both are critical to job creation and economic growth. While Apec's priorities are adapted on a year to year basis, its core commitment towards regional economic integration measures behind and across the border, remains. Through close cooperation and hard work, Apec strives to increase prosperity and improve the well-being of everyone in the Asia-Pacific region.

While 2011 was a year of economic difficulty for the EU and the US, it was also a year when natural disasters caused widespread devastation in countries such as Japan, New Zealand, and Thailand. Challenges and risks are expected to remain in many parts of the world in 2012. The US economy appears to be gaining momentum with positive latest figures indicating growing employment in the manufacturing sector. Economists argue that the Asia-Pacific will continue to lead global economic recovery and that the outlook for this year is cause for optimism. The Asian Development Bank is of the opinion that the region will be shielded from the worst of the global economic slowdown due to strong trade between regional neighbours and rising domestic consumption among the new middle classes.

The diversity of Apec member countries suggests the need to introduce several approaches in addressing economic issues. The tariff reduction initiative for trade facilitation may be appropriate for developed economies but it is always viewed with caution by developing economies. The target date of year 2020 for developing economies to achieve Apec's goal of free and open trade and investment in the Asia-Pacific region appears to be too ambitious, especially when several regional organizations in the Asia Pacific such as Asean, are struggling to meet their own economic goals in 2015.

Apec needs to review its priority areas in order to secure serious commitments from member economies. While the ideal is good governance, many economies did not flourish based on idealism. Southeast Asian economies have grown by leaps and bounds over the last three decades and it is obvious that good governance has had minimal or no part at all in this achievement. This is not unique to Southeast Asian countries but is a natural progression in the phases of economic development of most economies. Priority areas need to be pragmatic and specific to member economies. It is foolish to commit members to good governance or other priority areas for idealistic purposes.



*Participants at the forum*