

## Regional Economic Integration Working Group Matrix

Highlighted cells indicate U.S. Action

Agenda Item		US Member	US ABAC action	USG Position	Other economy positions
2. Minutes and matters arising from the Third ABAC Meeting			<ul style="list-style-type: none"> <li>ABAC USA should monitor closely</li> </ul>		
3. Trade and Investment Liberalization					
A	WEF Report on Global Value Chains		<ul style="list-style-type: none"> <li>ABAC USA should monitor closely</li> </ul>		
B	Pathways to FTAAP Update		<ul style="list-style-type: none"> <li>ABAC USA should monitor closely</li> </ul>		
C	Analysis of benefits of TPP. Guest presenter: Prof. Peter Petri, Brandeis University, Massachusetts, by video conference.	Richard Lavin	<ul style="list-style-type: none"> <li>Richard Lavin to introduce Peter Petri who will be linked by video conference.</li> <li>ABAC USA is supportive of the TPP</li> </ul>	<ul style="list-style-type: none"> <li>USG supports the TPP but is careful to call it a pathway to FTAAP.</li> </ul>	TPP has 11 members in addition to USA: Australia, Brunei Darussalam, Chile, Malaysia, New Zealand, Peru, Singapore, and Vietnam are members of the TPP negotiations. Canada and Mexico recently joined in June 2012.
D	“ABAC for TPP” Update		<ul style="list-style-type: none"> <li>ABAC USA should monitor closely</li> </ul>		
E	Investment update	Deb Henretta	<ul style="list-style-type: none"> <li>Deb Henretta to introduce Alex Parle, who will provide an update on ABAC’s work in 2012 and ABAC USA’s proposed workplan for 2013.</li> </ul>		
4. Enhancing Supply Chain Connectivity					
A	Global data standards – a proposal for APEC to enhance regional supply chain connectivity		<ul style="list-style-type: none"> <li>ABAC USA should monitor closely. This will be presented by GS1 which has recently engaged with ABAC on supply chain related work</li> </ul>		
5. Initiating a new services agenda					
A	APEC Travel Facilitation Initiative. Guest presenter: Monica Contreras (TBC)		<ul style="list-style-type: none"> <li>ABAC USA should monitor closely</li> </ul>	This initiative was launched by USG in 2011, but has yet to achieve substantial progress.	

B	Presentation of Marshall School research project on services		<ul style="list-style-type: none"> <li>ABAC USA is supportive of Marshall school project and should monitor closely</li> </ul>		
6.	Preparation for REI Dialogue with Leaders		<ul style="list-style-type: none"> <li>ABAC USA should ensure that ABAC identifies a clear message to deliver to leaders on regional economic integration. ABAC should also reinforce to Leaders that it believes trade and investment should be the core focus of APEC.</li> </ul>		
7.	Other Business				

**Regional Economic Integration Working Group**  
**0730-1000, Tuesday 4 September 2012**  
**Venue: Anchor Aweigh Lounge, Deck 5**  
**Legend of the Seas, Vladivostok**

**Draft Agenda**

Agenda Item	Issue	Lead Economy/ Speaker	Doc. No.
1	Welcome, approval of agenda	Chair/T. Nowell	
2	Minutes and matters arising from the third meeting 2012 (not elsewhere specified)	Chair/T. Nowell	
3	<b><i>Trade and Investment liberalisation</i></b>		
	a) WEF Report on Global Value Chains	Chair/T. Nowell	
	b) Pathways to FTAAP update.	ABAC NZ/S. Jacobi	
	c) Analysis of the benefits of TPP. Guest presenter: Prof. Peter Petri, Brandeis University, Massachusetts, by video conference.	ABAC USA/TBA	
	d) “ABAC for TPP” update (TBC)	Chair/T Nowell and ABAC Peru/J. Raffo	
	e) Investment update (TBC)	ABAC USA/TBA	
4	<b><i>Enhancing supply chain connectivity</i></b>		
	a) Global data standards – a proposal for APEC to enhance regional supply chain connectivity.	Chair/T. Nowell	
5	<b><i>Initiating a new services agenda</i></b>		
	a) APEC Travel Facilitation Initiative. Guest presenter: Monica Contreras (TBC)	Chair/T. Nowell	
	b) Presentation of Marshall School research project on services.	Chair/T. Nowell	

6	Preparation for REI Dialogue with Leaders.	Chair/T. Nowell	
7	Other Business	Chair/T Nowell.	

**APEC BUSINESS ADVISORY COUNCIL  
REGIONAL ECONOMIC INTEGRATION WORKING GROUP  
THIRD MEETING: TUESDAY 17 JULY 2012  
SHERATON HOTEL, HO CHI MINH CITY**

**MINUTES**

1. The Chair, Tony Nowell, welcomed members and staffers, Co-Chairs John Prasetyo and Enrique Gubbins, with apologies from co-Chairs Matthew Miao and Gautam Bannerjee. The Chair welcomed the guest speakers: Mr Kazuyuki Kinbara from the Keidanren organisation in Japan; Ms Monica Whaley, President of NCAPEC in USA and Mr John Keogh, from GS1's global office in Brussels. The Chair sought and received approval for the agenda (REIWG 32-024), subject to a minor correction to agenda item 2.
2. The minutes of the second meeting of 2012, REIWG 32-023, were approved. There was one matter arising. Mr Dodwell from ABAC Hong Kong noted that the APEC skills mapping initiative was continuing to be progressed led by APEC Australia. ABAC could expect to receive an update at ABAC I in 2013. To date only Ms Ho from ABAC Philippines had volunteered to take part in the business advisory group for this project.

***TRADE AND INVESTMENT LIBERALISATION***

3. Referring to document REIWG 32-027, the Chairman noted that the Chair of APEC's Committee on Trade and Investment had provided several briefing documents to update ABAC on recent developments in the CTI.
4. There was very little to report on the WTO Doha Round. Further to discussion at the Chair's meeting and opening plenary, the language on the WTO in the draft letter and report to leaders would be amended to reflect the value ABAC attaches to the primacy of the rules-based trading system.

***Trans Pacific Partnership (TPP) Negotiations Update***

***What was the issue?***

5. Recent developments in the TPP negotiations since the last ABAC meeting (document REIWG 32-029).

***What was discussed?***

6. The Chairman noted that the biggest news on TPP recently was the announcement that Mexico and Canada had been accepted as TPP members, subject to the completion of notification processes in some TPP economies. This showed that TPP was taking an inclusive approach to new members.

7. The most recent round of negotiations took place in San Diego from 2-10 July. Unfortunately senior Trade Officials from Viet Nam were unavailable to brief REIWG on those talks as they were still on their way home from San Diego. According to recent trade press reports, "particularly significant" progress was made in San Diego on a number of issues, such as customs, cross-border services, telecommunications and government procurement. Some advances were also made on rules of origin, investment, financial services, temporary entry and some other issues. Some of the main hurdles yet to be overcome included market access for goods and services and government procurement; investor-state dispute settlement and intellectual property issues. It looked like those issues may not be dealt with until after the US Presidential election in November. In that case, TPP will not be concluded in 2012 as was envisaged when TPP Leaders met last November.

***What was agreed/decided?***

8. The Pathways to FTAAP matrix will be updated for the next ABAC meeting, taking into account any further information we receive about how the TPP negotiations are tracking.

**ABAC for TPP Update**

***What was the issue?***

9. The second ABAC for TPP meeting was held on 16<sup>th</sup> July in the margins of ABAC III, as set out in an information note contained in document REIWG 32-030.

***What was discussed?***

10. The informal ABAC for TPP group was established in the margins of ABAC II. Its purpose is to seek to accelerate the TPP negotiations, support the inclusion of new economies and ensure that TPP addresses business needs and priorities. It is open to Members from existing TPP member economies and also from economies that may be interested in joining in future. The second meeting attracted 32 participants indicating a high degree of interest within ABAC.
11. The ABAC for TPP group debated a set of key messages for sharing with Leaders from TPP economies, as set out in the information paper. This was not an official ABAC document so it would not be tabled at the closing plenary for endorsement. After consultation with ABAC Russia, it was agreed that the ABAC for TPP group would develop the key messages into a letter to the Leaders of TPP economies, which would be sent before some of them meet at the next APEC Leaders Summit. The draft letter would be circulated for feedback.
12. ABAC Russia will investigate the possibility of setting up a meeting in Vladivostok between the ABAC for TPP group and Trade Ministers from TPP economies, given that the group's first preference of meeting with TPP Leaders was highly unlikely to eventuate given scheduling issues.
13. A slight amendment to the 4<sup>th</sup> dot point of the ABAC for TPP key messages was proposed by ABAC Canada and approved.

***What was agreed/decided?***

14. The report was noted.

### **Japanese Business Perspective on TPP**

#### ***What was the issue?***

15. Mr Kinbara from Keidanren discussed, from the Japanese private sector perspective, the prospects and merits of Japan joining the TPP (document REIWG 32-025).

#### ***What was discussed?***

16. Japan had not yet formally notified its intention to seek to join the TPP. The Keidanren was strongly in favour of Japan joining TPP but this was unlikely to happen immediately. It came as a shock to Japan when Canada and Mexico were admitted to TPP, leaving Japan on the outside. But the Japanese government's position had been vague since Prime Minister Noda expressed interest in joining TPP in November 2011. There were two hurdles to be overcome. On the international side, USA was pressing Japan bilaterally for what the Keidanren saw as a de facto down-payment in terms of beef access, Japan Post and automobile access. The hurdle on the domestic side, strong domestic opposition to TPP particularly amongst farm lobby groups such as J.A, as well as from doctors and lawyers, was even more difficult. Agriculture retained high political influence in Japan, despite contributing a relatively small proportion of GDP and employment. Many Diet members, who supported TPP in principle, needed the J.A's support in their constituencies. The Prime Minister's position was also fragile, with elections expected. However Keidanren was cautiously optimistic that Japan would seek to join TPP by the end of 2012. Prime Minister Noda has made progress on two domestic issues (a consumption tax increase and resumption of the nuclear power plant in Kansei) so he could now give greater attention to TPP. Also the USA appeared to recognise the economic value that Japan would add, with the world's 3<sup>rd</sup> highest GDP, if it joined TPP. In addition other TPP members and other interested economies in the region were supportive of Japan entry.
17. The Chairman and other ABAC members thanked Mr Kinbara for his clear and frank explanation of the challenges around TPP for Japan. In response to ABAC Hong Kong's question whether agriculture was a problem in the context of the proposed FTA between Japan, China and South Korea, Mr Kinbara said Japan anticipated a greater degree of flexibility in that FTA compared to the very high quality and ambitious approach of TPP. In response to ABAC Indonesia, Mr Kinbara said Keidanren supported the tripartite FTA concept in principle. Each of the three countries had their own strategic reasons and defensive interests for seeking that FTA, with talks expected to get underway by the end of 2012. The concept of "flexibility" as a negotiating tactic was discussed. In response to the Chair's question about Japan's views on the prospects for FTAAP, Mr Kinbara said this was not very clear. Japan had committed domestically to achieving FTAAP by 2020. This would necessitate decisive action on agricultural reform, which was going to be difficult politically. However Japan was making progress. Many politicians and farmers recognised that structural change in the sector was needed. But that view was not shared by the main farming organisation, J.A. Perhaps Japan might move in the EU's direction with a reduction in tariffs on agricultural imports offset by direct income support for farmers.

#### ***What was agreed/decided?***

18. Mr Kinbara's presentation was noted.

### **Regional Comprehensive Economic Partnership (RCEP)**

#### ***What was the issue?***

19. The RCEP concept is continuing to be developed by ASEAN with its 6 Dialogue Partners.

#### ***What was discussed?***

20. RCEP remains on track as discussed at the last meeting in Kuala Lumpur, as set out in document REIWG 32-029. There was no discussion.

#### ***What was agreed/decided?***

21. ABAC will continue to monitor developments in the RCEP negotiations.

### ***ENHANCING SUPPLY CHAIN CONNECTIVITY***

#### **US Inventory Approach to Supply Chain Chokepoints**

#### ***What was the issue?***

22. ABAC has an opportunity to contribute new initiatives for APEC's Supply Chain Connectivity Framework. Moreover, the adoption of a systematic inventory approach to national policy measures would help to ensure supply chain chokepoints are addressed in a consistent and holistic manner across APEC.

#### ***What was discussed?***

23. Ms Monica Whaley, President of the National Centre for APEC in the USA, presented document REIWG 32-028. The APEC Supply Chain Connectivity Action Plan identified eight chokepoints to the smooth flow of goods, services and business travellers throughout the region, and established initiatives to address each. The goal is for APEC to achieve a 10% improvement in supply chain performance (measured in terms of time, cost and certainty) by 2015. The SC Action Plan is now at the mid-way mark. To ensure that APEC meets its objective, ABAC must ensure that the work-plans and initiatives being undertaken in each of the chokepoints are commercially relevant and provide tangible improvements in supply chain performance. The USA advocated the adoption by each APEC economy of an inventory approach towards their measures to address chokepoints.

24. The Chairman welcomed this presentation as a helpful way of building on the Marshall School's research and recommendations in 2011 and also following on from the PSU's presentation on the SC Action Plan during ABAC II. The meeting also discussed the contribution that APEC's STAR database could make to chokepoints 1 and 7.

#### ***What was agreed/decided?***

25. ABAC should continue to engage with APEC and provide the private sector perspective on additional initiatives that should be undertaken in each chokepoint of the SC Action Plan. ABAC members should give further thought to initiatives to suggest to APEC.

26. ABAC should promote a holistic and coordinated approach to implementing the SC Action Plan by encouraging a stock-take or inventory of policies and practices that economies should have in place to address the objectives of each chokepoint.



### **The Importance of Global Data Standards for Supply Chain Connectivity**

#### ***What was the issue?***

27. The application of global data standards has enhanced supply chain visibility and connectivity. There is significant potential for even greater take up within the APEC region.

#### ***What was discussed?***

28. John Keogh, Director of Product and Consumer Safety at the GS1 Global Office in Brussels, gave a comprehensive presentation, set out in document REIWG 32-031, about global data standards, including what they are, how they work and how they assist companies and governments in managing and facilitating complex supply chains. Global data standards enable visibility and transparency in global supply chains by using universally recognised barcodes to identify, capture and share consistent data.
29. Discussion was wide-ranging, covering topics such as how global data standards can help combat trade in counterfeit goods, as well as helping to measure the ease of doing business; the application of global data standards within different business models; traceability within food supply chains, and various industry and government initiatives for deploying global data standards.

#### ***What was agreed/decided?***

30. The Chairman will develop a proposal for the discussion at ABAC IV regarding the development of data standards for supply chain facilitation in a regional APEC context.

### ***INITIATING A NEW SERVICES AGENDA***

#### **Information Technology Agreement (ITA)**

#### ***What was the issue?***

31. The ITA needs to be expanded and updated.

#### ***What was discussed?***

32. ABAC Japan presented document REIWG 32-026 which noted that the WTO completed the ITA in 1996 with the aim of progressively phasing out tariffs on ICT products. However its product coverage had not been updated despite the unprecedented technological innovation that has since occurred. Also many other economies wish to join the ITA. Therefore the ITA needs to be expanded and updated as a matter of priority.
33. The Chairman noted that Japan was proposing an early and meaningful conclusion of WTO negotiations on the ITA, a position also shared at the highest level within APEC. He would prefer not to slow this down, a position also shared by ABAC Singapore and ABAC Russia.

#### ***What was agreed/decided?***

34. ABAC will promote early and meaningful conclusion of an ITA negotiation at the WTO. The word “gradual” will not be added to the ITA section in ABAC’s Report to Leaders.
35. ABAC will support expansion of the ITA’s product coverage and the number of participating members as well as the development of a mechanism to ensure that technological progress in ICT will be reflected in the ITA on an ongoing basis.

### **APEC Travel Facilitation Initiative**

***What was the issue?***

36. ABAC has written to the CTI Chair seeking more information about the APEC Travel Facilitation Initiative however no response has yet been received.

***What was discussed?***

37. There was no discussion.

***What was agreed/decided?***

38. Discussion of this item was deferred until ABAC IV.

### **Marshall Business School Research on Services**

***What was the issue?***

39. The Marshall Business School research on services is continuing.

***What was discussed?***

40. There was no discussion given a shortage of time.

***What was agreed/decided?***

41. The Chairman would give an update on the research project at APAWG.

### **Review of the Draft Letter and Report to Leaders**

***What was the issue?***

42. The regional economic integration section of the draft letter and report to leaders had been reviewed and reworked in light of feedback at the Chair's meeting and opening plenary.

***What was discussed?***

43. Feedback on the proposed revisions contained in document REIWG 32-032 was sought by the Chairman. Mr Prasetyo, ABAC Indonesia, proposed some modification of the words about the WTO Doha Round and WTO as an institution. This was supported by Mr Nightingale, ABAC Hong Kong who also requested that the letter be shortened and simplified. Mr Ho Meng Kit from ABAC Singapore advocated stronger language on incorporating next generation trade and investment issues into future FTAs. ABAC USA proposed the addition of a section on regulatory coherence in the Report to Leaders.

***What was agreed/decided?***

44. Members should provide any further feedback on the REI section of the draft letter and report to leaders to the REIWG Lead Staffer.

### **Other Business**

45. There being no items of other business, the Chair thanked all present for their participation and the guest presenters for their contributions and called the meeting to a close at 10.25am.

## REI Meeting Document Summary Sheet

<b>Document Title:</b> Comparison of Possible Pathways towards FTAAP.
<b>Purpose:</b> For information.
<b>Issue:</b> This note provides an update on progress in various regional negotiations that could lead to a Free Trade Area of the Asia Pacific.
<b>Background:</b> The main developments include: <ul style="list-style-type: none"><li>• TPP Trade Ministers will meet on Thursday 6<sup>th</sup> September in the margins of the Vladivostok Summit. The next round of TPP negotiations will take place in Leesburg Virginia from 6-14 September.</li><li>• The Regional Comprehensive Partnership (RCEP) will be discussed at the ASEAN+3 Economic Ministers meeting in Siem Reap, Cambodia from August 25-30. We will try to provide a further update on this in advance of, or at, the REIWG meeting.</li></ul>
<b>Proposal /Recommendations:</b> <ul style="list-style-type: none"><li>• For noting.</li></ul>
<b>Decision Points:</b> <ul style="list-style-type: none"><li>• For noting.</li></ul>

## ABAC Analysis Comparing the Trans Pacific Partnership (TPP), Regional Comprehensive Economic Partnership (RCEP) and the ASEAN, Australia New Zealand Free Trade Agreement (AANZFTA)

Features	TPP	RCEP	AANZFTA
When Launched	Launched December 2009, first round of negotiations March 2010.	Announced at the ASEAN/East Asia Summit, November 2011. The negotiating structure is being set up during 2012 and negotiations are mooted to get underway after the next East Asia Summit in November 2012.	Leaders agreed to launch FTA negotiations in November 2004. Agreement was signed in February 2009.
Members	<p>Australia, Brunei, Chile, Malaysia, New Zealand, Peru, Singapore, USA, Viet Nam.</p> <p>In mid-June 2012 it was announced that Mexico and Canada had completed their bilateral negotiations with TPP members and had been accepted to join TPP, pending conclusion of domestic processes in TPP member economies. This brings the TPP membership to 11. Japan continues to consider whether to seek to join TPP.</p>	ASEAN, Australia, China, India, Japan, New Zealand, South Korea.	ASEAN <sup>1</sup> , Australia, New Zealand.
Existing Agreement	P4 Agreement, 2005, between Brunei, Chile, New Zealand, and Singapore.	Builds on CEPEA (ASEAN + 6) and EAFTA (ASEAN +3) negotiations.	N/A
Timeframe	TPP Leaders are on record calling for negotiations to be concluded by the end of this year. While negotiators continue to work assiduously to this end it is conceivable, indeed likely, that the negotiations will need to be carried over to 2013.	Open ended.	Entered into force (EIF) 1 January 2010 <sup>2</sup> . EIF for Thailand in March 2010; for Lao PDR and Cambodia in January 2011. EIF for Indonesia January 2012.

<sup>1</sup> ASEAN comprises Brunei, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Singapore, the Philippines, Thailand and Viet Nam.

<sup>2</sup> For and between Australia, Brunei, Malaysia, Myanmar, New Zealand, Singapore, the Philippines, and Viet Nam.

Features	TPP	RCEP	AANZFTA
Process	<p>The 13th round of TPP negotiations took place in San Diego in early July. The next round, will take place in Leesburg Virginia from 6-14 September. A further round has been scheduled for early December.</p> <p>TPP Ministers will meet in Vladivostok on 6 September and the Canadian and Mexican Trade Ministers are expected to be formally welcomed at that meeting. Canadian and Mexican negotiators will participate for the first time at the December meeting.</p>	<p>ASEAN announced at its summit in April 2012 that it would launch RCEP negotiations at its next summit in November. Preparatory discussions have begun amongst officials, and will be reported to RCEP ministers when they meet on the margins of the ASEAN Economic Ministers meeting in Cambodia at the end of August.</p> <p>We will seek an update on the outcome of that meeting before the REIWG meeting if possible.</p>	<p>The first negotiating round was held in Manila in March 2005. 15 more rounds were held before Trade Ministers' reached substantive agreement at the ASEAN Economic Ministers' meeting in Singapore in September 2008.</p>
Coverage	<p>Comprehensive coverage. About 20 working groups are tasked with producing draft negotiating texts in the following areas:</p> <ul style="list-style-type: none"> <li>• Goods</li> <li>• Rules of Origin</li> <li>• Customs</li> <li>• SPS</li> <li>• Technical Barriers to Trade</li> <li>• Trade Remedies</li> <li>• Government Procurement</li> <li>• Competition Policy</li> <li>• Cross-Border Services</li> <li>• Business Mobility (which we usually call temporary entry)</li> <li>• Financial Services</li> <li>• Telecommunications</li> <li>• Electronic Commerce</li> <li>• Investment</li> <li>• Intellectual Property</li> </ul>	<p>Three working groups (negotiating groups) are being established:</p> <ul style="list-style-type: none"> <li>• Trade in Goods:</li> <li>• Trade in Services</li> <li>• Investment.</li> </ul>	<p>The AANZFTA agreement is a comprehensive FTA covering goods, services and investment, as well as the other subjects covered in a modern FTA such as intellectual property, electronic commerce and competition policy.</p> <p>As an example, tariffs will be eliminated within twelve years on 99 percent of New Zealand's current exports to Indonesia, Malaysia, the Philippines and Viet Nam.</p> <p>The agreement includes a dispute mechanism, chapters on Sanitary and Phytosanitary issues (SPS), Standards, Technical Regulations and Conformity Assessment Procedures (STRACAP), customs procedures, movement of natural persons and economic cooperation.</p> <p>In conjunction with the AANZFTA agreement bilateral treaties with the</p>

	<ul style="list-style-type: none"><li>• Labour</li><li>• Environment</li><li>• Cooperation and Capacity Building</li><li>• Legal and Institutional Issues</li><li>• Horizontal Issues (e.g. REI, regulatory coherence, development and transparency, SME issues, supply chain issues).</li></ul>		Philippines covering labour and environmental cooperation have also been concluded.
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## REI Meeting Document Summary Sheet

<b>Document Title:</b> The Trans-Pacific Partnership and Asia-Pacific Integration: Policy Implications.
<b>Purpose:</b> For information.
<b>Issue:</b>  Given the rising level of interest in the TPP negotiations across the Asia Pacific business community, it is timely for ABAC to consider this comprehensive study, which foresees some impressive economic outcomes from TPP.
<b>Background:</b>  Under the auspices of the Peterson Institute for International Economics, Professor Petri from Brandeis University and Prof. Michael Plummer from John Hopkins University, who are both visiting fellows at the East West Center in Honolulu, have prepared the above titled Policy Brief. It provides an updated quantitative assessment of TPP, based on a 2011 report which they prepared with Fan Zhai, entitled The Trans Pacific Partnership and Asia Pacific Integration: A Quantitative Assessment. The full version of the updated study will be published soon.  In this updated assessment, the scope of their preliminary estimates has been expanded to include (a) foreign direct investment effects and (b) the effects of trade liberalization on the “extensive margin” of trade, that is, exports by companies not involved in international markets before liberalization. These and other changes have increased estimated benefits of TPP.  Professor Peter Petri, will join the REIWG meeting by video conference from Massachusetts to discuss the updated analysis of the benefits of TPP. The executive summary of the Policy Brief is as follows:  “The Trans-Pacific Partnership (TPP) agreement, now in negotiation among nine Asia-Pacific countries, could yield annual global income gains of \$295 billion (including \$78 billion for the United States) and offers a pathway to free trade in the Asia-Pacific with potential gains of \$1.9 trillion. The TPP’s expected template promises to be unusually productive because it offers opportunities for the leading sectors of emerging-market and advanced economies. An ambitious TPP template would generate greater benefits from integration than less demanding alternatives, but it will be harder to sell to China and other key regional partners as the TPP evolves toward wider agreements. The importance of Asia-Pacific integration argues for an early conclusion of the TPP negotiations, without jeopardizing the prospects for region-wide or even global agreements based on it in the future.”
<b>Proposal /Recommendations:</b> <ul style="list-style-type: none"><li>• For noting.</li></ul>
<b>Decision Points:</b> <ul style="list-style-type: none"><li>• For noting.</li></ul>

## The Trans-Pacific Partnership and Asia-Pacific Integration: Policy Implications

Peter A. Petri and Michael G. Plummer

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### SUMMARY

The Trans-Pacific Partnership (TPP) agreement, now in negotiation among nine Asia-Pacific countries, could yield annual global income gains of \$295 billion (including \$78 billion for the United States) and offers a pathway to free trade in the Asia-Pacific with potential gains of \$1.9 trillion. The TPP's expected template promises to be unusually productive because it offers opportunities for the leading sectors of emerging-market and advanced economies. An ambitious TPP template would generate greater benefits from integration than less demanding alternatives, but it will be harder to sell to China and other key regional partners as the TPP evolves toward wider agreements. The importance of Asia-Pacific integration argues for an early conclusion of the TPP negotiations, without jeopardizing the prospects for region-wide or even global agreements based on it in the future.

### INTRODUCTION

The Trans-Pacific Partnership (TPP), currently at an advanced stage of negotiation, began as a small agreement but now has big implications.<sup>1</sup> The TPP would strengthen ties between Asia and the Americas, create a new template for the conduct of international trade and investment, and potentially lead to a comprehensive free trade area (FTA) in the Asia-Pacific. It could generate large benefits—greater than those expected from the World Trade Organization's (WTO) global Doha Development Agenda. This Policy Brief reports on our ongoing quantitative assessment (with Fan Zhai) of the TPP and other Asia-Pacific integration efforts.<sup>2</sup>

Since the last major multilateral trade agreements were concluded nearly two decades ago, the action on trade rules has shifted from global to bilateral and regional agreements. In 2000 there were six trade agreements among member economies of the Asia Pacific Economic Cooperation (APEC) forum; today there are 47, with more in the works. Groups of “like-minded” partners appear better able to reach agreements that achieve mutual gains, address wider issues, and mitigate opposition. The WTO reports 319 such agreements now in

1. The negotiations originated in the Trans-Pacific Strategic Economic Partnership (so-called P4) agreement among Brunei, Chile, New Zealand, and Singapore. They now include Australia, Malaysia, Peru, Vietnam, and the United States. Canada, Japan, and Mexico have also indicated interest in the agreement but their participation in the negotiations is uncertain at the time of this writing.

2. The results reported here are based on a model described in Peter A. Petri, Michael G. Plummer, and Fan Zhai, *The Trans-Pacific Partnership and Asia-Pacific Integration: A Quantitative Assessment*, East-West Center Working Paper no. 119, October 24, 2011. That study will be updated shortly in publications by the Peterson Institute for International Economics and the East-West Center. As anticipated in the 2011 version, we expanded the scope of our preliminary estimates to include (a) foreign direct investment effects and (b) the effects of trade liberalization on the “extensive margin” of trade, that is, exports by companies not involved in international markets before liberalization. These and other changes have increased estimated benefits. The efforts to refine the model's assumptions and database continue and may lead to further revisions of the estimates.



force worldwide.<sup>3</sup> Renewed progress on trade and investment rules could prevent backsliding on existing agreements and generate much-needed engines for global economic growth.<sup>4</sup> For now, regional negotiations offer the best options for making such progress.

Against this challenging background, the United States and eight (potentially 11) partners on both sides of the Pacific are working to shape the TPP into a cutting-edge, 21st century agreement. US participation, first proposed by President George W. Bush, has become a centerpiece of President Barack

### **The TPP and Asian tracks are large, positive-sum projects that promise substantial gains to all participants.**

Obama's trade policy. The negotiation is complicated and ambitious in terms of issues and membership.<sup>5</sup> If successful, it could stimulate trade by benefiting the competitive industries of both emerging-market and advanced economies. And it could yield an innovative model for consolidating the "noodle bowl" of existing trade agreements.<sup>6</sup>

The TPP is a crucial step on what is becoming a "Trans-Pacific track" of trade agreements. The track already includes the P4 agreement among Brunei, Chile, New Zealand, and Singapore and many bilateral agreements spanning the Pacific. A parallel "Asian track" includes a major cluster of agreements centered on the Association of Southeast Asian Nations (ASEAN), negotiations among China, Japan, and Korea, and proposals for pan-Asian FTAs. The Trans-Pacific and Asian tracks are already stimulating mutual progress. The TPP may have been motivated by past Asian agreements, and it appears to have led to a new investment agreement among China, Japan, and Korea and to the expected launch of free trade negotiations among the three later in 2012.

3. See the WTO website, [www.wto.org](http://www.wto.org) (accessed on March 19, 2012).

4. As argued by the famous "bicycle theory," liberal trade regimes are inherently unstable and require new initiatives to stay open. See C. Fred Bergsten and William R. Cline, *Trade Policy in the 1980s*, Washington: Institute for International Economics, 1982, 71.

5. The possible details of the agreements are discussed in our technical paper. See also Claude Barfield, "The Trans-Pacific Partnership: A Model for Twenty-First-Century Trade Agreements?" *AEI International Economic Outlook* no. 2, June 2011; and Deborah Elms and C. L. Lim, *The Trans-Pacific Partnership Agreement (TPP) Negotiations: Overview and Prospects*, RSIS Working Paper no. 232, February 21, 2012.

6. The full consolidation of preexisting agreements within the TPP is not likely to be completed at this stage, but importantly TPP negotiators are committed to establishing common rules of origin and full cumulation of inputs originating within the region.

Free trade agreements often have geopolitical objectives, and the Asia-Pacific tracks are no exceptions. The TPP emerged as a US priority some years ago, but it has recently become identified with the "rebalancing" of US foreign policy toward sustaining a US presence in Asia. Asian agreements, in turn, have aimed to promote the ASEAN Economic Community, improve political relations in Northeast Asia, and define "space" for an emerging China. Much commentary in the press and from academic observers has focused on these political issues and, more often than not, has viewed them from a zero-sum perspective. For example, the TPP has been portrayed as an effort to contain China, "a kind of economic warfare within the Asia Pacific region."<sup>7</sup> Meanwhile, some American observers describe Asia-only agreements as attempts to establish Chinese hegemony in the region at the expense of a US role.<sup>8</sup> These harsh perceptions are amplified by interest groups that attempt to influence the negotiations.

Whatever the merits of such political narratives, economics suggests much more constructive interpretations. The TPP and Asian tracks are large, positive-sum projects that promise substantial gains to all participants. Together, they are a dynamic process—an example of competitive liberalization—that could lead to better rules for Asia-Pacific and perhaps global trade. To be sure, the interests of countries diverge in many details. Asian emerging-market economies, for example, prefer to focus liberalization on goods trade and allow extensive exceptions for sensitive products. Advanced countries, in turn, favor comprehensive liberalization and coverage of "new" issues that affect their leading sectors. But importantly, these divergences mainly affect the sharing of what could become a much larger pie.

### **A CONTEST OF TEMPLATES**

From the viewpoint of large economies like the United States and China, the benefits from the smaller regional trade agreements have less to do with immediate gains than with their influence on the future trading system. Thus, the much-remarked competition between the Trans-Pacific and Asian tracks appears to be a "contest of templates" for organizing future cooperation, not economic warfare between them. From an economic perspective, neither group of countries would benefit from dividing the region into blocks, but each could gain from rules that improve the terms of trade for its strongest sectors. The tracks can be considered moves in a

7. Anthony Rowley, "What the TPP Is Really About," *Business Times (Singapore)*, February 2, 2011.

8. Aaron L. Friedberg, "Hegemony with Chinese Characteristics," *National Interest*, July-August 2011.

strategic game; they are “disagreement points” in a bargaining process with large positive-sum results.

The contrast in templates can be documented. Our research shows that recent US and ASEAN trade agreements have both included large eventual reductions in tariffs (96 and 90 percent of most favored nation [MFN] levels, respectively), but Asian agreements have been slower to take effect and have more exceptions. There are even more marked differences between templates in approaching nontariff barriers. We used detailed information from the text of past agreements to “score” provisions on 21 issues, accounting for the proportion of potential disciplines covered, the depth of such coverage, and the enforceability of provisions. As figure 1 shows, US agreements had higher scores than ASEAN agreements on average, and especially in provisions related to competition, intellectual property rights, government procurement, state-owned enterprises, and labor. ASEAN agreements had higher scores than US agreements in a few areas, including dispute resolution and cooperation (typically provisions on capacity building). Neither set of agreements received high marks on small and medium enterprises and science and technology, areas that are also expected to be covered by the TPP.

What explains these differences? As already noted, Asian templates are negotiated by mainly emerging-market economies with comparative advantages in manufacturing—hence the focus on market access for goods. The templates negotiated by the United States reflect the interests of advanced economies in services, investment, and intellectual property, and sometimes agriculture. They also emphasize rules-based approaches that are common in a developed-country institutional setting. Both templates include measures to attract domestic political support, but those too reflect their political setting: Asian agreements focus on cooperation and technology, and US agreements on labor and the environment.

Since potential gains from trade are especially significant among diverse economies, the ideal template will offer market access for the manufacturing industries of emerging-market economies as well as good rules for the service, investment, and technology sectors of advanced countries.<sup>9</sup> Asian templates prepare the ground for cooperation by addressing primarily goods liberalization, but the TPP is likely to go further by liberalizing sectors that lead in both types of economies, thus expanding opportunities for trade between them. Advanced economies led the liberalization of goods trade in earlier global rounds and are now seeking similar access for industries in

new areas of comparative advantage. The economic case for a comprehensive template is not that it represents US interests (although that will be the argument made in US politics) but that it expands the scope of liberalization and thus potential gains to all participants.

Despite its advantages, a comprehensive agreement among all major Asia-Pacific economies does not appear to be feasible in the current macroeconomic and political context. Thus, China is unlikely to agree now to various concessions—on state-owned enterprises, services, intellectual property, and labor—that the United States would likely demand to open its markets further. The contest of templates is therefore bound to continue until more favorable conditions develop for bridging differences. But conditions could improve over time, and the tracks themselves, as argued below, could facilitate convergence and compromise.

## ECONOMIC IMPLICATIONS OF THE TPP AND ASIAN TRACKS

Some detractors of regional agreements, including prominent economists, criticize all such initiatives because they are not multilateral. They implicitly assume that diversion effects—harm to excluded countries—will dominate the benefits of regional trade and investment creation. Most importantly, they underestimate, on one hand, the hurdles facing global negotiations, and on the other, the positive “domino effects” of regional agreements on subsequent negotiations.

To assess these effects, we explored the implications of Asia-Pacific trade agreements using a state-of-the-art model of global trade and investment. We added rich detail on tariff and nontariff barriers and, recognizing that such barriers will not be fully eliminated, estimated realistic reductions based on the provisions of past agreements. We began by generating baseline projections for 2010–2025, assuming plausible growth patterns and the scheduled implementation of all 47 existing trade agreements among Asia-Pacific economies (including, for example, the Korea-US agreement and the ASEAN Economic Community Blueprint).

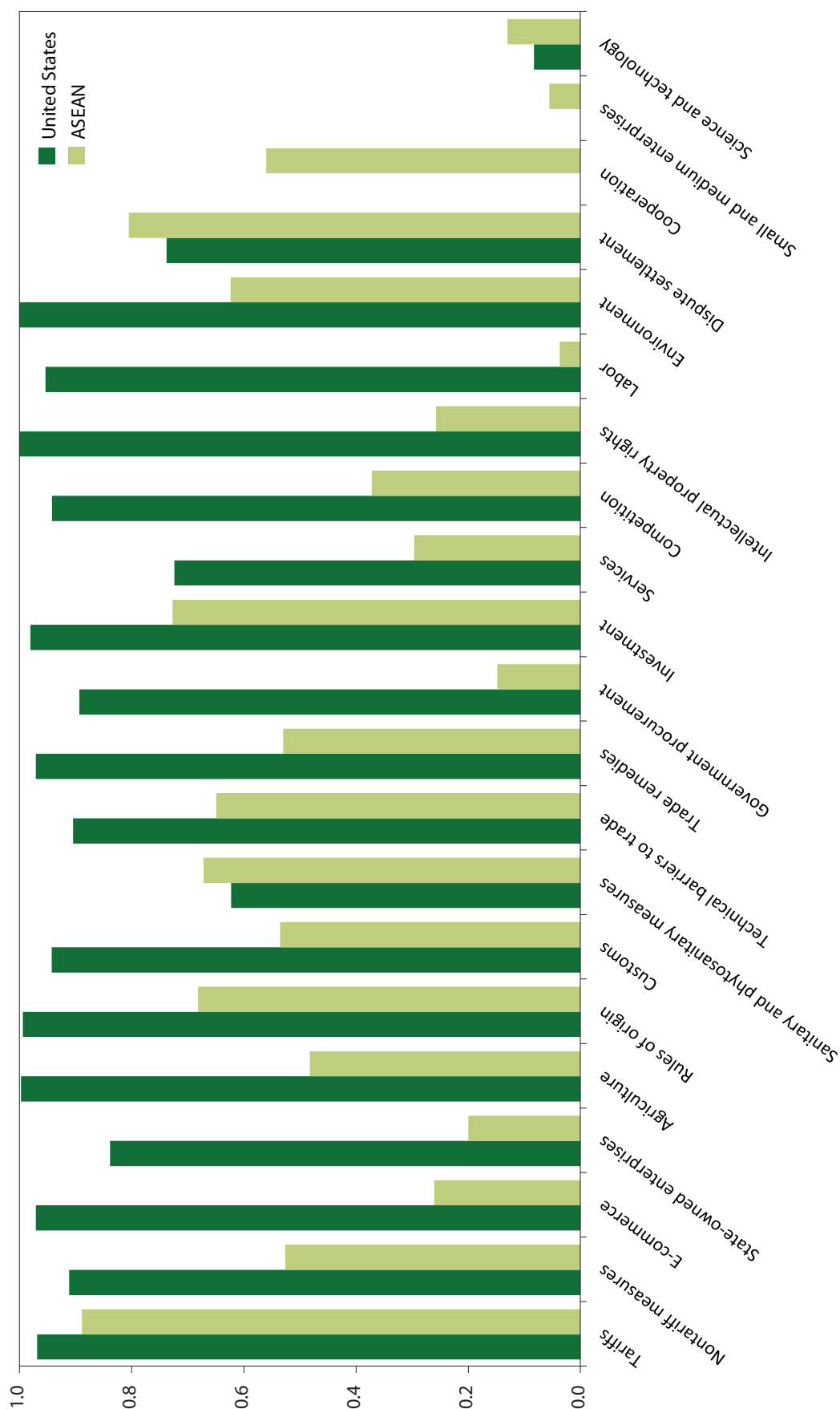
We then simulated future agreements with varied assumptions about their timing, membership, and content. For the TPP track, we assumed an agreement among nine partners in 2013 and the addition of four other countries (Canada, Japan, Korea,<sup>10</sup> and Mexico) one year later. For the Asian track, we

9. Gary Clyde Hufbauer, Jeffrey J. Schott, and Woan Foong Wong argue that the lack of such symmetry helps to explain why the Doha Development Agenda received little support in advanced economies. See *Figuring Out the Doha Round*, Policy Analyses in International Economics 91, Washington: Peterson Institute for International Economics, June 2010.

10. Korea has not expressed official interest in joining the TPP so far. Korea has good access to the US market through the Korea-US Free Trade Agreement and its immediate priority is to gain similar access to the Chinese markets through a bilateral or trilateral agreement. At the same time, senior Korean policymakers have indicated their continuing interest in the TPP and Korean membership is probable in the medium term.

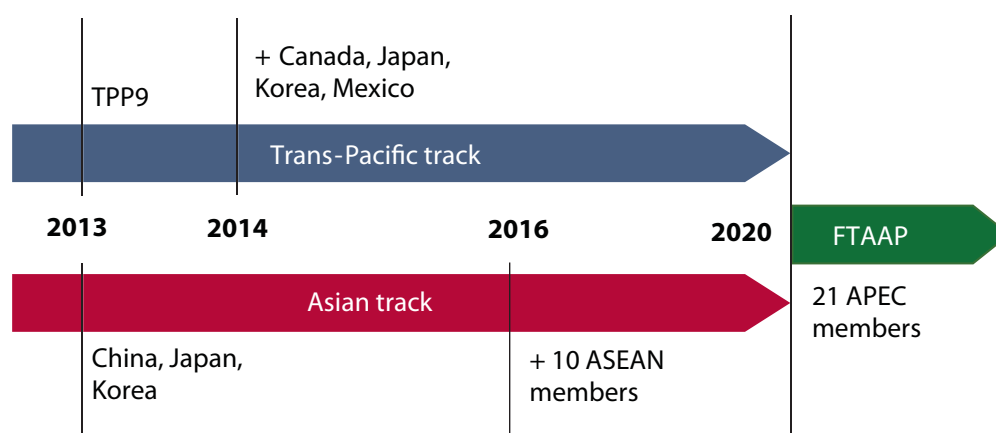
**Figure 1 Average scores of provisions on major issues**

average score of agreements



ASEAN = Association of Southeast Asian Nations

Source: Based on Peter A. Petri, Michael G. Plummer, and Fan Zhai, *The Trans-Pacific Partnership and Asia-Pacific Integration: A Quantitative Assessment*, East-West Center Working Paper no. 119, October 24, 2011.

**Figure 2 Scenarios for the Trans-Pacific and Asian tracks**

TPP = Trans-Pacific Partnership; APEC = Asia Pacific Economic Cooperation forum; ASEAN = Association of Southeast Asian Nations; FTAAP = Free Trade Area of the Asia Pacific

Source: Authors' illustration.

assumed a China-Japan-Korea agreement in 2013 and a pact with the ten ASEAN economies three years later.

In some scenarios, we assumed that the tracks would then lead to a region-wide FTA in 2020. We defined that outcome as an agreement among the 21 APEC economies—essentially the Free Trade Area of the Asia-Pacific (FTAAP) endorsed in several APEC Leaders' Declarations. As discussed below, region-wide free trade could be achieved by various means, but the FTAAP is a useful prototype. These scenarios are illustrated in figure 2; many more are discussed in our technical report. In each case, we assumed that an agreement would come into force the year after it was signed and would then take five years to implement. The structures of agreements were based on the average templates of recent agreements involving the United States (TPP track) and ASEAN (Asian track). This tight timeline enables our simulations to capture the full effects of the agreements in a reasonable timeframe.

Table 1 reports the income effects generated by the simulations. Both tracks of agreements would generate substantial gains by 2025, especially if they lead to the FTAAP. By 2025, the TPP track would yield global annual benefits of \$295 billion, and the Asian track \$500 billion. Gains from region-wide free trade would reach \$1,922 billion, or 1.9 percent of world GDP. The results also show that Asian agreements, although less ambitious than the TPP, would yield greater gains—they address larger preexisting trade barriers. And they suggest that about 20 percent of the total gains would be associated with foreign direct investment (FDI). All of these numbers are large absolutely and comparatively—for example, Gary Clyde Hufbauer and colleagues recently estimated the

benefits from a Doha Development Agenda agreement in the \$63 billion to \$283 billion range.<sup>11</sup>

Table 2 reports the trade changes generated by the simulations.<sup>12</sup> Both tracks would increase trade substantially, but the effects of an FTAAP are especially striking, leading to a 12 percent increase in world trade. As the world's second-largest exporter after Europe, China would be most dramatically affected, with results ranging from modest trade diversion under the TPP, in which China is not assumed to participate, to large export increases from initiatives in which it does. While an Asia-Pacific-wide FTA would lead to great increases of Asia-Pacific trade, it would also generate enough trade diversion from Europe, India, and the rest of the world to raise the prospects for a global initiative.

All of these estimates are uncertain, of course, subject to many assumptions about the content of future agreements and the model itself. The results reported here are based on assumptions that seemed to us most reasonable—for example, unlike most other studies, we assume that FTA tariff prefer-

11. These estimates are not directly comparable to the present results because they are not scaled to the economy of 2025; in percentage terms they range from 0.1 to 0.5 percent of world GDP (see Hufbauer, Schott, and Wong, *op cit*). Some larger estimates are also reported in Ian F. Fergusson, *World Trade Organization Negotiations: The Doha Development Agenda*, CRS Report RL32060, Congressional Research Service, Washington, January 18, 2008.

12. Since the implementation of the simulated trade agreements could take 15 years or more, we use a long-term, "full employment" specification of the model. This means that the trade balance is unaffected by trade policy and benefits appear as higher incomes rather than increased employment. Depending on economic conditions in 2025, the agreements could mean higher employment rather than just higher incomes (given an underemployment environment in 2025), or greater inflation (given an overemployment environment).

**Table 1 Income gains under alternative scenarios**

Economy	GDP, 2025 (billions of 2007 dollars)	Income gains in 2025 (billions of 2007 dollars)			Percent change from baseline		
		TPP track	Asian track	FTAAP	TPP track	Asian track	FTAAP
TPP track economies	26,502	128.7	7.8	405.4	0.49	0.03	1.53
United States	20,273	77.5	2.5	266.5	0.38	0.01	1.31
Australia	1,433	8.6	0.2	26.4	0.60	0.02	1.84
Canada	1,978	9.9	0.4	26.2	0.50	0.02	1.32
Chile	292	2.6	0.1	6.5	0.90	0.02	2.23
Mexico	2,004	21.0	4.2	67.7	1.05	0.21	3.38
New Zealand	201	4.5	0.3	5.8	2.25	0.13	2.86
Peru	320	4.5	0.1	6.3	1.42	0.04	1.98
Asian track economies	20,084	-55.9	304.2	844.4	-0.28	1.51	4.20
China	17,249	-46.8	233.3	678.1	-0.27	1.35	3.93
Hong Kong	406	-0.8	42.7	84.9	-0.19	10.51	20.91
Indonesia	1,549	-3.5	12.8	38.0	-0.23	0.83	2.45
Philippines	322	-1.1	5.5	15.9	-0.35	1.72	4.95
Thailand	558	-3.7	9.9	27.4	-0.67	1.78	4.91
Two-track economies	8,660	245.9	210.7	483.4	2.84	2.43	5.58
Brunei	20	0.2	0.6	1.1	1.10	2.77	5.45
Japan	5,338	119.4	103.1	228.1	2.24	1.93	4.27
Korea	2,117	45.8	87.2	129.3	2.16	4.12	6.11
Malaysia	431	26.3	8.3	38.4	6.10	1.93	8.90
Singapore	415	8.1	-2.0	13.6	1.95	-0.49	3.28
Vietnam	340	46.1	13.5	72.9	13.57	3.97	21.46
Others	47,977	-24.0	-22.9	188.6	-0.05	-0.05	0.39
Russia	2,865	-2.0	-2.6	265.9	-0.07	-0.09	9.28
Taiwan	840	-2.9	-15.9	53.0	-0.35	-1.90	6.31
Europe	22,714	-3.4	4.7	-32.6	-0.02	0.02	-0.14
India	5,233	-3.8	-7.9	-29.5	-0.07	-0.15	-0.56
Other ASEAN	83	-0.4	1.0	3.1	-0.50	1.14	3.74
Rest of world	16,241	-11.4	-2.0	-71.4	-0.07	-0.01	-0.44
World	103,223	294.7	499.9	1,921.7	0.29	0.48	1.86
<i>Memorandum</i>							
TPP9	23,725	178.5	23.5	437.5	0.75	0.10	1.84
ASEAN+3	28,828	189.5	515.9	1,330.8	0.66	1.79	4.62
APEC	58,951	313.7	504.2	2,052.0	0.53	0.86	3.48

TPP = Trans-Pacific Partnership; APEC = Asia Pacific Economic Cooperation forum; ASEAN = Association of Southeast Asian Nations; FTAAP = Free Trade Area of the Asia Pacific

Note: The country groups correspond to membership assumptions used in different scenarios. "TPP-track economies" participate only in Trans-Pacific track agreements. "Asian track economies" participate only in Asian agreements. "Two-track economies" participate in both sets of agreements. The FTAAP includes all of the above economies plus Russia, Taiwan, and Other ASEAN.

Source: Authors' calculations.

**Table 2 Export increases under alternative scenarios**

Economy	Exports, 2025 (billions of 2007 dollars)	Export increase in 2025 (billions of 2007 dollars)			Percent change from baseline		
		TPP track	Asian track	FTAAP	TPP track	Asian track	FTAAP
TPP track economies	4,555	201.5	0.5	779.9	4.4	0.0	17.1
United States	2,813	124.2	2.1	575.9	4.4	0.1	20.5
Australia	332	14.9	0.2	52.8	4.5	0.1	15.9
Canada	597	15.7	-1.4	32.0	2.6	-0.2	5.4
Chile	151	3.8	-0.9	8.2	2.5	-0.6	5.5
Mexico	507	31.5	0.4	94.3	6.2	0.1	18.6
New Zealand	60	4.7	0.1	6.0	7.8	0.1	9.9
Peru	95	6.7	0.0	10.7	7.1	0.0	11.3
Asian track economies	5,971	-73.8	618.4	1,772.2	-1.2	10.4	29.7
China	4,597	-57.4	516.3	1,505.3	-1.2	11.2	32.7
Hong Kong	235	-1.8	35.3	71.8	-0.8	15.0	30.6
Indonesia	501	-5.6	32.6	97.4	-1.1	6.5	19.5
Philippines	163	-1.9	8.8	27.2	-1.2	5.4	16.7
Thailand	476	-7.2	25.3	70.5	-1.5	5.3	14.8
Two-track economies	2,817	406.4	416.7	852.1	14.4	14.8	30.3
Brunei	9	0.3	0.3	0.6	2.8	3.5	7.0
Japan	1,252	175.7	220.7	423.1	14.0	17.6	33.8
Korea	718	88.7	168.3	245.2	12.4	23.4	34.1
Malaysia	336	41.7	12.4	50.8	12.4	3.7	15.1
Singapore	263	11.0	-9.0	-5.3	4.2	-3.4	-2.0
Vietnam	239	89.1	24.0	137.7	37.3	10.1	57.6
Others	15,072	-90.4	-90.2	-53.5	-0.6	-0.6	-0.4
Russia	1,071	-4.4	-4.0	301.0	-0.4	-0.4	28.1
Taiwan	712	-7.4	-37.7	151.1	-1.0	-5.3	21.2
Europe	7,431	-38.3	-28.3	-268.2	-0.5	-0.4	-3.6
India	869	-6.7	-7.5	-44.7	-0.8	-0.9	-5.1
Other ASEAN	34	-1.1	1.4	7.0	-3.2	4.3	20.8
Rest of world	4,955	-32.4	-14.2	-199.7	-0.7	-0.3	-4.0
World	28,415	443.7	945.4	3,350.7	1.6	3.3	11.8
<i>Memorandum</i>							
TPP9	4,298	296	29	837	6.9	0.7	19.5
ASEAN+3	8,822	332	1,037	2,631	3.8	11.7	29.8
APEC	15,126	522	994	3,856	3.5	6.6	25.5

TPP = Trans-Pacific Partnership; APEC = Asia Pacific Economic Cooperation forum; ASEAN = Association of Southeast Asian Nations; FTAAP = Free Trade Area of the Asia Pacific

Source: Authors' calculations.



ences will not be fully utilized—but experiments with alternative choices suggest substantial variations. The results are relatively large, since they are based on a model that recognizes the heterogeneity of firms within each economy.<sup>13</sup> Simulations that limit the application of this new theoretical structure<sup>14</sup> produce income gains that are 41 percent lower. The difference between the benefits of region-wide free trade under the

**The United States is estimated to gain  
\$78 billion annually on the TPP track and  
\$267 billion with regionwide free trade.**

Asian and TPP templates is 44 percent; this seems to us to be a reasonable estimate, but its size illustrates the importance of assumptions about the content of agreements. Variations in other parameters, for example affecting FDI estimates, can easily change estimates by  $\pm 5$  percent.<sup>15</sup>

The results offer strong support for US interest in Asia-Pacific free trade. The United States is estimated to gain \$78 billion annually on the TPP track and \$267 billion with region-wide free trade. These benefits are driven in part by exports, which would increase by \$124 billion (4.4 percent over the baseline). Export gains would come mainly in advanced sectors including business and financial services and in agriculture and food. Manufacturing exports would increase, but overall the United States would become more import-dependent in manufacturing to offset its expanding service export surplus. We estimate that one-third of US gains would be driven by the investment provisions of the TPP; outward FDI stocks would increase by \$169 billion (1.9 percent over the baseline) and inward FDI stocks would increase by \$47 billion (1 percent over the baseline). Even with these large absolute changes, given the scale of the US economy the benefits would be more modest compared with GDP (0.4 percent on the TPP track

and 1.3 percent from region-wide free trade). Also, under the phasing and membership assumptions used in this study, the benefits would build up gradually; the percentage gains in 2015 and 2020 would be about one-tenth and one-half as large as those estimated for 2025, respectively.

Every other economy participating in one or both tracks can also expect substantial gains. Small economies and those with large initial barriers would gain the most. The greatest absolute gains on the TPP track are estimated for Japan (\$119 billion) and reflect in large part inward foreign investment afforded by the liberalization of Japan's service and other investment sectors. The greatest absolute gains on the Asian track would accrue to China (\$233 billion) because it is large relative to Asian partners and because its regional final goods exports initially face considerable protection. The largest percentage gains on the TPP track are estimated for Vietnam (14 percent), which would become a much-expanded manufacturing hub in textile, garment, and other industries, and on the Asian track for Hong Kong (11 percent), due to its role as a service and investment center.

Finally, the results indicate that these benefits are mainly the result of trade creation, not trade diversion from excluded countries. Some trade diversion is evident on both tracks (the largest losses are projected for China and the rest of the world on the TPP track and for Taiwan and India on the Asian track), but the great majority of gains is due to new trade and investment. In nearly all cases, the losses that result from diversion are also small relative to the affected economy's GDP.

What the model *does not* capture are the intangible effects of renewed momentum toward global economic integration. The consequences could include enhanced investor confidence and better macroeconomic performance around the world; increased competition and cooperation leading to faster productivity growth and more innovation; and even improved political relationships. It is impossible to put probabilities or values on these large effects, but they could easily overwhelm the direct effects reported above. The importance of secondary effects is arguably reflected in the acceleration of world growth and convergence toward market economics following major waves of liberalization in the past.

## DYNAMICS ON THE TRACKS

Once in motion, the tracks should develop momentum. Each will generate incentives for enlargement and stimulate progress on the other. The mutual development of the tracks, in turn, will create incentives for consolidation. The tracks appear to be incentive-consistent: Each forward step is rewarded by gains and justifies further steps.

13. The modeling framework is based on recent developments in heterogeneous-firms trade theory, in contrast to the country-differentiated-goods approaches of past studies. This theoretical structure helps to correct the systematic underestimation of benefits that emerges in retrospective studies of the actual and projected effects of substantial free trade agreements. For a full description of the model, see Fan Zhai, "Armington Meets Melitz: Introducing Firm Heterogeneity in a Global CGE Model of Trade," *Journal of Economic Integration* 23, no. 3, September 2008, 575–604.

14. The results reported here include the reduction of fixed cost barriers to trade, which stimulates considerable "extensive margin" trade by firms that do not initially trade. Smaller effects are derived when only variable-cost barriers are reduced, as in conventional models.

15. The many results generated by the model cannot be fully described here or even in our detailed technical paper. A website is planned for sharing additional information about assumptions and results.

In the early stages of the Trans-Pacific and Asian tracks, most gains would be generated by preferential access granted to smaller partners in the large markets of the United States and China, respectively. This would mean, for example, solid benefits for countries like Vietnam, Malaysia, and Peru in the case of the TPP. The gains would be more muted initially for the United States and China. However, as larger partners such as Japan and Korea join each track, the benefits expand also for China and the United States.

In the intermediate stages several countries are likely to join both tracks. Under our assumptions, these include Brunei, Japan, Korea, Malaysia, Singapore, and Vietnam, but Australia, Indonesia, New Zealand, the Philippines, and Thailand may eventually emulate them. The incentives to join the tracks will grow as they get larger, and competition between the tracks will encourage concessions to get others on board. Signing on early will be attractive, since it will give countries more influence on their terms of participation. By the end of this middle stage—in 2020 under our assumptions—most Asia-Pacific economies should have preferential access to most Asia-Pacific markets. Given such privileged positions, Japan and Korea, for example, would have gains equal to 91 and 90 percent, respectively, of the total potential gains from region-wide free trade.

The final stages of this “game” would leave the United States and China among the few countries *without* preferential access to both of their large markets. For them, the grand prize would be a consolidated agreement, offering nearly four times the benefits that they can obtain from the Asian and TPP tracks alone. At the same time, other economies will have little incentive to push for consolidation, so leadership at the final stage will have to come from China and the United States. Much will therefore depend on their cooperation, which could take many forms—a bilateral FTA, a region-wide FTAAP, or even wider initiatives that include Europe and a new global trade round.

The route to full regional integration is hard to divine, but it would be very profitable. An Asia-Pacific FTA<sup>16</sup> would yield annual benefits of \$1.3 trillion to \$2.4 trillion (1.5 to 2.7 percent of world GDP) depending on the template used to achieve it. As already noted, these gains are much larger than estimates for the Doha Development Agenda because the expected liberalization commitments are much greater. The high estimates are defined by the TPP template, requiring near-complete tariff reductions and strict disciplines on nontariff barriers. The low estimates assume an Asian template;

our intermediate estimate (\$1.9 trillion in table 1) is based on an average of the two. Each template favors (at least in terms of percentages) its members, but the size of the pie, not how the slices are cut, is what really matters. Even Asian economies would gain more from regional integration based on the TPP template.

Thus, region-wide free trade appears to be the logical endpoint of the two Asia-Pacific tracks. In a decade or so, the benefits of consolidation will have become clearer for business, especially in China and the United States. By 2020, it may be also easier to agree on a template. As Chinese per capita incomes rise, markets will increasingly manage its complex economy. Both China and the United States will have adjusted to the new realities of the world economy and gained experience (and hopefully trust) in dealing with each other. Much will still depend on geopolitics, but the economic case for region-wide integration will be clear and compelling.

## POLICY IMPLICATIONS

In sum, the TPP and Asian negotiating tracks promise substantial, widely distributed benefits. These benefits will depend on whether the tracks proceed to region-wide integration and on the template used—objectives that will be hard to achieve and suggest difficult tradeoffs. There are large risks that the tracks will fail or head off in irreconcilable directions. Leaders and negotiators will have to reach the right balance between scope and quality, and they will have to prevent acrimony in the early stages of the tracks that could block region-wide integration later. Negotiators may know when to compromise, but this fragile process will be also tested by special interests and blocs that clamor for attention with extreme positions.

Four salient implications emerge. First, much is at stake in reaching an effective, early agreement among TPP partners—whether 9, 12, or ideally more. In the foreseeable future, improvements in the global trading system will depend on the TPP and Asian tracks, and for now, with 12 intensive rounds of negotiation already completed, the TPP is setting the pace.

Second, the negotiations have to reflect two strategic objectives: high standards and full Asia-Pacific economic integration. The goal is an ambitious template that applies widely to the regional trading system. An operational target might be an agreement that “leads by a decade”—one with disciplines both strong and inclusive enough to be acceptable to any reform-minded economy in the region in 10 years. Given the multiplicity of special interests, achieving this result will depend on leadership from heads of government.

Third, a new, collegial dialogue that connects the Trans-Pacific and Asian tracks of negotiations would be of great value.

16. The study defines this as an agreement among the 21 APEC economies, which include all members of both tracks, plus Russia, Papua New Guinea, and Taiwan. For computational convenience we also included four small Southeast Asian economies that are not APEC members today: Cambodia, Laos, Myanmar, and Timor-Leste.



Such a relationship could encourage the substantive overlap of the tracks and reduce political frictions between them. It could affect whether the tracks learn from each other and adopt common “best practices.” Formats might include technical exchanges, discussions among senior officials, or an Eminent Persons Group. APEC’s and the WTO’s technical offices could also facilitate dialogue: They have expertise on technical issues and can offer nonbinding consultation and advice.

Fourth, since the tracks could lead to friction between the United States and China, at least for a while, attention also needs to focus on a third track—direct cooperation between the two countries on trade and investment. The Strategic and Economic Dialogue (S&ED) offers avenue for such initiatives, and the political climate appears to be improving for them. The process could begin with issues where compromises are now possible—an example is the relaunch of investment nego-

tiations in the May 2012 S&ED. Future work could focus on issues such as subsidies, government procurement, export controls, China’s market economy status, services liberalization, and intellectual property. Over time, these efforts could address all major building blocks of regional agreements and chip away at differences. They should make region-wide FTA negotiations increasingly feasible.

An integrated Asia-Pacific economy and good rules for trade and investment are important for the United States, the Asia-Pacific region, and the world. The Trans-Pacific and Asian tracks, and especially the TPP, represent pathways to integration. There is reason to hope that their coherent development will help to achieve this integration—to realize APEC’s Bogor Goals of free trade and investment in the Asia-Pacific—and perhaps export its template to the world.

*The views expressed in this publication are those of the authors. This publication is part of the overall programs of the Institute, as endorsed by its Board of Directors, but does not necessarily reflect the views of individual members of the Board or the Advisory Committee.*

## Meeting Document Summary Sheet Template

<b>Document Title:</b> ABAC 2013 Investment Workplan
<b>Purpose:</b> For consideration
<b>Issue:</b>  In 2012 ABAC took steps to implement the recommendations of its <i>Investing for Growth</i> publication. ABAC USA is proposing additional actions to build upon ABAC's prior work in 2013.
<b>Background:</b>  In 2011 ABAC worked with The US National Center for APEC and experts from the public and private sectors to develop a publication entitled <i>Investing for Growth, Spurring Infrastructure Development and Economic Growth Through Foreign Direct Investment</i> .  The publication explored the current state of the investment environment in the APEC region by examining how Foreign Direct Investment (FDI) has helped to drive economic growth in APEC economies and what steps can be taken to encourage additional FDI in the future. In 2012, ABAC took steps to implement its recommendations that are outlined in the attached document. In 2013, ABAC USA hopes to take additional steps to build upon prior efforts and further advocate for a business friendly investment environment in the APEC region.
<b>Proposal /Recommendations:</b> <ul style="list-style-type: none"><li>• Continue to advocate for the reinvigoration of the IFAP to identify critical FDI barriers and priority actions to attract greater FDI inflows</li><li>• Develop an additional report on APEC FDI to reflect current trends in the region, account for progress on the IFAP and other APEC projects on investment</li><li>• Finalize and publish an infrastructure framework</li><li>• Endorse and help facilitate the third annual Public Private Dialogue with the APEC Investment Experts' Group (IEG) on the margins of the next IEG meeting in Jakarta</li><li>• Identify projects and initiatives that will complement the APIP's efforts</li></ul>
<b>Decision Points:</b> <ul style="list-style-type: none"><li>• Endorse the recommendations outlined above.</li></ul>

## ABAC 2013 Investment Workplan

Objective	2012 Accomplishment	Next Step
Reinvigorate the IFAP to identify critical FDI barriers and priority actions to attract greater FDI inflows	Collaborated with the APEC Investment Experts' Group (IEG) to hold a public-private dialogue on the margins of the upcoming IEG meeting in Singapore focused on providing guidance to officials on how to prioritize issues encompassed in the IFAP	<ul style="list-style-type: none"> <li>• Emphasize IFAP implementation at the next public private dialogue with the IEG on the margins of SOM I in Jakarta</li> <li>• Include an analysis of current accomplishments and further recommendations in a new report on FDI trends</li> </ul>
Development of a PPP Action Plan to Promote Greater Infrastructure FDI	Initiated development of a framework on Infrastructure investment as part of the IDWG agenda to lay the ground work for future discussion	<ul style="list-style-type: none"> <li>• Finalize and publish infrastructure framework. Identify projects and initiatives to complement the APIP and highlight ongoing work in advocacy activities.</li> </ul>
Reaffirm the importance of moving quickly towards APEC-wide adoption of common high quality investment disciplines and ensure such disciplines are included in negotiations establishing pathways to free trade	These points were strongly emphasized both during this year's Public Private Dialogue with the IEG in Singapore and the ABAC Dialogue on Investment in Vietnam. However, additional work is needed.	<ul style="list-style-type: none"> <li>• Emphasize APEC wide investment disciplines at the next public private dialogue with the IEG on the margins of SOM I in Jakarta</li> <li>• Place greater focus on BITs and IIAs in ABAC's discussion in 2013 and in a new report on FDI trends</li> </ul>
Explore opportunities to incorporate investment principles into regional undertakings such as the TPP and ASEAN plus agreements	These points were strongly emphasized both during this year's Public Private Dialogue with the IEG in Singapore, NCAPEC's TPP dialogue with the Singapore Business Federation and the ABAC Dialogue on Investment on the margins of the Third ABAC Meeting in Vietnam	<ul style="list-style-type: none"> <li>• Clearly link APEC discussions on investment principles to bilateral and multilateral negotiations through stakeholder engagement</li> <li>• Collaborate with "ABAC for TPP" to generate recommendations for stakeholders</li> <li>• Further explore the subject in a new report on FDI trends</li> </ul>

## **ABAC 2013 Report on Foreign Direct Investment - Potential Topics**

In order to build on ABAC's prior efforts to advocate for a business friendly investment climate in the APEC region, ABAC USA proposes the development of a new report examining FDI trends in APEC. The report will have a similar function to ABAC's *Investing for Growth* report that was published in late 2011: educating stakeholders on FDI trends in the Asia Pacific, highlighting prior successes and on-going initiatives in APEC and providing business recommendations to encourage further progress.

ABAC USA proposes that the report cover additional aspects of the investment conversation that were not included in the original *Investing for Growth* document. The suggestions below are based on input from stakeholders and from discussions during the two public-private dialogues on investment policy that ABAC helped organize in 2012.

### **Possible Subjects for 2013 report on Foreign Direct Investment**

- Impact of regulations on ability for FDI to leverage hard infrastructure
- International Investment Agreements (IIAs) and Bilateral Investment Treaties (BITs)
- Market driven measures to ensure the benefits of FDI are widespread within economies
- Recommendations for investment chapters in FTAs
- Investment challenges/best practices specific to industry sectors

## REI Meeting Document Summary Sheet

<b>Document Title:</b> Proposal: APEC Data Standards Project.
<b>Purpose:</b> For decision.
<b>Issue:</b> <p>APEC economies have a stated goal of reducing supply chain costs across the region by 10% by 2015. Studies under the auspices of APEC and ABAC have highlighted the role that global data standards and interoperability of information systems could play in eliminating supply chain “choke points” that inhibit the flow of information and goods across borders. ABAC's 2012 Letter to Leaders recommends a <i>“holistic and coordinated approach ... [by deploying] greater use of global data standards and supply chain infrastructure technologies ... to facilitate the sharing of supply chain information and best practices across the region.</i></p>
<b>Background:</b> <p>Following discussion at ABAC III about the benefits of global data standards, it was agreed that the Chairman would work with GS1 to develop a proposal about how global data standards could be applied in the Asia Pacific regional context to facilitate supply chains. Accordingly, the Chair wrote to GS1 (see attached letter of 16 August) requesting GS1 to set out how it could help build a “region-wide development framework for the comprehensive introduction and implementation of global data standards as a major facilitator of regional trade”. Their proposal is attached.</p>
<b>Proposal /Recommendations:</b> <p>That ABAC recommend the following to APEC:</p> <ol style="list-style-type: none"> <li>1. APEC should establish an Implementation Joint Task Force on global data standards led by the public sector (APEC) and private sector (ABAC and GS1) under the APEC Supply Chain Connectivity Action Plan. <ol style="list-style-type: none"> <li>a. The Task Force would be responsible in drawing up an implementation plan, success metrics, timelines, the business case and undertaking ‘Living Labs’ to ensure that the system can be tested, demonstrated to APEC economies before implementation.</li> <li>b. The Task Force would be made up of officials from Ministries of Transport, Customs/Border Protection agencies, APEC officials from the CTI, GS1 staff and private sector representatives via ABAC’s REIWG group (such as shippers/freight forwarders/shipping agents and exporters/importers).</li> </ol> </li> <li>2. The proposed Task Force should report to a Steering Committee comprising APEC CTI and ABAC REIWG members under the APEC Committee on Trade and Investment.</li> <li>3. Should there be a need to fund some of the activities of the Task Force such as establishing pilot projects and coordination activities, APEC should make such funding available.</li> <li>4. The Task Force should request governments in APEC economies to work closely with GS1</li> </ol>

Member Organizations to undertake complementary activities that will realize an APEC supply chain connectivity framework by the deployment of global data standards and interoperable information systems.

**Decision Points:**

- Decide on the above recommendations.

16 August 2012

John Keogh  
GS1 Global Office

Peter Stevens  
GS1 New Zealand Office

**Re: GS1 Support for a possible APEC-wide Global Data Standards project sponsored by ABAC**

Gentlemen,

First, let me thank GS1 for the very strong support shown to both ABAC's Regional Economic Working Group Supply Chain Connectivity agenda in 2012 and the new Policy Partnership on Food Security (PPFS) forum launched in May of this year.

Let me also thank you both personally and sincerely for the support, enthusiasm and professionalism you have shown in presenting the opportunity to our many colleagues. This has gone a long way towards introducing the supply chain and value chain benefits that could arise from the implementation of Global Data Standards (GDS) and interoperability on a region wide basis.

The enthusiasm building amongst our ABAC members has convinced me that the timing is right to introduce a proposal for a 2013 project that would contribute towards the development of a framework for the broad introduction and implementation of GDS across APEC economies, as an important facilitator of a comprehensive 'Single Window' approach to enhanced supply chain connectivity and greater trade liberalisation. Success could ultimately be measured by how effectively GDS contributes to attaining the Bogor Goals and our vision of a Free Trade Area for Asia Pacific (FTAAP).

As you understand, ABAC's mandate is to present a business perspective on trade development issues to regional leaders and officials. In this context it will be necessary for ABAC to get 'buy-in' from APEC officials in order to have the concept of a region-wide development framework accepted. We know that appropriate officials are already well disposed to the use of GDS in certain specific cases, and are well disposed to work that GS1 has already been doing with APEC. To have a significant and comprehensive ABAC / APEC project accepted will however require presentation of a convincing 'business case' and project plan.

Your paper provided on Friday August 10th, 'From port to port: moving products down supply chains and across borders with greater visibility, efficiency and transparency' (attached), lays out the essential scope of what such a project would address. Could we now please ask that you provide a formal proposal for how GS1 could best work with ABAC / APEC (including actions, timelines and cost indications), to build a region-wide development framework for the comprehensive introduction and implementation of GDS as a prime facilitator of regional trade?

Ideally, should this offer for GS1 to collaborate with ABAC (under the leadership of ABAC New Zealand) be of interest, your proposal would be presented for review at the forthcoming ABAC IV meeting in Vladivostok, taking place from Monday September 3rd to Wednesday September 5th. The Regional Economic Integration Working Group meeting will take place from 7.30am-10am on Tuesday 4th September.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Tony Nowell', with a stylized, cursive script.

Tony Nowell CNZM  
Chair  
ABAC Regional Economic Integration Working Group

Cc Fiona Cooper-Clark  
ABAC New Zealand Secretariat





## Proposal: APEC Global Data Standards Project

***From port to port: moving products down supply chains and across borders with greater visibility, efficiency and transparency***

### Executive Summary

APEC economies have a stated goal of reducing supply chain costs across the region by 10% by 2015.

Studies under the auspices of APEC and ABAC have highlighted the role that global data standards and interoperability of information systems could play in eliminating supply chain “choke points” that inhibit the flow of information and goods across borders<sup>1</sup>.

ABAC's 2012 Letter to Leaders specifically recommends a *“holistic and coordinated approach ... [by deploying] greater use of global data standards and supply chain infrastructure technologies ... to facilitate the sharing of supply chain information and best practices across the region.”*

GS1 has been asked by ABAC to propose how it might assist in a significant & comprehensive APEC/ABAC project to build a “region-wide development framework for the comprehensive introduction and implementation of global data standards as a major facilitator of regional trade”<sup>2</sup>.

As the global not-for-profit standards organization behind the world's most widely used supply chain standards system (and with its strong focus on implementation), GS1 is well placed to assist APEC/ABAC in the endeavor.

GS1's proposal recommends that APEC should establish an Implementation Joint Task Force led by the public sector (APEC) and private sector (ABAC and GS1) under the APEC Supply Chain Connectivity Project. The Task Force should report to a Steering Committee from APEC CTI and ABAC REIWG members under the APEC Committee on Trade and Investment. The Task Force will be responsible in drawing up an implementation plan, success metrics, timelines, the business case and undertaking ‘Living Labs’ to ensure that the system can be tested, demonstrated to APEC economies before implementation. Further, it is our recommendation that the Task Force comprise officials from the Ministry of Transport, Customs/Border Protection agencies, APEC officials from the CTI, GS1 staff and private sector representatives via ABAC's REIWG group (such as shippers/freight forwarders/shipping agents and exporters/importers).

Should there be a need to fund some of the activities of the Task Force such as establishing pilot projects and coordination activities, APEC should make such funding available.

Lastly, the Task Force should also request governments in APEC economies to work closely with GS1 Member Organizations to undertake complementary activities that will realize an APEC supply chain connectivity framework by the deployment of global data standards and interoperable information systems.

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<sup>1</sup> APEC Supply Chains: Identifying Opportunities for Improvement. UC Marshall School of Business study, 2011.

<sup>2</sup> ABAC REIWG Letter to GS1, 16 August 2012.

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## Background

There is a clear and articulated desire for APEC member economies and businesses represented by the APEC Business Advisory Council (ABAC) to enhance supply chain visibility in order to improve business operations and the efficiency and effectiveness of inbound and outbound shipments. Delivering supply chain visibility can assist with efficiency gains. According to the International Finance Corporation (IFC), a one-day delay in exports can lead to a one percent loss in export value<sup>3</sup>.

### *Import*

Today, the inspection process at international borders is a time-consuming, costly, and often-manual process. With limited global data standards in place, governments are hard pressed to quickly and easily understand safety risks that may be associated with product shipments, and industry players are challenged to import and export goods securely and cost effectively.

The risks associated with limited visibility, and sometimes-inaccurate product data, are significant. Having shipments mistakenly detained at port can potentially result in traders' products not being delivered to their intended destination on time. More alarming is the significant increase in shipments of illegally diverted and counterfeit products that get cleared, releasing high-risk or illegal product into the market. These poses a huge risk to national security, the public at large as well as corporate brand reputations. There is always the potential for highly publicized product recalls, or worse, human illness, injury, or death.

### *Export*

Exporters also face risks from poor supply chain visibility and lack of data standards that prevent the free exchange of information required by traders and officials alike.

Especially for exporters of food and food products, exporting is a complex business and export requirements can vary greatly by country and region. Typically government food safety and inspection services issue an export certificate for each exported shipment. APEC economies have different, and sometimes unique, requirements that must be certified for each food product under government-to-government assurance schemes. Export agencies (and thus the exporters), need to ensure that government-issued certificates document the necessary compliance on a country-by-country and product-by-product basis. Oftentimes today, the process of creating and issuing certificates is manual.

Other demands on business and government are focusing attention on data standards and interoperability:

- Food safety incidents have driven requirements for traceability and incident management systems;
- Counterfeit, falsified and product sourced from unauthorized sources provide risk to consumers, regulators and brand owners;
- Sustainability/environmental programs, food security and energy cost concerns are focused on reducing wastage, more closely matching supply to demand, and building efficient transportation options such as collaborative physical logistics (shared transport, shared warehouse, shared infrastructure) and reverse logistics (product recycling, packaging recycling, returnable assets).

*e-Commerce information can improve product visibility across borders, improve consumer security, and deliver significant cost savings to industry, government, national regulators, and customers alike<sup>4</sup>.*

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<sup>3</sup> APEC Supply Chains: Identifying Opportunities for Improvement. UC Marshall School of Business study, 2011.

<sup>4</sup> The Business Case for Using e-Commerce Data to Manage Product Admissions at International Borders," ITDS Product Information Committee, December 2011.

## Trade Management at the Border

Most economies are seeking to establish a trade environment where goods will be released across the border unless there is a reason to stop them.

To create such a 'light touch' environment, border management agencies must be able to establish whether goods represent a risk to the security, phytosanitary or economic base of their economy. Inevitably 'light touch' expectations by traders must be coupled to 'high assurance' expectations by border authorities.

In alignment with generally accepted principles of trade management at the border, managing risk relies upon:

- Rules that are accessible and easy to understand;
- Managing risk as early as possible in the supply chain;
- Decision making driven by complete, accurate and timely information.

Decisions on whether to interact with shipments should be based on an assessment of information about:

- The parties involved in the sale, purchase and transportation of the goods;
- On the origin and description of the goods; and
- On packaging and freight movement details.

Obtaining rich, accurate and timely information from traders, especially where there is *certainty of context*, will allow scarce resources to be directed to the areas of greatest importance or risk and deliver *certainty of process and outcome* for exporters, importers and border management agencies.

A key construct for rich information in a known context is the *Single Trade Window* and the SAFE Framework of Standards. When Single Trade Windows are established, traders and carriers, regardless of what product type they are moving, present advance electronic documents once for decisions on admissibility for both customs/excise and phytosanitary purposes.

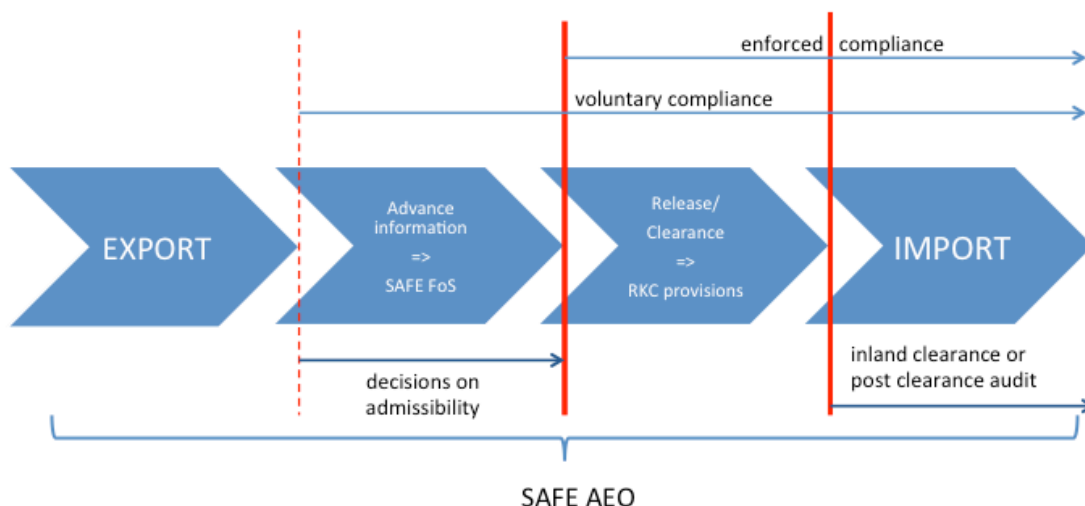


Figure 1 - Supply Chain Visibility enables the border to be 'pushed out with decisions on admissibility made as early as possible in the supply chain.'<sup>5</sup>

<sup>5</sup> Source: Supply Chain Visibility – WCO Perspective. M. Polner. Presented to APEC, Kazan Russia 21 May 2012

## Eliminating Supply Chain Choke Points

APEC economies, in alignment with the Bogor Goals, have a stated goal of reducing supply chain costs across the region by 10% by 2015<sup>6</sup> as part of a vision of a Free Trade Area for Asia Pacific (FTAAP).

Studies under the auspices of ABAC have highlighted the role that global standards and interoperability of information systems play in eliminating supply chain “choke points” that inhibit the flow of information and goods across borders<sup>7</sup>. The Center for International Economics has estimated gains from a 0.55% improvement in port efficiency, or a 5.46% improvement in customs efficiency would increase intra-APEC trade by \$27B<sup>8</sup>.

Recommendations have focused on standardization of data / processes and implementation of compatible information communication systems for goods clearance between traders and competent authorities.

## Pilots/Business Cases/Implementations

Pilots or implementations run in APEC economies have quantified the scale of savings possible by the adoption of global data standards<sup>9</sup>:

- An integrated identification and security infrastructure involving EPC/Rfid and EPCIS standards for eSeals reduced escort fees by USD11.3m and 9,235 hours of clearance time monitoring transshipment containers at one Chinese Taipei port & customs office.<sup>10</sup>
- Japan’s Ministry of Economy, Trade and Industry (METI) has conducted a study to examine the efficiencies generated from a platform for cargo information sharing among companies through the use of Electronic Product Code Information Systems (EPCIS)<sup>11</sup> standards. Leading companies are already planning improvements to the platform<sup>12</sup>.
- In Malaysia a Secured Trade Facilitation system is being deployed in more than 200 Customs checkpoints and 600 warehouses throughout Malaysia. Featuring Rfid seals that are attached to cargo containers, including electronic information about the containers’ contents, the same electronic information is in the Customs information system. Information exchange via EPCIS standards is expected to significantly reduce Customs processing time by as much as 50 percent as well as improve security.
- In the US a business case led by the International Trade Data System found<sup>13</sup>:
  - Use of GS1 Global Trade Item Numbers (GTINs) to accurately identify a product, combined with Global Product Classification (GPC) codes to accurately describe a product, can reduce product examinations by 80% in the first year alone—a game changing advantage. The US Trade Data Systems business case reported a Return on Investment (ROI) of \$8 to \$1. (Toy and game pilot)

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<sup>6</sup> <http://www.apec.org/Groups/Committee-on-Trade-and-Investment>

<sup>7</sup> APEC Supply Chains: Identifying Opportunities for Improvement. UC Marshall School of Business study, 2011.

<sup>8</sup> APEC Supply Chains: Identifying Opportunities for Improvement. UC Marshall School of Business study, 2011.

<sup>9</sup> Source: “The Business Case for Using e-Commerce Data to Manage Product Admissions at International Borders,” ITDS Product Information Committee, December 2011

<sup>10</sup> Kaohsiung Port & Customs Office, Chinese Taipei (55,410 containers from Feb 2009 to April 2011)

<sup>11</sup> <http://www.gs1.org/gsm/kc/epcglobal/epcis>

<sup>12</sup> APEC Implementation for Cargo Status Information Network for enhancing Supply Chain Visibility, July 2012

<sup>13</sup> The Business Case for Using e-Commerce Data to Manage Product Admissions at International Borders,” ITDS Product Information Committee, December 2011.

- The use of GS1 Global Product Classification (GPC) codes can reduce the average time required to inspect flower shipments by 50%, reducing a two-hour inspection down to one hour. The business case reported an ROI of \$7 to \$1. (Cut flower pilot)
- Connections to global, standard product catalogs can be created and cost effectively used to manage imports of complex products. Exporters could save USD1.6 million over the first five years after implementation. The business case reported an ROI of \$5 to \$1. (Meat and poultry pilot)
- Hong Kong has established an industry-driven EPCIS-based supply chain visibility infrastructure:
  - Global data standards and temperature sensor technology are used to track wine bottles on item, case and pallet levels from vineyards to retail stores, enabling 100% inventory visibility and improving supply chain data accuracy from 80% to 100%, whilst at the same time providing round the clock monitoring of wine temperature to ensure quality of wine to consumers.
  - Hong Kong also makes use of EPCIS and eSeals to facilitate cross-border customs risk assessment. An Intra-Asia eLogistics supply chain visibility pilot is underway with APEC members who have similar EPCIS and eSeal Infrastructure

### **Single Trade Window, the World Customs Organization and GS1**

The World Customs Organization (WCO) Data Model Version 3 is a standardized data requirement library for the Business to Government (B2G) and the Government to Government (G2G) exchange of information. The use of WCO Data Model v3 in operating a Single Trade Window environment, will allow all related parties to that Single Window environment to 'speak' the same language and in the same way<sup>1</sup>.

In 2007 the WCO signed a Memorandum of Understanding with GS1 recognizing GS1's identification numbers can provide the WCO with global standards for the management of goods and assets, and the reconciliation of data. Since 2007 GS1 has assisted the WCO in the development of supply chain standards that meet the requirements of the customs community while the WCO has participated in the standards development work for the customs sector that is currently being done by GS1.

A key focus of the cooperative work program has been to understand how GS1's identification numbers used by traders for products (Global Trade Item Numbers, GTINs), logistical units (Serial Shipping Container Codes, SSCCs), consignments (Global Identification Number for Consignments, GINCs) and shipments (Global Shipment Identification Numbers, GSINs) can be used in electronic messaging to support risk assessment processes.

All APEC economies are committed to implementation of the World Customs Organization (WCO) vision for a Single Trade Window, providing a platform for interoperability across the APEC region.

## Implementing Supply Chain Connectivity - The opportunity to coordinate efforts across APEC/ABAC

Industry can be a leader, and a catalyst, in transforming global commerce. The infrastructure to move more products freely across international borders, with greater visibility, efficiency and transparency, is maturing, providing a valuable opportunity for industry to adopt standards. The unique APEC/ABAC relationship provides an unrivalled opportunity for business to work with government to deliver mutual beneficial process change.

According to a World Bank Report, improving trade-related transparency across APEC countries could increase intra-APEC trade by approximately \$148B or 7.5% of the baseline trade in the region.

ABAC members highlighted in Kazan (PPFS) the need to apply business disciplines to project planning and the urgent need for a “stock-take” to create an inventory of the many food security-related projects existing across APEC economies. Similar urgency exists for supply chain connectivity-related initiatives.

ABAC has agreed that a project that focuses on *implementing* global data standards and interoperability should be undertaken as a centrally-funded APEC initiative.

### Charting a Way Forward

As outlined above, there have been a number of single-economy and point-to-point pilots conducted by APEC economies. However an opportunity exists for an integrated, APEC-wide project to qualify & quantify the role global data standards and interoperability could play in facilitating trade between member economies with the goal of providing a structure to support an efficient, APEC-wide free trade zone when realized.

Japan’s Ministry of Economy, Trade & Industry (METI) in their report to APEC specifically have recommended<sup>14</sup>:

- Collaboration with GS1 on establishment and popularization of a visibility platform developed at the economy and regional levels (particularly arrangement of data and codes stored in EPCIS, represented by EPC);
- Collaboration with UN/CEFACT (regarding XML-based information exchange);
- Harmonization with the World Customs Organization (WCO) to assist connectivity with customs systems.

Similar to initiatives in Europe<sup>15</sup> a new data-sharing concept, which combines existing information sources in supply chains should enable and facilitate improved visibility and assessment of risks by both business and government. Both the new risk assessment approach being implemented in modern border management systems<sup>16</sup> and the ‘pipeline’ information flow concept could be demonstrated during the runtime of the project.

However, moving to implementation is critical. For example, in the fall of 2012, US Customs will complete the addition of a new data record set, allowing importers to electronically pass product e-commerce data for each entry line to government agencies, providing a clear place for the use of GS1 Global Product Classification (GPC) codes and globally unique product identification (GS1

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<sup>14</sup> APEC Implementation for Cargo Status Information Network for enhancing Supply Chain Visibility, July 2012

<sup>15</sup> Cassandra Project. See <http://www.cassandra-project.eu>.

<sup>16</sup> For example, the Joint Border Management System of NZ, which implements a Single Trade Window for customs and phytosanitary clearance.

GTINs). Other governments are adding this same capability to their infrastructures. Such implementations need to be APEC-wide and coordinated.

Putting theory into practice is critical for business and government to benefit. As is the creation of consensus on the workability of recommended solutions based on proven business cases.

## Proposal

GS1 is delighted to be asked to support APEC/ABAC to build a region-wide development framework for the comprehensive introduction, demonstration and implementation of global data standards to facilitate regional trade.

GS1 is uniquely placed to assist APEC/ABAC

As the global not-for-profit standards organization behind the world's most widely used supply chain standards system and (with its strong focus on implementation), GS1 is well placed to assist APEC/ABAC in its endeavor. Local GS1 Member Organisations (MOs) are located in almost all APEC economies (Papua New Guinea excepted) and have a focus to assist their *local* economy implement *global* standards. Local MOs are user-governed and have the support of local business and government. The globally-federated structure of GS1 also enables the delivery of best practice approaches from other parts of the world to the APEC region where relevant. GS1 globally has a long-standing Memorandum of Understanding with the World Customs Organisation and collaboration on key projects such as the development and deployment of the Unique Consignment Reference and WCO Data Model. Similarly, local GS1 affiliates have already been heavily involved in supporting business and government in trade facilitation projects.

We welcome the opportunity to act as the trusted partner and advisor to APEC/ABAC.

## Project Structure

We propose that a public (APEC) and private (ABAC) establish an **Implementation Joint Task Force led by APEC, ABAC REIWG and GS1** under the **APEC Supply Chain Connectivity Project** reporting to a Steering Committee under the **APEC Committee on Trade and Investment**.

The Task Force will be responsible in drawing up:

- An implementation plan;
- Success metrics ("How will we know what success looks like?");
- Timelines;
- The business case and;
- Undertaking 'Living Labs' to ensure that the system works.

Key milestones should include:

- Inception and agreeing user requirements;
- Defining the conceptual structure of a business-to-government interaction protocol on risk assessment and inspection regimes;
- Supply chain connectivity: system integration and interface development including interfaces and connectivity, data security mechanisms and (technical) preparation of 'Living Labs';
- 'Living Labs' demonstration capability; multi-economy data exchange, building on work already done by economies such as Hong Kong, Taiwan, Malaysia and the US
- Evaluation and deployment



- Policy and consensus building
- Dissemination and communication
- Program management across the entire programme
- Project management of specific initiatives

It is our recommendation that the Task Force must comprise of:

- Government officials from the Ministry of Transport, Customs/border management authorities;
- APEC officials from the Committee on Trade and Investment;
- Private sector representatives:
  - ABAC representatives from the Regional Economic Integration Working group;
  - GS1 staff; and
  - Selected shippers, freight forwarders/shipping agents and exporters/importers.

## Staging the Project: Matching Capability and Capacity to Benefit Realization

The pilot and business case activities done to date in, and between, APEC economies have ranged from relatively 'low tech' to very sophisticated. A guiding principle of the 'staging' recommended below is to progressively gain more visibility of the trader and the traded goods to assist risk profiling and border admission decisions. The goal is to facilitate trade to be streamlined into categories of risk based on a trader's proven commitment to compliance and sharing of key information. Traders that consistently meet high compliance standards should encounter the least level of disruption to their supply chains.

Our proposal recommends a staged approach to the Project:

### 1. Deploy a 'Global Language' for Product Categories / Classification

A global language for grouping and characterizing products can be achieved through global standards such as the GS1 Global Product Classification (GPC) and United Nations Standard Products and Services Codes (UNSPSC). Importers and Governments can classify products using these standards to improve product visibility to governments and speed up the supply chain.

Benefits Expected:

- Implementation of GPC codes as a complement to the existing Harmonized Commodity Description and Coding System (HS) of tariff nomenclature will provide competent authorities with a granularity of classification not possible presently, supporting advance Customs control procedures / risk assessment when submitted by the trader/carrier as part of electronic messages.
  - *For example, GPC codes could support the identification of toys intended for children under 3 years of age (often subject to mandatory product safety standards) from those toys suitable for older children or adults<sup>17</sup>.*
- GPC codes are widely used by traders now, and are a mandatory element in industry-standard product catalogues.
  - *GPC codes are open and royalty-free, so can be implemented by governments and traders alike without barrier*

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<sup>17</sup> <http://www.gs1.org/gsmc/kc/gpc/latest>



## **2. Deploy Identification Numbers and Reuse Admission Information**

GS1 Global Identification Numbers for Trade Items (GTINs), logistical units and consignments can be used whenever possible in documentation to identify incoming products by brand owner and model.

Benefits expected:

- Data shared on products in electronic consignment/shipping documentation will allow targeting systems to reuse the previous admissions history for that model, something not possible with only the HS code, and enables governments and customs agents to more accurately distinguish low-risk from high-risk products.

## **3. Deploy Automatic Data Capture**

The deployment of industry-standard automatic data capture by means of barcode and/or Radio Frequency Identification (RFID) data carriers, where appropriate.

Benefits expected:

- Will facilitate rapid and reliable identification of trade as it moves physically through the supply chain
- Will facilitate matching of physical items to the electronic bill of lading supplied in advance by the trader (the information supply chain; see Sharing, Point 4 below).

## **4. Deploy Standardized Sharing of Information**

The deployment of WCO Data Model v3-based electronic messaging in the SAFE Framework, augmented with industry-standard GS1 identification numbers will provide competent authorities and traders alike with enhanced supply chain visibility. The framework based on EPCIS standards and eSeals (as recommended by Japan's METI and being deployed in Hong Kong, Malaysia, Taiwan and China) has also considerable potential for enhancing cross-border supply chain visibility and should be evaluated for broad deployment.

Benefits expected:

- Trader's perspective: demand and inventory visibility; optimization in distribution & replenishment of stocks
- Logistics sector perspective: essential for logistics planning (cargo handling & transportation) to avoid delays or choke points
- Customs perspective:
  - More opportunities to control
  - Better access to cargo
  - Improved predictability and certainty<sup>18</sup>

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<sup>18</sup> Source: Supply Chain Visibility – WCO Perspective. M. Polner. Presented to APEC, Kazan Russia 21 May 2012.

## 5. Leverage Industry-Standard Product Catalogs

Governments can download global product data from existing e-commerce catalogs that comply with Global Data Synchronization Network (GDSN®) standards.

Benefits expected:

- the unique product identifiers (GTINs) of incoming products can be used to tap into rich, authoritative product information published by the brand owner to make informed customs decisions about potentially high-risk products with complex characteristics.
- GS1 standards are already used by hundreds of thousands of businesses around the world, and are supported by legacy ERP, inventory management, point-of-sale, and other enterprise systems. This will pave the way to a faster, more cost-effective deployment with a quicker ROI and decreased cost and risk.

## Funding

There will be a need to fund some of the activities of the Task Force such as establishing pilot projects and APEC-wide coordination activities. APEC should make such funding available.

The Task Force should also request governments in APEC economies to work closely with GS1 Member Organizations in each economy to undertake complementary activities that will realize an APEC supply chain connectivity framework by the deployment of global data standards and interoperable information systems.

<b>Document Title:</b> Update on the APEC Skills Mapping project
<b>Purpose:</b> For information
<b>Issue:</b> To update ABAC on progress with the APEC Skills Mapping project
<p><b>Background:</b></p> <p>The Australian Government Department of Education, Employment and Workplace Relations is coordinating the APEC Human Resources Development Working Group Skills Mapping project. This project will develop a regional perspective on critical skill shortages, drawing together data that is available on employment projections, skills supply and shortages in each APEC member economy and for the region as a whole. The Project Office provided members of the ABAC Regional Economic Integration Working Group with an overview of the project at its meeting in May.</p> <p>The project remains on track to report in late 2013 as planned. The main developments concerning the project since May are:</p> <ul style="list-style-type: none"> <li>• government agencies for eight APEC member economies (Australia, Canada, Chile, Indonesia, Korea, Mexico, New Zealand and the Philippines) have confirmed that they will participate</li> <li>• five members of ABAC have agreed to participate in a Business Advisory Group to provide advice and feedback to the Project Office</li> <li>• an informal Expert Advisory Group has also been established, including experts from the Asian Development Bank, International Labour Organization and OECD</li> <li>• the Project Office is developing documentation which will specify the topics which economies should cover in their individual reports and contributions to the information tool. This documentation draws on the results of a review of the existing literature on these topics.</li> <li>• the Project Office is also preparing documentation to engage one or more contractors to assist with specialised aspects of the project.</li> </ul> <p>Upcoming milestones will include each of the participating economies preparing a report on their current skills shortages and expected trends in employment (late 2012-early 2013); development of an online public information tool to host relevant data (to begin in late 2012) and a seminar on the initial findings of the project during the 2013 APEC Human Resources Development Working Group annual meeting (expected in the second quarter of 2013). It is anticipated that an online seminar to discuss the project's final results will also be conducted during the third quarter of 2013 and the final report and public information tool will be completed by November 2013.</p> <p>Further information on the current status of the project is provided at <a href="#">Attachment A</a>.</p>
<b>Proposal /Recommendations:</b> It is recommended that ABAC note the progress with the project
<b>Decision Points:</b> N/A
<b>Attachments:</b> Attachment A: APEC Skills Mapping Project Status, as at August 2012

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**Attachment A****APEC Skills Mapping project status, as at August 2012****Background**

The Skills Mapping project was approved by APEC in April 2012 and is scheduled to be completed in late 2013. The project has been developed as part of the response to the concerns raised by ABAC in recent years on the need for better information on skills and labour shortages across the APEC region. The key objectives of the project are:

- To develop a more coherent picture of employment projections, skill shortages and the supply of skills in the APEC region; and
- To provide better information for decision-making by businesses, governments, education and training providers, and others, on the availability and shortage of skills at a regional level.

The project's outputs will include:

- Reports on employment projections, labour supply and skill shortages in individual APEC member economies (prepared by government agencies of each participating economy)
- A final report which summarises the available information on employment projections, labour supply and skill shortages across the APEC region as best we can; and
- An online public information tool which draws together information on skills shortages across APEC member economies.

Data collection from the participating economies will take place during the fourth quarter of 2012 and early 2013; with interim results to be presented as part of a seminar at the 2013 APEC HRD Working Group meeting. An online seminar to discuss the final results of the project will be held in the third quarter of 2013. We intend to invite business participants to these events.. The project's final report and the public information tool will be completed by November 2013. A more detailed outline of the project's timeframe is provided as an annex to this attachment.

**Participating economies**

In response to a request circulated in late May, government officials from Australia, Canada, Chile, Indonesia, Korea, Mexico, New Zealand and the Philippines have confirmed that they will participate in the project.

While these economies will enable the project to provide a good overview of employment conditions and data availability across the APEC region, the Project Office will continue to encourage other economies to participate. One means by which this will be done is through circulating documents on the information to be collected as part of the project to HRD contacts in all economies. The Project Office anticipates that more economies may participate once tasks are formally commissioned and the information sought is known. Continued advocacy of the project by ABAC members will help to maximise participation by APEC member economies.

### **Advisory groups**

Following on from the discussion at the Council's meeting in May, ABAC members from Chinese Taipei, Hong Kong, New Zealand, Papua New Guinea and the Philippines have agreed to participate in the project's informal Business Advisory Group. This group will provide advice to the Project Office in relation to the project's outputs. Over coming months, this group will be invited to provide advice on the topics which economies should be asked to cover in their individual reports the scope of the public information tool; and planning for the seminar to be held during the 2013 HRD Working Group meeting.

The Project Office has also established an informal Expert Advisory Group, which will provide advice on technical issues (including acting as a sounding board for proposed approaches) and regional labour market evidence.. Experts on employment and skills issues from the Asian Development Bank, International Labour Organization and OECD (including from its Employment and Skills Strategies in Southeast Asia program) have agreed to participate.

### **Reviews of existing literature and data collections**

In order to guide the project and avoid duplicating previous work, the Project Office has completed a review of the recent literature on cross-economy skills needs and projected trends in employment in APEC member economies. Relatively few publications are available on these topics, and they mainly comprise reports from multilateral organisations such as the Asian Development Bank and OECD, surveys by recruitment companies that operate across different economies as well as articles on specific topics by academic specialists. While the literature provides useful pointers on areas to include in the data collection stages of the project, the coverage of current skills shortages and expected employment trends (especially for individual industries or occupations) is limited.

The findings of the literature review indicate that skills shortages are most prevalent for skilled trades workers and several categories of 'white collar' workers (such as engineers, accountants and sales representatives), particularly in rapidly growing economies. In several economies the demand for some categories of skilled workers has outstripped the capacity of the local education system to supply people with relevant skills. However, there are also surpluses of workers, particularly with lower levels of skills, in a number of economies. The limited amount of information on future cross-

economy trends in employment indicates that skill shortages are likely to continue, and may become more prevalent in several APEC member economies due to the combination of demographic factors and strong economic growth.

The Project Office has also investigated the availability of information relevant to the project through existing multilateral databases and economy-level collections. While several multilateral databases provide data which will be of use (with the ILO's LABORSTA database having the best coverage), the information available from these sources is at an aggregated level and does not cover all topics which the project will investigate. As a result, there will be a need for participating economies to provide further data, and publishing this information as part of the project's public information tool will provide a useful new resource.

### **Upcoming data collections**

The Project Office is currently finalising documentation to advertise for one or more contractors to provide specialist services (particularly in relation to providing expert input on the analysis of cross-economy employment data and the design of the public information tool). The draft of this documentation will be circulated to the advisory groups, APEC Secretariat and participating economies for optional comment over coming weeks.

A guide to the information to be provided by the participating economies is also being developed. This guide will specify the topics which should be covered in the economy-level reports, and any supporting datasets. Based on the Project Office's review of the published economy-level data collections, all participating economies should be able to provide quantitative information on their current labour market conditions and relevant demographic trends. However, it is likely that there will be variations in the level of detail available, as well as classifications used for some topics. The draft of the guide will also be circulated for comment.

### Annex: APEC Skills Mapping project timeframe

Key task/deliverable	Timing
Project approved	April 2012
APEC members economies invited to participate	May–June 2012
Business and Expert Advisory Groups established	May–June 2012
Existing literature and multilateral databases reviewed	July–August 2012
Circulate guide to the information to be collected through the project	September 2012
Advertise for and engage contractor(s)	September–October 2012
Development of the public information tool commences	October 2012
Economies to provide reports on skills shortages and employment projections	November 2012–January 2013
Interim report and seminar on the project's initial results	Second quarter 2013 (the date of the 2013 HRDWG meeting is yet to be announced)
Draft final report and public information tool circulated for comment	Third quarter 2013 (approx August/September)
Online seminar to discuss the project's final results	Third quarter 2013 (approx September/October)
Final report published	November 2013
Public information tool launched on the APEC website	November 2013