

Summary: Asia Pacific Public Forum 2014

Executive Summary

The Asia Pacific Public Forum 2014 “Sharing Prosperity and Responsibility for Mega-Regionals” was co-organised by the Japan Economic Foundation (JEF) and Singapore Institute of International Affairs (SIIA), at The Fullerton Hotel, Singapore on 24th November 2014. The Forum, which began in 2003, has been consistently recognised as an important platform for Asia Pacific dialogue on trade and economic growth.

This year, the Forum brought together trade experts, officials and ex-officials¹ from the around the region, and covered an array of topics – from national policies, geopolitics, mega-regionals to the long-term perspective of a wider free trade area of the Asia Pacific (FTAAP). At the Forum, there has been a consensus in the value of pursuing trade agreements and mega-regionals to boost region’s growth and prosperity. However, it was also recognised that there has been a shift towards the domestic agenda in countries since the global crisis, and national policies of protectionist nature may hinder the process of regional economic integration.

Singapore’s Senior Minister of State for Trade & Industry and National Development, Mr Lee Yi Shyan was the keynote speaker for the Asia Pacific Forum 2014. In his speech², he outlined the building blocks of greater economic integration and an eventual realisation of FTAAP. Mr Lee also urged the need “to update free trade regimes to support the fast changing nature of global businesses in order to uplift the standard of living of our people”.

To build on this momentum and foster open dialogue on regional cooperation, the Asia Pacific Forum 2014 held two panel sessions: “Nationalism and regional integration: can Asians balance?” and “Getting trade done right: TPP, RCEP and beyond”, where international speakers and participants shared candid views and provided recommendations on the issues related to regional integration.

This summary thus serves to present these perspectives, identify the key points that were developed at the Asia Pacific Forum 2014, and discuss the relevant areas which require the attention of policy makers. Additionally, the summary offers the recommendations proposed at the Forum on how the region can share prosperity and responsibilities for regional economic integration. It is hoped that this summary will be useful in stimulating further dialogue and policies that can broaden and deepen the region’s integration.

¹ The full participant list is available in [Annex A](#).

² The full text of keynote speech is available in [Annex B](#).

Acronyms

AIIB	Asian Infrastructure Bank
AEC	Asean Economic Community
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
CJK	China-Japan-Korea Trilateral Trade Pact
CLMV	Cambodia, Lao PDR, Myanmar and Vietnam
EU	European Union
FTA	Free Trade Agreement
FTAAP	Free Trade Area of the Asia Pacific
JEF	Japan Economic Foundation
RCEP	Regional Comprehensive Economic Partnership
SIIA	Singapore Institute of International Affairs
TPP	Trans-Pacific Partnership
TTIP	Transatlantic Trade and Investment Partnership
WTO	World Trade Organisation

Nationalism and Regional Integration

Key Point 1: Active nationalism is deeply-rooted in history.

Political leaders in East Asia have recently tended to resort to active nationalism, and these nationalist processes are deeply rooted in the history of the region. Immediate neighbouring countries are likely to have conflicts with one another, with territorial disputes as a major source of nationalist tensions. The solution to this antagonism among nations is economic cooperation and shared prosperity. For instance, neighbours like France and Germany were able to normalise their political and economic relations after the second world war by pursuing numerous and diverse economic cooperation initiatives.

Key Point 2: Asian integration is driven by the market forces.

Unlike the European Union (EU) and the North American Free Trade Agreement (NAFTA), Asian integration has largely emerged from a bottom-up process, driven by market forces. Nonetheless, the integration process is limited by a number of factors. First, Asian countries need to adapt to new structural changes, for example, the shift from “Made in China” to “Made for China”. Second is the need for technological revolution to occur as labour in the region becomes more costly. Finally, Asian countries continue to struggle with national sovereignty issues, and diverse levels of development.

Key Point 3: Japan is undergoing reforms to spur regional integration.

Under the administration of Japanese Prime Minister Shinzo Abe, a target was established to increase Japan’s free trade agreements (FTA) coverage ratio to 70 percent. If the Trans-Pacific Partnership (TPP) and Regional Comprehensive Economic Partnership (RCEP) were to materialise, Japan is expected to increase the coverage by as much as 80 percent from current levels. Nonetheless, the agriculture sector remains a sensitive issue for Japan, and a major sticking point in TPP talks. However, Japan is poised to introduce reforms to the agricultural cooperatives and export policies, as part of its revitalisation strategy. It is a signal that Japan will conclude FTA negotiations (such as the TPP) soon, and that integration with the region is important for the country’s future growth and development.

Key point 4: Regional integration has social impacts too.

Regional integration can have significant impact on migration and movement of labour/people. Currently, Asian diaspora savings are large and growing. In the Philippines, overseas remittances account for 13-15 percent of Philippines’ gross domestic product (GDP), and have contributed significantly to the country’s recent economic growth. But, it is not without costs. The social costs involved can be substantial, even though they are not readily measured. For instance, large-scale overseas migration has raised concerns about children that are left behind and elderly family members. Other issues include the rights and well-being of workers in informal sectors – which typically offer low wages and no job security.

Recommendation 1: Use bottom-up approach/ policies to build mutual trust, which will in turn deepen regional integration.

Involving local stakeholders and actors in the formulation and implementation of policies may be critical to broaden and deepen regional economic integration. This process will help to establish mutual trust and understanding between countries. There is also a proposal to employ the bottom-up approach to foster greater collaboration on energy and non-traditional security (NTS) issues such as transnational terrorism, disaster relief, cyber security, climate change in Asia, which are critical security challenges faced by states and societies in Asia. Other potential areas for collaboration include regional infrastructure development as well as funding and peace-building.

Recommendation 2: Industrial policy can drive domestic industrial development, and prepare an economy for foreign competition, arising from liberalisation and integration.

Establishing a firm and clear industrial policy may be a solution to maintain a delicate balancing act between national and regional interests. Industrial policy can help to define the strategic economic objectives and priorities for a country. However, as developing countries open up, they should become wary of the implications of international rules and standards, e.g. those emanating from the World Trade Organisation (WTO), for industrial policy. This is because these rules are viewed to limit countries' liberty to use policies to promote domestic development.

On the other hand, international rules can help diversify an economy's industrial base e.g. manufacturing, services, agriculture, etc. But first, a distinction must be made between nurturing a local industry and extreme protectionism. Protecting a national industry that has been deemed uncompetitive should be discouraged. In addition, the pace of liberalisation needs to be carefully managed in a coordinated way. The Philippines is a case in point; the country suffered due to prolonged period of protectionist policies, and could not adjust effectively to rapid liberalisation.

Mega-Regionals and Free Trade Area of the Asia Pacific (FTAAP)

Key Point 1: TPP and RCEP can co-exist as vehicles for regional integration.

As RCEP is assumed to take a more Asian approach of gradual liberalisation, developing economies will find it easier to join. Nonetheless, they should ultimately strive to attain the high quality standards of TPP. Hence, RCEP and TPP should not be seemed as competing or colliding with each other. RCEP can serve to expand ASEAN's regional trade and investment, and boost efforts towards creating a single market and production base. TPP, on the other hand, can help establish a high-quality rule-based framework for the region. Given the two different standards of obligations and purposes, TPP and RCEP can co-exist, and eventually provide the building blocks for promoting a wider free trade zone for Asia Pacific.

Key Point 2: TPP can contribute to better and advanced trade rules.

Given TPP countries would account for nearly 40 percent of global GDP, there is opportunity for the TPP to write high quality trade rules for the future trading system, especially those lacking in the WTO. But, TPP is not just an exercise for trade integration; the regional trade agreement would have far-reaching impact on economic development and competitiveness. Particularly, questions are increasingly being asked about the implications of TPP on small & medium enterprises (SMEs), for example, how SMEs can gain from the policies arising from TPP. This is a big concern for TPP members; for example, as many as 95 percent of Malaysian enterprises are SMEs.

Key Point 3: Connectivity is also a priority to promote a wider free trade zone for Asia Pacific.

An FTA is not a panacea for promoting regional integration; it can only do so much. Cross-border trade requires physical connectivity and institutional infrastructure. In this context, economies of the Asia-Pacific Economic Cooperation (APEC) has drawn up a new regional connectivity blueprint, aimed at bringing diverse markets, businesses and people closer together. But, this is not without its challenges. Asia alone needs US\$8 trillion of infrastructure development from now through 2020. The current funds and initiatives are not enough to meet the region's infrastructure needs.

Key Point 4: Transatlantic Trade & Investment Partnership is not just about US-EU trade.

The US is currently negotiating two major trade deals at the same time: TPP and Transatlantic Trade & Investment Partnership (TTIP). These negotiations now under way are not stand-alone. The formation of a TPP will have strategic implications on TTIP. Referred to as the 21st century trade agreement, the TPP will signal US position on world trade, and is expected to shape the framework and rules for US-EU's TTIP. Against this background, what sort of level playing field will the US set as rules for these two organisations?

Recommendation 1: The progress to FTAAP can be facilitated by either: (i) using the TPP as an intermediate step to FTAAP; or (ii) ensuring that economies progressively increase their rules and standards.

RCEP, TPP and FTAAP have created a multi-tiered trading system, representing progressively higher standards. As such, economies can adopt trade rules and policies that best match their development levels and needs. Under the FTAAP umbrella, economies will then need to adopt and converge to higher standards. One way is for less sophisticated countries to join the RCEP first and thereafter TPP when they are ready. TPP is expected to expand membership and eventually cover all of the APEC members to create a free trade zone across the region.

An alternative view offers that RCEP members need not join the TPP, as an intermediate step to achieving an FTAAP. Instead, members of RCEP should progressively increase their rules and standards, and upgrade themselves to be equal partners to those in the TPP as well as other advanced trade agreements. Meaningful convergence can then take place between RCEP and TPP members.

Recommendation 2: RCEP and ASEAN's Master Plan for connectivity needs to coordinate with each other – to put the connectivity of ASEAN on track.

Currently, there is no coherence between RCEP talks and ASEAN's Master Plan for connectivity. The region still faces across-the-border and behind-the-border issues. Therefore, an RCEP strategy to improve regional connectivity will be appropriate, for example, to upgrade maritime logistics and port connectivity. But, who should take up the formulating of this strategy – the RCEP or the APEC committee? In addition, could it be mesh with China's strategy of promoting regional connectivity, for instance, Chinese land-based and maritime Silk Roads, and the Asian Infrastructure Investment Bank (AIIB)?

Recommendation 3: Korean participation in the TPP may help enhance the proposed framework for a China-Japan-Korea trilateral trade pact.

Korea has strong trade and investment relations with the TPP members. Thus, joining the TPP would expand and deepen Korea's existing trade relations. Particularly, Japan and Korea would be able to leverage on TPP's high quality standards to boost greater Japan-Korea economic and trade cooperation. Most importantly, it can provide a roadmap for a wider China-Japan-Korea (CJK) trade deal in the coming years. At the same time, enhance the framework and quality of the proposed trilateral pact. Nonetheless, tensions between China and Japan may be a limiting factor.

Annex A: Participant List

Australia	Dr. Andrew ELEK, Research Associate, Crawford School of Public Policy, Australian National University
ERIA	Ms. Anita PRAKASH, Director, Policy Relations, Economic Research Institute for ASEAN and East Asia (ERIA)
Japan	Mr. Naoyuki HARAOKA, Executive Managing Director, Japan Economic Foundation (JEF) Mr. Kazumasa KUSAKA, Chairman and CEO, Japan Economic Foundation (JEF) Mr. Tadayuki NAGASHIMA, Executive Vice President, Japan External Trade Organization (JETRO) Prof. Shujiro URATA, Professor of Economics, Graduate School of Asia-Pacific Studies, Waseda University
Korea	Dr. Choong-Yong AHN, Chairman, Korean Commission for Corporate Partnership Dr. Chulsu KIM, Chairman, Institute for Trade and Investment (ITI)
Malaysia	Datuk Jayasiri JAYASENA, Senior Director of Strategy and Monitoring, Ministry of International Trade and Industry, Malaysia
Myanmar	Ms. Phoo Pwint PHYU, Research Associate, Myanmar Development Resource Institute - Centre for Economic and Social Development (MDRI-CESD)
New Zealand	Prof. Gary HAWKE, Emeritus Professor, Victoria University of Wellington
Philippines	Dr. Thomas AQUINO, Senior Fellow, Center for Research and Communication, University of Asia and the Pacific Dr. Josef T. YAP, Professorial Lecturer, University of the Philippines School of Economics
Singapore	Mr. Nicholas FANG, Executive Director, Singapore Institute of International Affairs (SIIA) Dr. Denis HEW, Director, Policy Support Unit, Asia-Pacific Economic Cooperation Mr. Pushpanathan SUNDRAM, Managing Director of EAS Strategic Advice (Asia) and Senior Research Fellow for Singapore Institute of International Affairs (SIIA) Prof. Simon SC TAY, Chairman, Singapore Institute of International Affairs (SIIA)
Taiwan	Dr. Man-Jung Mignonne CHAN, Founder and CEO, Out-of-the-Box Consultancy
Vietnam	Dr. Thanh Tri VO, Vice President, Central Institute for Economic Management

Keynote Speech by Mr Lee Yi Shyan Senior Minister of State, Trade and Industry and National Development at the Asia-Pacific Trade Forum 2014 at Fullerton Hotel on 24 November 2014, 1425Hrs

Professor Simon Tay, Chairman of the Singapore Institute of International Affairs,

Mr Kusaka, CEO of the Japan Economic Foundation,

Distinguished guests,

Good afternoon. I am pleased to welcome you to the Asia-Pacific Forum.

Practical necessities of Free Trade Agreements

There are at least 585 FTAs in the world today, of which 379 are in force. More significantly, majority of these FTAs mushroomed in the last two decades, with the most notable example being the North American Free Trade Agreement (NAFTA) established in 1994. The free trade agreements came into being despite the progress made in world trade liberation since GATT (established after World War II) and WTO (established in 1995). It shows that countries all around the world continue to see the practical necessities for the co-existence of bilateral, multilateral and global regimes to facilitate and promote free trade.

In a way, NAFTA's success has accelerated the pursuit of regional FTAs. The reason is obvious. Since NAFTA came into force, Mexico experienced a significant manufacturing boom in the automotive sector. As a result, Mexico's exports more than doubled within the first eight years of NAFTA's existence. The boom lifted the wages of many auto industry workers.

Singapore supports free trade

Singapore has, since 1999, pursued the dual-track of negotiating multilateral trade agreements as well as bilateral Free Trade Agreements (FTAs). Singapore's key interest lies in establishing FTAs that are WTO-consistent, with WTO-plus commitments with our key trading partners, thus complementing the multilateral process of advancing global free trade.

Since the signing of our first FTA under the ASEAN Free Trade Area (AFTA) in 1993, Singapore's network of FTAs has since expanded to include 21 bilateral and regional FTAs in force with 32 trading partners. Singapore's FTAs have been instrumental in helping Singapore-based businesses strengthen cross-border trade by eliminating or reducing import tariff rates, providing preferential access to services sectors, easing investment rules, improving intellectual property regulations, and opening government procurement opportunities.

Singapore's nominal GDP more than tripled from 1993 to 2013. Our exports have also been growing at a steady rate of 6.3% per annum, and have nearly doubled over the past decade.

Singapore has FTAs with Australia, China, Costa Rica, the Gulf Cooperation Council (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates), India, Japan, Jordan, Korea, New Zealand, Panama, Peru, the United States and the European Free Trade Association (Switzerland, Iceland, Liechtenstein and Norway). The EU-Singapore FTA was concluded in December 2012, and will be provisionally applied at a mutually agreed date after the European Parliament ratifies the agreement.

Regional Free Trade Agreements

For this region, amongst the most talked about regional initiatives are the Regional Comprehensive Economic Partnership (RCEP) and Trans-Pacific Partnership (TPP).

ASEAN and RCEP

With the conception of the ASEAN Economic Community (AEC), the ASEAN economies have been working towards creating a single market and production base. AEC seeks to remove import barriers both at and behind the border. It wants to harmonise standards of protection for foreign investors and service suppliers, catering to the needs of modern services and e-commerce. AEC wants to enable ecosystems of banks and financial institutions to flourish to support trade flows and bolster investments. AEC believes that regional integration spurs economic growth which in turn helps to close development gaps.

ASEAN has also signed FTAs with six of its major regional economies: Australia, China, India, Japan, Korea and New Zealand. These FTAs between ASEAN and its major trading partners serve the broader interest of anchoring the presence of our major trading partners in Southeast Asia, and ensuring that they remain as stakeholders here. They sustain an open regional orientation and prevent the formation of inward-looking trading blocs. This web of interlocking economic and strategic interests will contribute to regional stability, prosperity and security.

The RCEP initiative was formally launched in November 2012 at the ASEAN Summit in Cambodia. RCEP includes more than 3 billion people, has a combined GDP of about \$17 trillion, and accounts for about 40 percent of world trade.

Singapore just hosted the 5th Round of RCEP negotiations in June this year, and we are about to enter the 6th Round in India come December. RCEP members are exerting their best efforts in striving to conclude negotiations by end-2015 as mandated by Leaders. Any negotiations involving 16 parties at different levels of development will be both complex and challenging. We have nevertheless been making progress. We will also need to explore creative approaches in addressing these challenges, while ensuring that the RCEP is a modern and business-relevant agreement.

TPP – A vision for the Pacific

The TPP (Trans-Pacific Strategic Economic Partnership) has transformed several times since its modest beginning as a “P4 – initiative” founded in 2006 by Singapore, Brunei, Chile and New Zealand. While modest in size, the P4 was the first plurilateral FTA initiative that linked economies from across the Pacific.

By 2010, five countries – namely Australia, Malaysia, Peru, the United States and Vietnam, had joined the original four to form the TPP. Mexico and Canada also joined the TPP negotiations in October 2012, followed by Japan in July 2013.

The 12 parties are now negotiating what has been termed a “21st century” agreement. We are now four years into the negotiations. Since negotiations began in March 2010, there have been 19 formal rounds of negotiations. On top of that, TPP Leaders, Ministers and chief negotiators have been holding frequent meetings, especially in the past year, to resolve the handful of remaining issues. Earlier this month, our leaders met in Beijing, China, and were in agreement that we are near conclusion. I am confident that we can conclude negotiations by next year and that consumers will be able to reap the real benefits of the TPP sooner rather than later.

Building Blocks for still larger Free Trade Areas

Both RCEP and the TPP will serve as building blocks towards greater regional economic integration and an eventual Free Trade Area of the Asia Pacific (FTAAP). Together, these two agreements already account for 56.5% of the world GDP, 55.6% of the world population and a third of world trade. According to a study jointly published by Washington Peterson Institute for International Economics and East-West Centre, the TPP is expected to generate income gains of USD 451 billion, and the RCEP USD 644 billion.

If we can bring the FTAAP vision to fruition, we are looking at projected income gains approximate USD 1.9 trillion. The FTAAP seeks to eliminate all inefficiencies and string together all the value chains in the region. I strongly believe that the FTAAP holds the key to making the Asia-Pacific region more attractive and competitive. In the longer run, we will need to find ways of bringing these pathways together. The APEC meetings chaired by China this year focused very much on this; and this is an effort we must continue.

The task of negotiating such large regional FTAs is mega – and complicated by the fact that Asia is diverse. Even within the current membership of RCEP and TPP, the Asian economies differ in their structure, priorities and levels of development. Can an FTA like the RCEP and TPP serve the interests of all these different economies? The answer is and must be “yes”.

Different but interdependent: our shared interest in regional integration

It is no accident that the RCEP and TPP memberships include key economies like the US in the case of the TPP, and China and India in the case of RCEP. For Singapore, the US is our largest investor, and China and India are our largest and eleventh largest trading partners respectively. The importance of these three countries, especially the US and China, is no less for the other Asian countries in the region.

This is especially obvious when we are all linked by global value chains: where goods are produced in different countries of different geographies. Value chains are spread across the region to tap on the comparative advantages of the various economies. The free flow of intermediary goods will ensure that the final products from the region will be competitive.

But this reality means two things. One, we cannot maintain import barriers without impacting our own exports. Two, we are affected not just by the barriers to the direct destination of our exports, but also by barriers to the final destination of the products our exports are part of. Regional integration is crucial because it allows regional cumulation, so that our exports are not denied preferential treatment because its components come from various parts of the region.

Having a strong production network that capitalises on the strengths of each economy in the region in turn attracts investors to the region. However, for businesses to thrive, we must not allow non-tariff barriers and regulation to dull the efficiency of cross-border operations. The RCEP and TPP seek to address these areas, which in addition to the trade in goods, touch on the way we regulate foreign direct investment, various service sectors, financial institutions, e-commerce, competition and intellectual property rights. In this regard, the ASEAN economies will need to do more. It is telling that intra-AEC trade remains less than half of that in NAFTA and barely a third of that in the EU. Until we achieve the deep regional integration that these trading blocs have mastered, the AEC cannot tap into its full potential.

Freer trade closes developmental gaps

Trade may not be the answer to all of a country's development needs. But there is a strong link between trade and development. Trade expands markets, enhances the competitiveness of the economy, increases its productivity, and creates jobs. These in turn spur economic growth. Countries with freer trade have experienced faster growth. Trade also attracts investment. In the past two decades, foreign direct investment to developing countries has nearly quadrupled the amount of foreign development aid. FDI is one way through which a developing country can inject growth into its economy without increasing its foreign debt.

Bringing about deeper regional integration will require change from all countries involved. And indeed, some countries may have more to change than others. But we do not need to build Rome in a day. The RCEP, for instance, recognises that LDCs may need more time to eliminate tariffs, and technical assistance in order to shoulder some of the obligations in the treaty. What matters is that we are moving surely and steadily towards deeper regional integration, and that we seize opportunities such as the RCEP and TPP to catalyse reform.

It takes great effort to move a country towards a new world order, of course. One will need to persuade citizens, change practices, and make legislative reforms. However, developing countries also need to weigh the pain of all this not just against the benefits of freer trade, but also against the cost of not plugging into the economic network of the region.

Conclusion

"We are living off the liberalisation and reforms of the past. We need to update the rules and implement a new generation of trade reforms which would be essential for development", said WTO DG Roberto Azevedo at the launch of 2014 World Trade Report. While Mr Azevedo was commenting on the WTO progress, I believe it is true for regional free trade architecture too. There is an urgent need to update free trade regimes to support the fast changing nature of global businesses in order to uplift the standard of living of our people.

On this note, I wish you a fruitful forum ahead. Thank you.

<Available at Ministry of Trade and Industry: <http://www.mti.gov.sg/NewsRoom/Pages/Mr-Lee-Yi-Shyan-at-the-Asia-Pacific-Trade-Forum-2014.aspx> >

Annex C: About the Organisers

About Japan Economic Foundation

The Japan Economic Foundation (JEF) was established in July 1981 to deepen understanding between Japan and other countries through activities aimed at promoting economic and technological exchange.

With this goal in mind, JEF engages in a broad range of activities; it provides information about Japan and arranges venues for the exchange of ideas among opinion leaders from many countries in fields such as industry, government, academia and politics in order to build bridges for international communication and to break down the barriers that make mutual understanding difficult.

About Singapore Institute of International Affairs

The Singapore Institute of International Affairs (SIIA) is ranked as one of the world's leading think tanks and number one in Asia and the Pacific. The SIIA is an independent think tank dedicated to research, analysis and discussion of regional and international issues.

Founded in 1961, the SIIA is Singapore's oldest think tank. The SIIA is also a founding member of the ASEAN Institute of Strategic and International Studies (ASEAN-ISIS) network of think tanks, and play an active role in Track II diplomacy supplementing official dialogue between governments. As a well-networked think tank, the SIIA collaborates with experts from leading think tanks, academic institutions, and other organisations both in the region and globally.