

APEC/ABAC from a Business Perspective

By Takashi Imamura



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Opportunity Arrives in APEC?

It goes without saying that we are currently facing great adversity. Over the last few years, companies and countries alike have taken a hard look at their international supply and distribution networks in light of events such as the global pandemic, rising geopolitical risks and increases in natural disasters. Even before the pandemic, many governments had abandoned their support for liberal trade. Protectionism became a mounting threat to the world economy and global businesses.

Now, under these already strict circumstances, the recent new crisis of Russia's invasion of Ukraine seems to be further accelerating the impacts. With the dual crises of the pandemic and the war in Ukraine, we are strongly reminded of the value of a world in which there is freedom of movement and free trade, where people and goods can move unhindered and without obstruction across borders. Witnessing the current widespread supply-chain disruptions and the sharp spike in commodity prices, I must admit that globalization is arguably facing its biggest challenge of the post-Cold War era.

On the other hand, I also think this strong headwind for free trade and globalization has conversely made the Asia-Pacific Economic Cooperation (APEC) forum worthwhile as a framework for promoting liberalization and facilitation of trade and investment in the Asia-Pacific region. Despite the recent escalation of the US-China conflict, US President Joe Biden, Chinese President Xi Jinping, and other leaders of the APEC member economies concluded their virtual APEC Leaders' Meeting in November 2021, agreeing on a series of commitments regarding the coronavirus pandemic, global and regional economic recovery, and climate change mitigation.

Resilience Because Consensus-Based

APEC is a regional cooperative, multilateral economic and trade forum established in 1989 to leverage the growing interdependence of the Asia-Pacific. APEC has two outstanding features that no other regional or multilateral organization has. The first is that it is consensus-oriented. APEC's 21 member economies participate on the basis of open dialogue and respect for the views of all participants. In APEC, all economies have an equal say and decision-making is reached by consensus. There are no treaty obligations. Commitments are undertaken on a voluntary basis and capacity-

building projects help members implement APEC initiatives. This unique structure gives APEC the resilience to sustain cooperation throughout the region, even when there are bilateral conflicts among member economies. Consensus-based cooperation takes time to move forward, but the accumulated results by consensus do not recede or collapse even when dissonance arises within APEC.

Remaining committed to its mission and its voluntary, non-binding and consensus-building nature, APEC adopted the Putrajaya Vision 2040 at the APEC Economic Leaders' Meeting in 2020. The vision aims to achieve "an open, dynamic, resilient and peaceful Asia-Pacific community by 2040, for the prosperity of all our people and future generations", by pursuing three economic drivers: (1) trade and investment, (2) innovation and digitalization, and (3) strong, balanced, secure, sustainable, and inclusive growth. Its implementation plan, the Aotearoa Plan of Action, was adopted at the APEC Economic Leaders' Meeting in 2021.

FTAAP Proposed by Business-Oriented ABAC

The second outstanding feature of APEC has been that its declarations and recommendations are business-oriented, and realistic. The reason for this is that APEC has a strong linkage with the business sector through the APEC Business Advisory Council (ABAC). ABAC was created by the APEC Economic Leaders in 1995 to provide advice on the implementation of the Osaka Action Agenda and on other specific business sector priorities, and to respond when the various APEC fora request information about business-related issues or to provide a business perspective on specific areas of cooperation. ABAC continues to present advice and recommendations on business sector priorities to APEC Leaders. So far, APEC Leaders have successfully incorporated ABAC's foresights in business.

I think ABAC's historical accomplishment and contribution to APEC and world trade to date has been as an advocate of a Free Trade Area of the Asia-Pacific (FTAAP). ABAC firstly proposed the FTAAP to APEC Leaders in 2004. APEC Leaders were initially cautious about the FTAAP, but adopted the idea in 2006. Since then, work and discussions on the eventual realization of the FTAAP also continue between ABAC and APEC Leaders. In 2014, the Recommendation in ABAC Reports to APEC Leaders had called for concrete steps and a roadmap for the FTAAP and its analytical study. APEC Leaders who received the recommendation endorsed the

Beijing Roadmap for APEC's Contribution to the Realization of the FTAAP. In accordance with the roadmap, "The Collective Strategic Study on Issues related to the Realization of the FTAAP" was finalized in November 2016. Based on the study, APEC Leaders issued a recommendation, "The Lima Declaration on the FTAAP", instructing officials to implement necessary work to move towards the eventual realization of the FTAAP in November 2016. Since then, a suite of initiatives/work programs have been proposed and discussed.

Despite the recent strict circumstances for free trade and regional economic integration, ABAC and APEC have made steady, if not significant, progress toward realizing the Putrajaya Vision 2040. In the ABAC Letter to APEC Economic Leaders, November 2021, ABAC urged redoubled efforts to realize the FTAAP and called on Leaders to renew their commitment to the full realization of the FTAAP. In addition, "Progress towards the FTAAP" was included in the ABAC Report to Leaders as one of the important recommendations. Its main points are as follows.

- 1) Prioritize areas (agriculture, non-tariff barriers, services, and investment) for early progress towards an eventual FTAAP.
- 2) Focusing on next generation trade and investment issues (NGeTI).
- 3) Recommit to achieving the FTAAP.

APEC Economic Leaders met in November 2021 and declared that they will advance economic integration in the region in a manner that is market-driven, support ongoing efforts to conclude, ratify, implement, and upgrade trade agreements in the region and advance the APEC FTAAP agenda in line with implementing the Lima Declaration, to contribute to high quality and comprehensive regional undertakings. They also noted that ABAC considers the realization of the FTAAP as its preeminent economic priority. We should remember that APEC Leaders, including Biden and Xi, issued this declaration even as the US-China conflict continued, and the Biden administration's trade agenda stalled.

Further Pursuit of FTAAP

Next, I would like to highlight this year's ABAC and APEC activities in trade liberalization and regional economic integration. Based on the achievements of this past year's ABAC and APEC, ABAC is focusing on "Progressing pathway agreements towards the realization of the FTAAP" as one of this year's priorities.

For reference, this year's ABAC is composed of five working groups: regional economic integration, digital, micro, small and medium enterprises (MSMEs) and inclusiveness, sustainability, and finance and economics. The regional economic integration working group is focusing on four priorities: progressing pathway

agreements towards the realization of the FTAAP, supporting the WTO and advocacy for a rules-based multilateral trading system, strengthening services trade and investment, and reopening borders for safe and seamless travel.

We are emphasizing the importance of maintaining and improving the quality of existing agreements as pathway agreements. To achieve the path toward realizing the FTAAP, based on market needs, we need to compare the effectiveness of existing free trade agreements (FTAs) in the Asia-Pacific region, the next generation trade and investment issues (NGeTI) and the mechanisms in place for dispute resolution. Then we should look at the differences in these trade agreements and create high-quality and high-standard rules through convergence by adopting what works best from these trade agreements. In addition, we would like to recommend that regular monitoring be conducted on the problems, issues, and implementation status of the existing FTAs in the Asia-Pacific region to give us an idea of what to avoid and so on.

We are also stressing the importance of expanding the pathway agreements. Encourage each member state of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Regional Comprehensive Economic Partnership Agreement (RCEP) to swiftly ratify and steadily implement the agreements in order to distribute the benefits of the agreements throughout the Asia-Pacific region. Also, encourage interested economies as new entrants, giving top priority to maintaining and improving the quality of the trade agreements required by the market. However, note that careful examination of the new members is indispensable in maintaining the quality and reliability of the agreements.

Next, we would like to look at rules in the e-commerce chapters. It is very important that we expand, converge, or adopt higher quality international rules based on "Data Free Flow with Trust" (DFFT) including in the e-commerce chapters of FTAs in the Asia-Pacific region. Pursuing the long-term aim of maintaining and improving the quality of the FTAAP is the ultimate goal. Thus, improvement and clarification of the e-commerce chapters are essential.

We also know that enabling the globalization of women and MSMEs is very significant. To gain a better economic recovery from the negative effects of the pandemic, it is particularly essential to encourage women and MSMEs to enter global supply chains by making wider use of innovation and through a successor initiative to the Boracay Action Agenda to globalize MSMEs, which we highly recommend.

We must prepare for another large-scale infectious disease outbreak. And to prepare for such a situation we would like to call for the conclusion of a framework that reduces government restrictions on the trade of such medical products as personal protective

equipment, among others, including vaccines.

We would also like to mention something about one of the most important issues. Since the probability of natural disasters has increased due to global warming, there are concerns over the impact this will have on supply chains, so it is important to take appropriate measures to deal with climate change issues. The CPTPP has an environmental chapter, but it focuses only on cooperation, while the RCEP doesn't include anything on the environment. Negotiations on environmental goods are now underway at the WTO, but not all APEC members are participating. It is hoped that APEC members will actively address environmental issues within the framework of trade agreements or in some other ways.

RCEP Enabling Pathway Agreements Towards FTAAP

The RCEP entered into force on Jan. 1, 2022. We finally got multiple pathway agreements, the RCEP and the CPTPP, towards the FTAAP. This is actually "Progressing Pathway Agreements Towards the Realization of the FTAAP." We could start to think about how to proceed to reach that goal with a sense of reality.

Taking advantage of the opportunity, we should evaluate the RCEP and indicate its issues. It is the first rules-based trade system in East Asia, covering 15 countries with different political systems. It is a very important FTA because it contributes significantly to maintaining open trade. The RCEP is one of the mega FTAs with 15 East Asian countries. Its members account for approximately 30% of the world population, GDP, and trade, and it includes China, Japan, and South Korea as members. Thus, it practically includes FTAs among these three countries. This is a remarkable achievement because there were no FTAs between China and Japan, or Japan and South Korea.

The RCEP consolidated and multi-lateralized the ASEAN+1 FTAs. The spaghetti bowl effect is being resolved as the RCEP adopts a common set of rules of origin. With the elimination of tariffs and a common set of rules of origin applied to trade involving the 15 member countries, the RCEP has practically created a common and consolidated market in East Asia.

The RCEP is an FTA with comprehensive issue coverage with several WTO+ (WTO plus) and WTO-X (WTO extra) provisions, where WTO+ indicates a higher level of commitment or discipline than the WTO, while WTO-X indicates the issues that are not covered under the WTO. For example, WTO+ provisions include commitment in trade in services, for which the level of liberalization is higher in the RCEP than in the WTO, and WTO-X provisions include the rules on e-commerce.

It should be emphasized that the RCEP and APEC share common

principles and spirit in that both frameworks consider trade and investment liberalization and facilitation, and economic and technical cooperation as three important pillars. The RCEP includes a chapter on economic and technical cooperation, whose aim is to narrow development gaps among the members and maximize mutual benefits from the implementation and utilization of the agreement.

On the other hand, there are three challenges for the RCEP. The first is to achieve objectives. A RCEP secretariat, which would monitor the members' performance, should be set up as soon as possible. The second is that RCEP members need to increase their level of tariff elimination and eventually achieve 100% elimination, which is the level of commitment under the CPTPP. Regarding the rules, there are items that are covered in the CPTPP but not in the RCEP, so the latter needs to include these items. In addition, it needs to upgrade the level of commitment in some items such as investment and digital trade. Finally, for the RCEP, the first priority is to accept India, which dropped out from the negotiations on membership in the final stages. Accepting countries from South Asia such as Bangladesh should be explored. In other words, developing countries that have close relationships with ASEAN member countries should be candidates for new membership.

Considering that the CPTPP is more comprehensive and has a higher level of commitment to open trade and investment, it is natural to move from the RCEP to the CPTPP, and then to the FTAAP in the Asia-Pacific region. In fact, China participated in the RCEP and then applied to join the CPTPP. Economies that find it difficult to commit themselves to the requirements imposed by the CPTPP, could join or stay in the RCEP and upgrade their level of capability for accepting these higher requirements by utilizing economic and technical cooperation under the RCEP. These economies could then join the CPTPP when they are ready. Then, the CPTPP will become the FTAAP, when all APEC member economies become members of the CPTPP. Since the CPTPP is open not only to APEC members but also to non-members, the FTAAP may include not only the 21 APEC member economies but also non-APEC members.

More Ambitious ABAC Towards FTAAP

ABAC's willingness to move forward with the FTAAP has recently gained momentum, in contrast to the stalled movement toward global trade liberalization and regional integration. Asia-Pacific business leaders in ABAC meeting last month in Vancouver affirmed their determination to continue to work closely together to respond to the challenge of sustaining the region's growth trajectory in the rapidly changing global environment.

To deepen economic integration, ABAC has consistently advocated

the eventual realization of the FTAAP as key to achieving this. ABAC Chairman for 2022 Supant Mongkolsuthree said, “We welcomed APEC’s initiative for a renewed dialogue on the FTAAP ... We will be proposing to Ministers that APEC launch five multi-year joint work programs to develop tangible outcomes on identified business priorities including digitalization, inclusion, sustainability, trade and investment, and trade response to the pandemic.”

What I have mentioned above is an approach to the foundation or the vision of the FTAAP. ABAC as a whole is more ambitious and wants to get results or early harvests from the FTAAP.

APEC/ABAC on the Cutting Edge

The above discussion on regional economic integration in ABAC and APEC may seem overly optimistic or unrealistic to non-APEC or non-ABAC participants. I admit I had a similar perception before I joined the ABAC meeting last summer. It has been five years since the United States, the biggest economy in Asia-Pacific region, withdrew from the Trans-Pacific Partnership (TPP) in 2017. US trade policy makers and experts I recently met with in Washington said that a US return to the TPP is not a possibility at this time. With many American voters saying that free trade has cost them jobs, very few US politicians would have the courage to advocate for US participation in new FTAs such as the TPP. Traditional trade deals requiring congressional approval are doomed to fail in this situation.

However, this perception is also narrow-minded and, in some ways, not realistic, I think. How so? We could find two meaningful changes in the Biden administration’s approach to economic partnership in Asia. Firstly, the administration hopes its new Indo-Pacific Economic Framework (IPEF) will get the US back in the economic game. Secondly, the US will play host to the APEC meeting in 2023, the White House said last February. If the Biden administration were protectionist, these two decisions would be a logical inconsistency. I believe the correct answer is that the Biden administration is trying to find a way to leverage economic integration in the Asia-Pacific region.

There is a lot of criticism of the IPEF. Some US trade partners are expecting the IPEF to be disappointing. However, I believe both APEC and ABAC members should understand the importance of the IPEF and recognize that it is also a pathway toward the FTAAP, as it has some things in common with ABAC’s approach. APEC economies would like to see the US return to the TPP, but they also understand it is impossible for the Biden administration in the foreseeable future. Even so, as far as the US considers the IPEF to be a pathway to the FTAAP like ABAC, they would welcome the IPEF as the second-best policy.

Which is right, hope or disappointment in the IPEF? If US trade partners are focusing their interest on market access or what they can gain from the IPEF in the short term, disappointment is likely. On the other hand, if they are trying to achieve the FTAAP, hope is correct. Those seeking the FTAAP such as ABAC members must understand that there are various policy issues that must be accomplished for the realization of the FTAAP. Therefore, they also know they should not be obsessed with the early achievement of a particular policy agenda and should prioritize issues that are easier to achieve. Market access has been the most important issue in trade negotiations. However, there are many other key issues besides market access, including the following four pillars of work for the IPEF: (1) fair and resilient trade (encompassing seven subtopics, including labor, environmental, and digital standards); (2) supply-chain resilience; (3) infrastructure, clean energy, and decarbonization; and (4) tax and anti-corruption. I think APEC member economies other than US are much better off joining the IPEF and working on the above four pillars with the US than refusing to participate in the IPEF without market access and getting nothing from the US.

The US will host APEC in 2023 because of the Biden administration’s focus on expanding and deepening economic ties in the Asia-Pacific region. Hosting APEC in 2023 indicates that US involvement in the Asia-Pacific region and push for the IPEF has already started in this year.

With this complex situation, Japan, which is familiar with APEC and ABAC, and a member of both the CPTPP and RCEP, may have a chance to extract results at APEC from US cooperation with the IPEF and active involvement in the FTAAP at ABAC and APEC. It also means that we, the members of ABAC in Japan, have more opportunities to contribute to Japan’s national interests and the future prosperity of Japanese business.

Russia’s invasion of Ukraine is a moment of reckoning for many multilateral forums including ABAC and APEC. There has been increasing diplomatic pressure to exclude Russia from these gatherings, putting Thailand, the APEC chair this year, in a difficult position. However, I believe consensus-based APEC could find an appropriate way to hold the Economic Leaders Meeting in November through discussions among member economies.

We are very much looking forward to continuing our activities and discussions at ABAC and the dialogue between ABAC and APEC Leaders.

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