



**Asia-Pacific
Economic Cooperation**

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Background Paper
Deepening Regional Economic Integration

Purpose: Consideration
Submitted by: Viet Nam



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BACKGROUND PAPER

DEEPENING REGIONAL ECONOMIC INTEGRATION

I. BACKGROUND

Regional Economic Integration (REI) agenda lies at the heart of APEC cooperation. Since its inception in 1989, APEC has always been at the forefront in facilitating a more integrated Asia-Pacific region. APEC member economies have made intensive concerted efforts in promoting the free and open flows of trade and investment in the region. Through its trade liberalizing initiatives, in recent years, APEC has contributed to the 25% increase in real GDP, a reduction in average applied tariff rates of more than 11%, and a trade growth of USD 20 trillion. During the ongoing 27-year course of cooperation and development, APEC has proven its leading role in sustaining economic growth and prosperity in a region of such staggering diversity and complexity as the Asia – Pacific on the basis of pursuing free and open trade and investment, towards achieving the Bogor Goals.

To realize the Bogor Goals, APEC in recent years has been steadfastly taking forward the Regional Economic Integration (REI) agenda through collaborative programs on liberalizing and facilitating trade and investment. The voluntary economic cooperation model that APEC members have endorsed needs, however, to constantly evolve and adapt to the requirements and challenges of today's interconnected global economy instead of depending solely on traditional trade liberalization. It is no longer sufficient to address 'border issues', but one must delve deeper into 'behind-the-border' and 'across-the-border' regulations in order to fully secure liberalization.

In this light, APEC has also set a number of beyond 2020 Bogor goals, including: strengthening APEC Connectivity with a view to building a seamlessly and comprehensively connected Asia - Pacific by 2025; implementing the "APEC Services Cooperation Framework" and the "APEC Services Competitiveness Roadmap" to enhance services competitiveness for the members by 2025, as well as "Strategy for Strengthening Quality Growth" by 2025. Additionally, APEC has been discussing the possible establishment of a Free Trade Area of Asia - Pacific (FTAAP), which the completion of Collective Strategic Study on FTAPP in 2016 has marked a significant step forward.

Extending APEC's achievements in the past years, as the host of APEC in 2017, Viet Nam will continue to place REI among APEC's top priorities towards achieving Bogor Goals, as well as expanding APEC's priorities into new trade and investment issues, including facilitating global value chains, supply chain connectivity, services, e-commerce, MSMEs, etc. At the same time, new initiatives need to be taken in line with the 2030 Agenda for Sustainable Development and the Paris COP 21 Agreement. These will set a solid foundation and create momentum for APEC's further goals in the future.

II. KEY ISSUES

1. Getting closer to attaining the Bogor Goals and shaping APEC's post-2020 agenda

The implementation of work to achieve the Bogor Goals has progressed incrementally since they were first introduced in 1994. Work on tariffs, non-tariff measures, services, customs procedures, procurement, competition policy, regulatory reform, intellectual property rights, investment, among others, has advanced in a measurable way. In 2016, the Bogor Goals Second-term Review reiterated that while achievements are visible in many areas, member economies still have some way to go as progress varies across sectors and economies.

While the Bogor Goals are still very much relevant and close to the deadline, APEC has also taken first steps to explore the future of APEC after 2020. What follows that milestone shall be a concerted effort that goes beyond solely traditional trade and investment liberalization, including next generation trade and investment issues (NGeTI).

Therefore, member economies should speed up the implementation of the Bogor Goals during the critical stage of 2017 – 2020, redouble efforts in areas where progress is still limited

as pointed out in the Bogor Goals Second-term Review, including services, agriculture, investment, etc., and identify key areas for cooperation in APEC after 2020.

2. Envisaging the eventual realization of FTAAP

Since APEC Leaders instructed officials to study ways to further promote regional economic integration including through an FTAAP in Viet Nam in 2006, work on FTAAP has been steadily advanced. In 2010, APEC agreed that the FTAAP should be built upon ongoing regional undertakings, and through possible pathways including the Trans-Pacific Partnership (TPP) and the Regional Comprehensive Economic Partnership (RCEP). APEC 2016 represents an important milestone in FTAAP deliberation as member economies have just finalized the FTAAP Collective Strategic Study. The 2016 Lima Declaration on FTAAP also provides guidance for the eventual realization of FTAAP as a major instrument to further APEC's REI agenda.

In 2017, APEC member economies should complete and enhance the contribution of the possible pathways, TPP and RCEP in particular, to the realization of FTAAP. Additionally, APEC should further its role as an incubator and strengthen APEC initiatives that support FTAAP objectives and help advance REI. The FTAAP should be high quality and comprehensive, incorporating and addressing "next generation" trade and investment issues. APEC should continue to provide capacity building including but not limited to the APEC Information Sharing Mechanism on RTAs/FTAs; the Action Plan Framework of the 2nd Capacity Building Needs Initiative (CBNI); and advancing sectoral initiatives, and promoting Policy Coordination/Coherence, and conducting Industry/Sector Dialogue, etc. The FTAPP is also expected to advance REI through furthering discussion on potential elements to be addressed in the FTAAP as well as promote work on measures affecting trade and investment namely tariffs, NTMs, services, investment, ROO, etc. In addition, strengthening technical assistance for developing member economies to undertake domestic reforms needed to better capitalize on the opportunities and cope with challenges arising from an eventual FTAAP.

3. Promoting APEC Connectivity and Supply Chain Connectivity

With the APEC Blueprint on Connectivity being adopted by APEC Leaders in 2013, APEC set the target of building a seamless and comprehensively connected and integrated Asia – Pacific region by 2025 through 3 pillars, namely physical connectivity; institutional connectivity; and people-to-people connectivity.

The Supply Chain Connectivity Framework Action Plan (SCFAP) was proposed in 2010 to address 08 chokepoints in the flow of goods and services in the supply chain, aiming at achieving a 10% supply-chain performance improvement by 2015 in terms of time, cost and uncertainty. Based on the Policy Support Unit's (PSU) 2016 Assessment Report, the SCFAP Phase II (2017 – 2020) was developed and endorsed at the AMM 28 in Lima, Peru, focusing on the areas that have not yet been adequately addressed in the SCFAP I.

The objectives in 2017 are to: (i) Further work toward building a seamless and comprehensively connected Asia - Pacific region by 2025 in 3 pillars: physical connectivity; institutional connectivity; and people-to-people connectivity; and (ii) Implement the SCFAP 2, considering the development of its potential new measurement indicators.

4. Promoting Regional and Global Value Chains and Supporting Industry

APEC is implementing the ten workstreams in the "APEC Strategic Blueprint for Promoting GVCs' Development and Cooperation". Many seminars and dialogues have been conducted in order to improve the investment climate, enhance the resiliency of supply chain and assist the participation of SMEs in GVCs in key industries. In order to secure access for a greater number of enterprises, especially Micro, Small and Medium sized Enterprises (MSMEs) to the GVCs, APEC economies have pursued policy strategies to ensure that trade costs are low; that regulatory reforms favor cross-sector liberalization; and that regulatory conditions are favorable.

A well-developed supporting industry will form a strong basis for enterprises of APEC member economies, including MSMEs, to participate more deeply in the regional and global value chains. The APEC Leaders and Ministers, at their recent meetings in Lima, Peru in November welcomed the Supporting Industry Initiative, co-sponsored by Japan and Viet Nam,

which helps improve supporting industries' productivity and competitiveness, with particular focus on MSMEs by sharing policy experiences in APEC, and instruct officials to take steps to report research outcomes to Ministers and to develop a policy guidelines in 2017.

The focus in 2017 should be to advance the implementation of APEC Blueprints on GVCs Development and Cooperation; and further facilitate MSMEs' access to GVCs by ensuring favorable business environment.

5. Facilitating cross-border e-commerce

In 1998, APEC adopted the "APEC Blueprints for Action on Electronic Commerce" to promote the development and utilization of e-commerce, through supporting the establishment of a favourable, transparent, and stable legal environment and policies for e-commerce related activities. By setting the objective of building a paperless trading system in the Asia-Pacific region by 2020, APEC has also put forward a number of initiatives, which includes the "APEC Privacy Framework" and the "APEC Action Plan on Promoting E-Commerce to Globalize MSMEs". APEC needs to keep this momentum and build on its progress so far to further promote cross-border e-commerce.

Therefore, in 2017, member economies will focus on: (i) Promoting joint APEC cooperation programs and initiatives which support APEC's efforts towards a more favorable environment for cross-border e-commerce in the Asia-Pacific; (ii) Enhancing collaboration across APEC fora working on e-commerce and internet economy issues.

6. Supporting trade in services liberalization

APEC has a long-term vision for services, as outlined in the ASCF (APEC Services Cooperation Framework), a future roadmap aimed at expanding trade and investment in the services sector through two groups of activities: 15 APEC-wide actions and Individual Action Plans. APEC can also further explore sectoral initiatives, building on the progress of the ongoing work on the Manufacturing-related Services Action Plan (MSAP) and Environmental Services Action Plan (ESAP).

APEC member economies should continue working toward enhancing the openness of services market in the APEC region through the implementation of the APEC Services Competitiveness Roadmap (ASCR), and enhancing collaboration across APEC fora working on trade in services.

III. EXPECTED OUTCOMES AND DELIVERABLES

1. Getting closer to attaining the Bogor Goals

- Develop an APEC Vision on Bogor Goals and APEC post 2020, which contains: (i) APEC's further implementation of the Bogor Goals, with a focus on addressing remaining barriers in all IAP chapters, including the Renewed APEC Agenda for Structural Reform, the Boracay Action Plan to Globalize MSMEs by 2020, APEC connectivity by 2025, Services Competitiveness Roadmap by 2025 etc.; (ii) Key elements for the APEC agenda after 2020, focusing on supporting the UN's SDGs, promoting a sustainable, inclusive, innovative and secure Asia-Pacific community.

- Establish a new taskforce/FoTC on post-2020 APEC chaired by the rotated host economy.

2. FTAAP

- Conduct a Seminar on the implementation of the 2016 Lima Declaration on FTAAP.

- Organize a SOM Dialogue on RTAs/FTAs on the sidelines of SOM 3 in 2017.

- Further implement CBNI phase III focusing on behind-the-border issues.

- Explore the development of a workplan on the next-generation trade and investment issues.

3. Promoting APEC connectivity and Supply chain connectivity

- On infrastructure connectivity: discuss outcomes and the next steps of the Multi-year

Plan on Infrastructure Development and Investment; promote public – private partnership (PPP);

- On people-to-people connectivity: promoting sustainable tourism in APEC through the High-level Statement on Sustainable Tourism in 2017;

- Conduct a Public – Private Dialogue on Furthering SCFAP (CTI, 01/2017).

4. Promoting Regional and Global Value Chains and Supporting Industry

- Conduct a Policy Dialogue on Supporting Industries (SOM 1);

- Develop a Policy Guidelines on Promoting Supporting Industries;

- Advance the implementation of the APEC GVCs Blueprints;

- Develop an APEC Best Practices on Promoting the participation of MSMEs into GVCs in some major industries (textile, automobile, IT/electronics, healthcare, agribusiness);

- Implement the Initiative on “Promoting SMEs’ Integration into Services Industries” (in coordination with Peru, Korea and other sectoral lead economies);

- Conduct an APEC Workshop on Capability Development for Market-Oriented Innovation Management in SMEs of APEC Member Economies (including the four case studies in Chile, Korea, Chinese Taipei and Viet Nam);

- Conduct an APEC Workshop on Innovation for Start-ups (scheduled in 2nd quarter 2017);

- Conduct an APEC Workshop on Facilitating Market Access for Women - led MSMEs through E-Commerce (scheduled in 3rd quarter 2017).

5. Facilitating cross-border ecommerce

- Develop an APEC Framework on Cross-border E-commerce Facilitation.

6. Supporting trade in services liberalization

- Implement the APEC Services Competitiveness Roadmap (ARSC); Implement MSAP and ESAP;

- Conduct an APEC Public – Private Dialogue on ASCR Implementation (with a focus on Distribution, Transportation and Logistics Services) on the sideline of CTI 1/2017.