

FTAAP - PATHWAYS TO PROSPERITY

Summary of the meeting on the PECC Signature Project, 14 August 2023, Seattle USA

A [meeting](#) on the PECC project “FTAAP - Pathways to Prosperity” was held on 14 August 2023 in Seattle on the margins of the third APEC Senior Officials’ Meeting. The aim was to discuss progress, including work on specific topics. This was the second dialogue on the project. Outcomes of the meeting are summarised below.

Introduction

Christopher Langman, AusPECC Chair, recalled the project’s objectives.

- The project is focused on advancing economic cooperation in the region. APEC ministers have underlined their desire to advance economic integration, including at Detroit in May. The challenge is how to do this in the current challenging environment.
- The approach is consistent with APEC’s voluntary, non-binding and non-discriminatory approach. FTAAP is seen as a vision or framework to guide, encourage and prioritise efforts to advance economic collaboration, integration and openness. The project takes a long-term perspective in considering what policies could help advance the FTAAP idea, consistent with the Putrajaya Vision and the Aotearoa Plan of Action.
- The aim is to develop a better understanding of the issues facing the region and to develop recommendations that APEC economies might explore.

Christopher emphasised that the project seeks to add value to, rather than duplicate, work already underway in APEC and elsewhere. Participants noted:

- Work recently commissioned by the APEC PSU on divergence and convergence in APEC economies’ regional trade agreements (RTAs) will provide guidance.
- Peru, as host next year, intends to advance the FTAAP idea, including through a series of dialogues.
- PECC will continue to engage ABAC, which is active on FTAAP and has already identified some key priorities.¹
- There are developing cooperation pathways in the region (the Comprehensive Progressive Trans Pacific Partnership (CPTPP), the Regional Comprehensive Economic Partnership (RCEP), the United States/Mexico/Canada Agreement (USMCA) and the Pacific Alliance, among others) and there is opportunity to build on them to support future growth.

¹ These include: Enhancing supply chain connectivity, building resilience; Facilitating digital trade; Creating a coherent digital regulatory environment; Leveraging trade for climate; Enhancing inclusion in trade. See http://mddb.apec.org/Documents/2023/MM/MRT/23_mrt_004b.pdf

Discussion papers

With this context, Christopher explained that the PECC project would begin work on three topic areas – Trade and Climate Change, Professional Services and Mutual Recognition, and Services and Good Regulatory Practice. He noted:

- A short policy brief on each topic has been commissioned to explore potential outcomes to inform an eventual FTAAP. Authors had also been asked to think about sustainability, inclusion and economic resilience as cross-cutting issues, as well as digitalisation.
- As well as helping to drive practical outcomes, the policy briefs would consider the potential benefits of greater openness and collaboration.
- The policy briefs are due to be completed by the end of this year or early next year.

The lead authors then presented their initial thinking. Key points are summarised below.

1. Trade and climate change

Rory McLeod, NZPECC, outlined how work on FTAAP might address trade and climate change. A [Discussion Paper](#) was circulated ahead of the meeting.

Rory noted the challenge of the climate transition and the emerging tension between efforts to mitigate climate change and to maintain open markets.

- Economies will need to achieve considerable reductions in emissions, particularly in emissions-intensive sectors. Many economies are increasingly putting in place measures, including emissions trading schemes, taxes and reductions of fossil fuel subsidies. The EU has adopted a carbon border adjustment mechanism (CBAM).
- These measures can affect trade and supply chains. The main losers from a CBAM, for example, are likely to be developing economies, although mostly not in the Asia-Pacific. Carbon leakage is a serious challenge, but a CBAM gives rise to concerns about trade impacts and whether this is consistent with the WTO and Paris Agreement. A key question is whether there is a better way forward.
- Policy makers focused on tackling climate change often don't see markets as part of the solution given that emissions have not been properly costed, but it is important to look for ways to use markets to help address the problem.

Rory pointed out that work on FTAAP could help to address the climate challenge. This could build on APEC's existing work on environmental goods and services, fossil fuel subsidies and other issues. It could also focus on developing benchmarks for economies' climate measures so as to minimise trade impediments. It could potentially involve a mutual recognition approach that recognises the role of measures such as taxes, incentives, subsidy reductions and emissions trading schemes.

The following matters were raised:

- How should we think about subsidies, particularly incentives that mix environmental and economic objectives? There are explicit subsidies (such as fossil fuel subsidies), as well as a large number of implicit subsidies (where emitters aren't charged for their emissions and there is market failure). Given the size of these subsidies and their impact on economies, issues of economic distortions and competition should be considered when assessing the best way to tackle climate change.
- PECC's work in this area should be informed by the full suite of initiatives underway. There are various official and private sector initiatives that cut across the issues and regions (for example, the EU Green Steel initiative, the WTO Trade and Environmental Sustainability Structured Discussions (TESSD) discussions and voluntary industry standards). It is important that work in PECC is aligned with these activities.
- The issue of climate change raises critical questions related to development and poverty alleviation, including the roles of incentives and technologies.

2.MRAs and professional services

Professor Chris Ziguas, Melbourne University, presented on mutual recognition agreements (MRAs) and professional services. The Discussion Paper distributed earlier is [here](#).

Chris outlined the benefits of exploring better or expanded mutual recognition in the region, pointing to the increasing importance of professional services and cross-border trade.

- An increasing proportion of the workforce in the region is employed in regulated professions, which are a growing share of services in many economies.
- Restrictions on licensing impede cross-border delivery of services as well as the mobility of individual professionals.
- Better alignment of professional standards and recognition of qualifications is increasingly important given that more professional services are now being delivered across borders (for example, architectural services). Alignment with international norms also may help improve the quality of education, training and licensing for many important professional services.
- Recent data shows that while there is significant MRA activity in APEC, it is concentrated in a small number of economies and is focused on a few professions only (including engineering, surveying and architecture). There is very little activity in the health and education professions, which tend to be dominated by women.
- Digitalisation is having significant impacts on the delivery of services and creating potential opportunities for the licensing process (for example, digital credentialling) and MRAs.

Chris suggested work on FTAAP might offer new ways to address these developments and challenges, and to facilitate a longer-term shift toward greater interoperability of professional services. A key challenge is how to bring on board economies that have not been active to date and

to involve them in developing mechanisms for professional mobility. Plurilateral agreements have been broadened out in the past with new members added over time (eg: the Washington Accord on engineering). Similar efforts on professions where less has been done, such in the health sector, could deliver significant benefits.

Kristen Bondiotti, from the AusPECC Secretariat, outlined some of the key questions to be addressed.

- Firstly, why we should consider better or expanded MRAs in the long term. Several factors are driving change: professional services are becoming more important, digital services are growing, and there is evidence existing arrangements may not have worked as well as we hoped.
- Secondly, whether existing approaches can meet these challenges. How can MRAs better reflect how services are now being delivered (for example, through digital credentialling)? Can these arrangements be made more inclusive (for example, across occupations and economies)?
- Thirdly, what sorts of longer-term arrangements could be put in place as part of an FTAAP to improve the interoperability of professional services across borders. How can we build on what we already have? What might be the first steps forward (for example, plurilateral and multilateral initiatives, digital application processes and collaborative activities)?

The following matters were raised:

- It is crucial to engage professional bodies and the private sector in this initiative, as well as officials. Professional bodies often play key roles in regulating their professions and securing their support for change is essential. A multi-stakeholder process and process of engagement are needed.
- There may be benefits in exploring approaches on a sectoral or profession basis given the variations in how they are regulated. Progress on recognition in different professions reflects their different experiences and a range of other factors. Given this, the next steps for each may vary. A potential area of focus is the health sector where there are likely broad-based benefits for public health.

3. Services and good regulatory practice

Dr Sherry Stephenson, PECC Services Network, spoke on Services and Good Regulatory Practice (GRP) and how an 'FTAAP approach' could contribute. A [Discussion Paper](#) was distributed ahead of the meeting.

Sherry underlined the importance of good regulatory practice for services and noted the existing work in APEC (including in the Group on Services, The Economic Committee, the Sub Committee on Standards and Conformance and the Digital Economy Steering Group) which could be built on. Good

regulatory practice is cross-cutting and can have major impacts on costs, productivity, efficiency and trade, particularly in relation to services trade, including digitally delivered services.

Sherry suggested that three key drivers of change require new ways of thinking about good regulatory practice.

- Servicification is increasingly blurring the lines between goods and services production and has major implications for GRP, suggesting cross-fora collaboration is now even more important.
- Digitalisation and digitally delivered services are rapidly expanding and have major implications for services GRP, especially in relation to cross-border data flows.
- The application of artificial intelligence to services is accelerating and poses particular challenges, especially given the lack of internationally agreed rules or benchmarks.

With this in mind, Sherry suggested the FTAAP policy brief address:

- Existing work in APEC on GRP, including guidelines and principles for services and goods, as well as relevant provisions in major trade agreements involving APEC members (e.g. the CPTPP, RCEP, USMCA and the Pacific Alliance).
- Whether existing approaches are adequate to address future regulatory challenges in the period up to 2040.
- How work on FTAAP could help APEC economies develop GRP for services that would make the most of the drivers of change.

Co-author, Dr Mia Mikic, added that the benefits of good regulatory practice would disproportionately accrue to MSMEs, women and other disadvantaged groups engaged in services delivery.

A comment was made that this work would support a change in the way of thinking about services regulation that expands the scope for international regulatory cooperation and reduces fragmentation of markets and lost opportunities. In the case of good regulatory practice, the current default position is to take no action unless it is perceived as valuable. This should be flipped so that cooperative action is pursued in the development of new frameworks and is not simply a fall back.

Conclusion and next steps

Christopher Langman encouraged participants to give further thought to the issues raised and to provide any further comments by email to PECC, AusPECC and/or to the lead authors. The aim was to complete the initial policy papers by the end of the year or early in 2024. AusPECC would be happy to facilitate additional input and would look to organise further engagement on the three issues as the work advanced. Peru said it welcomed PECC's efforts and that it would seek to advance work on FTAAP while hosting APEC next year.