

For Information

On 20 Dec 2016

**LEGISLATIVE COUNCIL
PANEL ON COMMERCE AND INDUSTRY**

**Plurilateral Initiatives for Promoting Trade
Free Trade Area of the Asia Pacific and Global Data Standards
Asia-Pacific Economic Cooperation**

PURPOSE

This paper informs Members of key developments of recent plurilateral initiatives, namely a study on the Free Trade Area of the Asia Pacific and Global Data Standards under Asia Pacific Economic Cooperation (APEC)¹.

Free Trade Area of the Asia Pacific (FTAAP)

2. The eventual realisation of a Free Trade Area of the Asia Pacific (FTAAP) is a key initiative being advanced by APEC. It is expected that the FTAAP would liberalise trade in goods and services, address next generation trade and investment issues, and minimise any negative effects resulting from the proliferation of regional and bilateral trade agreements by building on current and developing regional architectures. To this end, APEC Member Economies have completed a

¹ Established in 1989, APEC has 21 member economies, namely Australia; Brunei Darussalam; Canada; Chile; China; Hong Kong, China; Indonesia; Japan; Republic of Korea; Malaysia; Mexico; New Zealand; Papua New Guinea; Peru; the Philippines; Russia; Singapore; Chinese Taipei; Thailand; the United States and Viet Nam. It is a regional economic forum to create greater prosperity for the people of the Asia Pacific region by promoting balanced, inclusive, sustainable, innovative and secure growth and by accelerating regional economic integration.

collective strategic study to assess the potential economic and social costs and benefits of the FTAAP, analyze various possible pathways towards its establishment, and identify challenges Economies may face in realizing this goal. The Recommendations of the study have been endorsed by APEC Leaders in the form of the *Lima Declaration on FTAAP* (at **Annex A**) in November 2016 in Lima, Peru. Leaders instruct Senior Officials to implement the Lima Declaration as follows:

- (i) To examine, by no later than 2020, the contribution of potential pathways to the realisation of the FTAAP that specific areas of work will be identified to further promote the regional free and open trade and investment and support advancement toward an eventual FTAAP;
- (ii) To identify and address next generation trade and investment issues and advance new initiatives in areas identified by APEC economies as critical for achieving an eventual FTAAP; and
- (iii) To follow up issues related to the FTAAP by providing leadership, intellectual inputs and capacity building, such as information sharing on regional and bilateral trade agreements, advancing sectoral initiatives, promoting policy coordination and conducting industry/sector dialogue, etc. so as to facilitate the eventual realisation of the FTAAP.

Global Data Standards (GDS)

3. Enhancement of connectivity and promotion of trade facilitation is another priority of APEC. To advance this priority, Hong Kong partnered with New Zealand to take the lead in the APEC project of Global Data Standards (GDS) that seeks to assess the costs and benefits of using GDS to enhance supply chain performance, with a view to explore next steps for the wider use of interoperable GDS in the APEC region.

4. GDS are standardised coded product information which can be shared among all stakeholders involved in a supply chain so that they can track and trace the products in real time to address the concerns of integrity and efficiency. It provides a unique identification for all products, business locations and traders, allowing automatic sharing of relevant information to help track and trace goods from the source to the final destination in real time via Supply Chain Visibility Information Platform. A diagram illustration is at **Annex B**. Barcodes, QR (Quick Response) codes and RFID (Radio Frequency Identification) tags are common carriers of GDS.

5. The benefits of GDS are multi-fold. It serves as an effective trade facilitating tool that would enhance supply chain performance by providing a more accurate status of the goods being shipped, in terms of quantity, location and condition (for instance, temperature under cold-chain storage for perishable products), hence prompting a quicker response or remedial action like re-ordering without delay. Furthermore, GDS would also contribute to better compliance and risk management by making more accurate and advance shipment data available to customs and/or border agencies which could carry out risk-profiling with past data for more targeted enforcement, hence permitting low-risk consignments for reduced examination and prioritised clearance.

GDS Pilot Projects

6. Hong Kong and New Zealand have been co-leading the GDS project which comprises (i) a suite of pilot projects on product traceability; (ii) capacity building (namely technical support, training and advice) for APEC Member Economies involved in the pilot projects; and (iii) a study by APEC Policy Support Unit (PSU)² to assess the overall outcome of the pilot projects and make policy-based principles or recommendations for future GDS initiatives.

² APEC Policy Support Unit (PSU) is a research and analysis arm under the APEC Secretariat, funded by voluntary contributions.

7. Through the nomination of products and trade routes by APEC Member Economies, a list of GDS pilot projects has been drawn up as below:

- (i) wine from Australia to Hong Kong;
- (ii) boxed meat from Australia to the US;
- (iii) deer velvet from New Zealand to Korea;
- (iv) durian from Malaysia to Hong Kong and China;
- (v) tequila from Mexico to the US; and
- (vi) asparagus from Peru to the US.

8. The pilot projects will run a number of shipments to allow the relevant stakeholders, including manufacturers/exporters, logistics operators, importers and customs/border agencies (as appropriate), to gain hands-on experience in applying GDS to their current operations. GS1 Hong Kong³ is responsible for providing technical assistance and consultancy support. By capturing relevant data and feedback from the stakeholders, the APEC will conduct a study on the cost-effectiveness to adopt GDS in supply chains, and will identify enablers, challenges and mitigation policies for a wider use of GDS.

Preliminary Outcome of GDS Study

9. The pilots so far have been able to demonstrate that the adoption of GDS could enhance supply chain connectivity across borders and achieve certain benefits, for instance, reduction of delivery failures, and savings from manual data entry (replaced by electronic data) and container demurrage and detention (minimised due to smoother loading and clearance of goods). The remaining pilots are scheduled to be completed by end of this year. More benefits are expected to be realised and related costs identified. The APEC PSU will complete its study by

³ GS1 is a not-for-profit global organisation dedicated to the design and implementation of global standards and solutions to improve the efficiency and visibility of supply and demand chains. GS1 HK, in coordination with related GS1 local offices (viz. China, Malaysia, Mexico, New Zealand, Peru and the US), was awarded over the open tendering process by the APEC Secretariat the contract of providing technical assistance to GDS pilot projects.

consolidating the outcome of different phases in Q1 2017. Hong Kong and New Zealand will organise a workshop to share the study's results and recommendations with other Member Economies later in 2017.

CONCLUSION

10. Being a staunch supporter of free and open trade, Hong Kong strongly welcomes the *Lima Declaration on FTAAP* to advance efforts to the early realisation of the FTAAP, which would bring enhanced overall competitiveness, integration and prosperity among APEC economies. Realizing the FTAAP is also in line with the business sector's aspirations of boosting business opportunities in the region.

11. As a regional logistics hub and commercial centre, Hong Kong is a forerunner in the area of global supply chain management. A wider adoption of GDS would strengthen our trade competitiveness and marketability in overseas markets, particularly bringing more business opportunities to the import/export and logistics sectors.

Lima Declaration on FTAAP

Recommendations

1. Goals and Principles

- We reaffirm our commitment to advance the process in a comprehensive and systematic manner towards the eventual realization of the FTAAP as a major instrument to further APEC's regional economic integration agenda;
- We reaffirm that APEC's core objective will be to attain the Bogor Goals by 2020, and that efforts in support of the realization of the FTAAP will serve as a driving force to further advance regional economic integration;
- We reaffirm that the FTAAP will be realized outside of APEC, parallel with the APEC process;
- We reaffirm that the eventual FTAAP should do more than achieve liberalization in its narrow sense; it should be high quality and comprehensive, and incorporate and address 'next generation' trade and investment issues;
- We recognize that APEC has a critical role to play in shaping and nurturing regional economic integration, upholding the principles of openness, inclusiveness and cooperation under a win-win spirit, promoting profound economic restructuring, deepening and strengthening regional economic integration, and give greater impetus to the sustainable development of the Asia-Pacific. In this sense, APEC encourages unilateral economic reforms and the conclusion of comprehensive and high quality RTAs/FTAs.

2. Completing and Enhancing the Possible Pathways

- We recognize that regional and bilateral trade agreements (RTAs/FTAs) have enhanced regional economic integration, while at the same time APEC members' different stages of development, and RTAs/FTAs with various levels of liberalization and coverage may pose challenges to achieving full regional integration. Thus, we reaffirm our commitment that the FTAAP should be built upon ongoing regional undertakings, and through possible pathways including the Trans-Pacific Partnership (TPP) and Regional Comprehensive Economic Partnership (RCEP). We welcome other regional integration undertakings to make meaningful contributions to the eventual realization of the FTAAP;
- We encourage that all regional undertakings, including TPP and RCEP, remain open, transparent and inclusive and draw on each other so as to jointly contribute to the trade and investment liberalization and facilitation in the region and the eventual realization of the FTAAP;
- We also reaffirm our vision contained in the Pathways to FTAAP. In this connection, we note recent developments on RTAs/FTAs in the region and the progress of the possible pathways to the FTAAP, including efforts by TPP signatories to complete their domestic processes and efforts by RCEP parties to accelerate towards the completion of the

negotiations to achieve a modern, comprehensive, high-quality and mutually beneficial agreement.

- We encourage the progress of the FTAAP pathways and progress of implementation of the initiatives identified in this document to be reported to the CTI as appropriate including under the Information Sharing Mechanism. Further, this report may be included in the CTI/SOM Report to Ministers and/or AELM.
- To maintain momentum and focus work towards an eventual FTAAP, APEC economies will examine, by no later than 2020, the contribution of current Pathways to the realization of the FTAAP. The examination will identify specific areas of work that could be done to further promote the regional free and open trade and investment and that would support advancement toward an eventual FTAAP. In addition, this examination, and the work programs noted below, will help APEC determine what areas remain the most challenging in meeting regional economic integration goals and an eventual FTAAP. Following the examination, all APEC economies may engage in a collective discussion on what role APEC can play toward addressing these challenges in a manner that is inclusive, balanced, and beneficial to all economies and consider next steps APEC can take towards the eventual realization of an FTAAP.

3. Continuing APEC's Role as an Incubator and Strengthening Existing APEC Initiatives that support FTAAP Objectives

- We commit that APEC should continue to be an important contributor to advancing towards the eventual realization of an FTAAP. APEC plays a key role as an incubator of issues related to the FTAAP by providing leadership, intellectual inputs and 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., so as to facilitate the eventual realization of the FTAAP.
- We agree that APEC should continue to identify and address next generation trade and investment issues and advance new initiatives in areas identified by APEC economies as critical for achieving an eventual FTAAP. Therefore, we encourage officials, through the Committee on Trade and Investment and its sub-fora to advance potential areas of work arising from this Study by consensus, including in areas already under consideration as either identified or potential next generation trade and investment issues;
- We agree that APEC should advance Structural Reform with a view toward improving the business environment. In line with the Ease of Doing Business Action Plan, APEC should continue to identify ways to improve the regulatory climate for starting a business, obtaining permits, accessing credit, trading across borders, and enforcing contracts, among others;
- We agree that APEC should increase efforts to improve trade facilitation. APEC has been a leader in developing capacity building programs designed to help economies implement obligations under the WTO Trade Facilitation Agreement (TFA). APEC should continue to advance capacity building projects in this area.

4. New Initiatives to Advance Regional Economic Integration

- The Collective Strategic Study identified a number of remaining challenges, gaps and areas of divergence among APEC economies, including in RTAs/FTAs. The discussion started in the Study should continue, including on potential elements to be addressed in the FTAAP and additional work in support of the eventual realization of the FTAAP. APEC's work should focus on bridging these gaps in order to ensure APEC economies are continuing along a pathway towards productive regional economic integration.
- APEC will focus work to address areas of divergence and convergence in RTA/FTA practice, including on the possible pathways for the FTAAP, and in the areas identified in the Collective Strategic Study, while also implementing capacity building programs to increase understanding of these agreements and members' capacity to participate in high quality, comprehensive and ambitious free trade agreements.
- As the next step in advancing the Beijing Roadmap, we instruct officials to undertake a stock take as to how next generation trade and investment issues are dealt with in existing FTAs/RTAs in the APEC region and other regions and in the WTO;
- We further instruct officials to use the stock take to develop dedicated initiatives, including through capacity building, to close the gaps between different treatment of these issues by economies as revealed by the stock take. Initiatives should be developed within the relevant APEC fora and included in each forum's work plan on an annual basis from 2018 onwards;
- We instruct Officials to continue to work on measures affecting trade and investment as identified in the Study that support the achievement of the Bogor Goals, and to advance the vision for the eventual realization of the FTAAP. To achieve these goals, APEC could embark on work programs to build consensus and capacity for economies in the following areas including, but not limited to:
 - On tariffs, the work program should focus on lowering remaining tariffs and examining market access commitments under the identified pathways to find areas of convergence and divergence.
 - On NTMs, the work program could prioritize collaboration with ABAC, based on their recommendations to Leaders in 2015, to identify and address NTMs affecting trade and aid economies' understanding of NTMs and their potential impacts.
 - On services, the work program should support the implementation of the APEC Services Competitiveness Roadmap as a way to spur economic growth and improve services competitiveness in individual APEC economies and the APEC region.

- On investment, the focus should be to help economies clearly identify the areas of convergence in investment practice and exchange experiences on the negotiation and implementation of IIAs.
- On Rules of Origin (ROO), the work program should address best practices in customs origin procedures to facilitate economies' progress towards existing APEC goals on the simplification of ROO.
- To support a balanced and inclusive discussion on these issues, we instruct officials to focus on addressing the recommendations in this document through the Committee on Trade and Investment and its sub-fora, and encourage participation of the private sector and other stakeholders in these discussions including through Trade Policy Dialogues.

5. Strengthening Consultation with Stakeholders

- APEC should increase engagement with stakeholders in the region, including ABAC and PECC, in its efforts to support the realization of the FTAAP.

6. Reporting on Progress

- We instruct officials to undertake work on the recommendations through the Committee on Trade and Investment and to report back to Leaders on progress towards the realization of the FTAAP, particularly with regard to the new initiatives identified in this document. The reporting should be done separately but in parallel with the Bogor Goals reporting milestones which occur in 2018 and 2020.

Diagram Illustration of GDS via Supply Chain Visibility Information Platform

