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### **On the APEC List of Environmental Goods**

*By Thanut Tritasavit*

In September 2012, the 21-nation Asia-Pacific Economic Cooperation (APEC) came up with the APEC List of Environmental Goods, which has been hailed as a stand against protectionist sentiments heightened by the recent global financial turmoil. In commissioning it the previous year, APEC Leaders instructed officials to identify green goods (solar panels, wind turbine blades, solar hot water systems and other “environmental goods”) that represented a trade-enhancing movement towards green and sustainable growth. After much debate, a list was created of 54 items falling under five categories:

- I. Renewable and clean-energy technologies;
- II. Waste-water treatment technologies;
- III. Air pollution control technologies;
- IV. Solid and hazardous waste treatment technologies; and
- V. Environmental monitoring and assessment equipment.

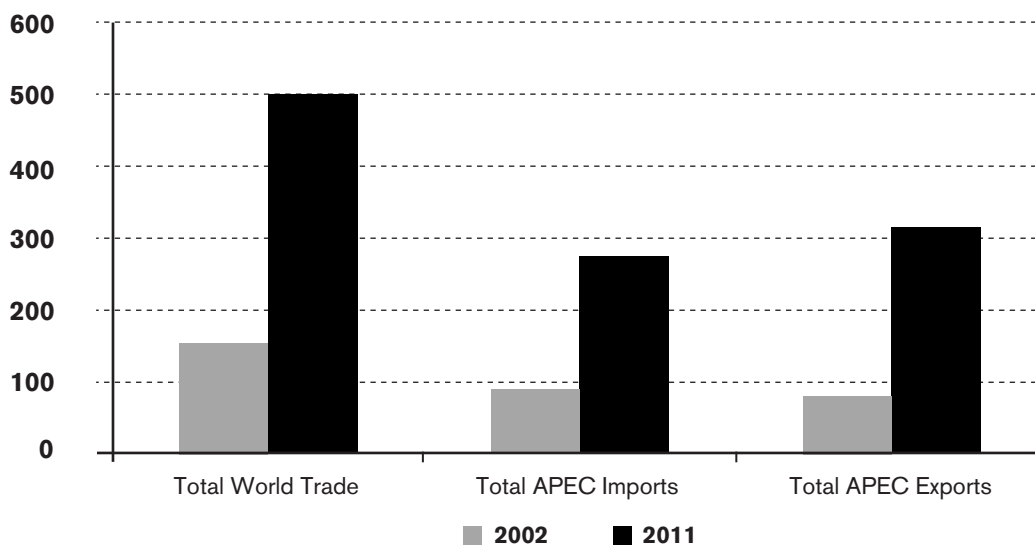
It is planned that the tariff rates on the listed products would decrease to five per cent or less by the end of 2015, subject to circumstances affecting individual economies. It should be noted though that as with all APEC initiatives, the commitment is technically non-binding, although country officials openly stress that the list is key towards meeting the region's green growth goals.

## IMPORTANCE OF THE LIST

APEC has identified environmental goods as an important factor in pursuing its agenda of green growth. Green growth was APEC's key focus in 2011, during which the Leaders committed to a series of initiatives to speed up the transition towards a low-carbon economy; to promote the development and spread of green technologies; and increase energy efficiency and energy security.

This list is expected to facilitate better trade and investment liberalization in the region. With 60 per cent of world exports of environmental products coming from member economies, APEC needs to ensure that growth and liberalisation are attained in a non-disruptive fashion. Currently, tariff ceilings for components used in environmental goods such as water heaters or solar panels, are rather high, ranging from 20 per cent to 35 per cent and which discourages the usage of these products. Reducing these tariffs is likely to lower the cost and accessibility of these goods, which should have a significant and positive impact on trade and job creation in the region.

### **Trade of APEC List of Environmental Goods (USD Billion)**



Source: World Trade Organization; APEC Secretariat – Policy Support Unit

The US provides a clear example of how these tariff reductions can help trade in the region. According to the Office of the United States Trade Representative, the US exported US\$27 billion of these environmental goods to the APEC region in 2011, with US\$1.2 billion of that amount facing tariffs greater than five per cent. The reduction in tariffs is expected to help the US reach its goal of doubling exports in five years. While not a panacea to the economic downturn, a stronger US economy could signal the start of a global recovery.

Finally, the APEC List of Environmental Goods is a pioneering effort. Created and

finalized within a year, it sends positive signals to the World Trade Organization in Geneva, where similar efforts for lower trade barriers on environmental goods have been ongoing for over 10 years.

However, more initiatives need to be implemented if green growth is to be pushed into the economic mainstream. Although the list represents a very good balance of interests among APEC economies, it needs to be expanded beyond the initial 54 items if it is to further reduce tariffs and encourage utilization of green products. Only a few days prior to the beginning of the Leaders' Week Meetings in September, the total number of products to be included in the list totaled only 20, with many countries pushing products that would promote their individual domestic industries while blocking others that could hurt them.

This also leads to the issue of non-binding commitments, where member economies in disagreement with each other may choose not to implement the list. But in doing that, they will potentially harm not only economic growth and political stability, but the livelihood of citizens throughout the region through the adverse effects of climate change as well. APEC members must find ways to compromise on items that are deemed sensitive to show that they are serious about their commitment.

## RELEVANCE FOR SOUTHEAST ASIA

Seven countries in Southeast Asia are members of APEC—Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand, and Vietnam, and the final outcome of this agreement is highly relevant to them, since they are all currently in need of alternative sources of energy and ways to meet environmental challenges.

While most Southeast Asian governments have traditionally used trade and investment liberalization to promote growth, the strategic issue for now is to preserve the planet and yet create wealth and bring development at the same time. Indeed in recent times, the seven Southeast Asian economies that are members of APEC have grown at an average rate of 5 per cent (2000-10). This is believed to be unsustainable in the long run.

The Food and Agriculture Organization (FAO) in Indonesia, for example, reports that the deforestation rate in the country has reached two per cent, or 1.87 million hectares per year. The Philippines, according to El Nido Resorts' Environment Department, gets 77% of its electricity from fossil fuels, with coal and natural gas as its primary sources. To meet demand in 2009, the country imported 77.6 billion short tons of coal and burned 111 billion cubic feet of natural gas. The proportion of renewable energy was very low, at only 0.13 per cent of the total electricity-mix source.

In Thailand, the secretary-general of the National Economic and Social Development Board noted that the country ranks as the most polluted among ASEAN nations due to its large industrial base. Growth had obviously not been attained without environmental costs. Malaysia is also guilty of a high deforestation rate, with a report commissioned by Wetlands International stating that an average of two per cent of the rainforest is being uprooted per year for palm oil plantation conversions.

Worse still, the continued hike of international oil prices has also made this energy more expensive to produce. Some of the Southeast Asian countries which have been oil exporters, are turning into oil importing countries, and this holds greave implications for the domestic economies.

Thus, the list of environmental goods and the idea to adhere to sustainable development are very important to Southeast Asia. Sustainable development is a pattern of economic growth in which resource use aims to meet human needs without threatening the environment so that these needs can be met not only in the present, but also for generations to come.

The list is thus a worthy achievement by the APEC Summit and is an encouraging sign for those worried about the apparent contradiction between development and a clean environment.

## ON THE NEXT STEP IN ASIA-PACIFIC REGIONALISM

On September 18, 2012, the Singapore APEC Study Centre at the Institute of Southeast Asian Studies held a seminar called "Next Step in Asia-Pacific Regionalism". The seminar focused on two areas: the Pacific Economic Cooperation Council (PECC)'s annual publication, "State of the Region" and the key discussions that took place during the APEC 2012 Leaders' Week (2-9 September) in Vladivostok, Russia. Taking part were knowledgeable personalities – Mr Eduardo Pedrosa, Secretary General of PECC, Singapore; Mr Wong Chow Ming, Director-General of International Economics at the Ministry of Foreign Affairs, Singapore; and Dr Denis Hew, Director of the Policy Support Unit, APEC Secretariat, Singapore.

### *PECC's State of the Region Report*

The State of the Region report based itself on a survey of over 500 opinion-leaders from the business, government and the research communities and tracked regional views on major developments in the region. Some of the key insights were:

1. On global economic growth, expectations of opinion-leaders differed from IMF forecasts of 3-4 per cent for 2013-14. Overall pessimism seemed to be a major trait, with many believing that global growth would be lower than forecasted. However, respondents thought that emerging markets still held the best opportunities for growth, with China and Indonesia topping the list. Respondents in the survey agreed that the biggest risks came from slower growth in China, Europe, and the United States. Other risks include growing income inequality, protectionism, and lack of a new global trade agreement since the Uruguay Round similar to the GATT/WTO system.

2. There has been a proliferation of regional and bilateral agreements, with two dynamic tracks having emerged in the Asia-Pacific region. The first is ASEAN-centric—ASEAN Economic Community (AEC), ASEAN+1 FTAs, East Asia FTA (ASEAN+3), ASEAN+6 and Regional Comprehensive Economic Partnership (RCEP). The second track, called the Trans Pacific Partnership (TPP), is driven by the US. Both are viewed as paths towards achieving the Free Trade Area of the Asia-Pacific (FTAAP).
3. The respondents also think that the AEC has the highest likelihood of success while the Doha Development Agenda has the least. It is also observed that there are many common characteristics for the Asia-Pacific FTAs. The Asian and TPP negotiating tracks see trade liberalization as a positive-sum game. Both seek to reduce at-the-border and behind-the-border barriers. The tracks represent intermediate steps towards wider and more comprehensive integration pacts.
4. All these hold policy implications:
  - a. There is a need to encourage different processes to boost the world system towards finding new engines of growth;
  - b. There is a need to reconcile high standard agreements with the capacities of diverse economies;
  - c. The regionalist tracks need to be connected by a high-level policy dialogue to ensure overlap and minimize friction;
  - d. Future issues such as tracking *de facto* integration and bridging the income inequality gap need to be addressed to foster a more inclusive region.

Mr Pedrosa also discussed an *index of regional economic integration* that tracks *de facto* integration in the Asia-Pacific region. He spoke about the Convergence Index (based on the premise that as economies integrate, they become more similar in some dimensions) and Regional Flows. The index shows that the region is integrating but incomes are diverging. At the same time, intra-regional flows have been increasing, especially in tourism and trade, although there have been some slowdown in investments due to the financial crisis. The regional economies are converging in terms of non-agricultural share, urbanization, and education expenditure, but there is significant divergence in GDP per capita, which should be a major concern.

Mr Pedrosa concluded his presentation by recognizing the fact that FTAAP is a major instrument to further APEC's regional economic integration agenda.

#### *2012 APEC Leaders Meeting: Current and Future Issues*

Mr Wong Chow Ming provided a short summary of the APEC Economic Leaders' Meeting held at Vladivostok. Russia's priorities for the year comprised of four issues:

- a. trade and investment liberalization as part of regional economic integration;
- b. establishing reliable supply chains;

- c. strengthening food security, and
- d. fostering innovative growth.

The meeting was considered an overall successful year for Russia, with two key deliverables:

- i. the APEC List of Environmental Goods, which is a list of 54 goods that will be traded at a tariff rate of 5 per cent or less by 2015; and
- ii. the Model Transparency FTA Chapter, which is built on existing work in the area and includes several WTO-plus obligations related to notification, publication, and public consultations.

Progress was also made in other areas. APEC's non-trade agenda advanced, with Mr Wong briefly highlighting the issues of women in the economy and education cooperation. The TPP, though not an APEC initiative, remained a regular sideline feature at the Leaders' Meeting. Leaders of the nine existing TPP parties reaffirmed their commitment to conclude an agreement expeditiously.

Mr Wong also discussed themes which Indonesia has to address as a next chair of APEC. These include attaining Bogor Goals, sustainable development and equity, and connectivity. He also touched on the future hosts of APEC, with China, the Philippines, Peru, and Vietnam hosting the Meetings in 2014, 2015, 2016, and 2017, respectively.

According to Dr Denis Hew, the issue of strengthening food security remains important for APEC members as food prices have been rising due to natural disasters. As percentage of household, income spent on food is higher than 30 per cent in some APEC member economies, APEC has committed itself to increase sustainable production and productivity, further facilitating trade and developing food markets, enhancing food safety, improving access to food for vulnerable groups, and improving farmers' welfares.

Dr Hew also touched upon initiatives for establishing reliable supply chains. The overall goal of APEC is to improve performance by 10 per cent by 2015, measured in terms of reduction in time, cost, and uncertainty. Initiatives that are in progress include improving coordination and visibility through information sharing, and wider implementation of tracking technologies.

On the economic outlook of 2012-13, Dr Hew expects that the growth of APEC member economies will be higher than the world average and will contribute almost 70 per cent of global growth, thereby becoming the engine of the global economy. However, there are three risks to global growth:

- a) intensification of the Eurozone crisis;
- b) excessive fiscal austerity in advanced economies; and
- c) unwinding of credit boom in emerging economies.

Dr Hew concluded by presenting pathways to a more resilient Asia Pacific. APEC intends to reach this goal by achieving greater connectivity, strengthening infrastructure invest-

ment, developing an early warning system and a mechanism against future economic crises, evolving stronger complementarity and synergy with other multilateral forums, and strengthening individual economy's growth performance.

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