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Chinese Taipei Pacific Economic Cooperation Committee (CTPECC)

Editorial Statement

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Editorial Statement

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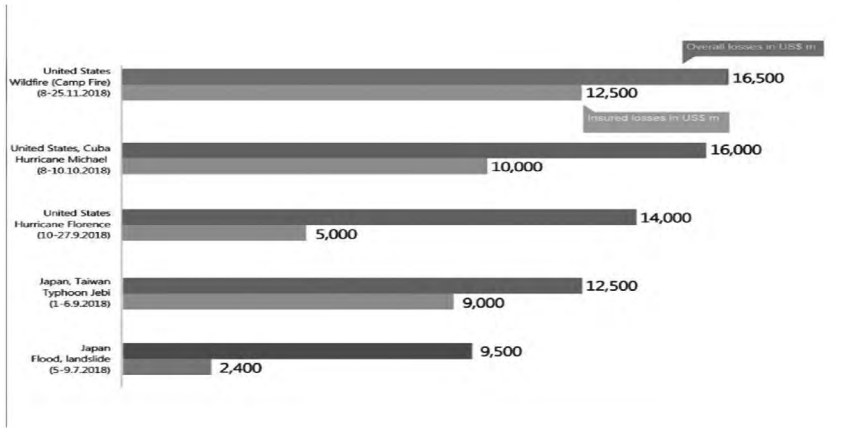
The Public and Private Sectors Cooperate to Respond to Catastrophic Risks in the Asia-Pacific Area

Rida Yu

The Asia-Pacific area on both sides of the Pacific Ocean often suffers from natural disasters that bring about critical economic losses and affect social stability. Such catastrophes occurred frequently in the Asia-Pacific region throughout 2018, including the wildfires in California and three hurricanes in United States, an earthquake and tsunami in Indonesia, another earthquake in Mexico, and various typhoons that attacked Taiwan and Japan (please refer to Figure 1), resulting in approximately US\$150 billion in global economic losses. The reinsurance company settled about 51% of the claims, while Taiwan has to pay a significant amount of foreign reinsurance this year.

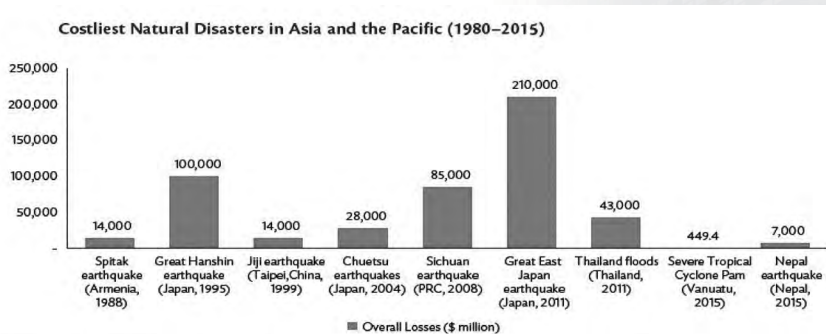
Some countries or areas with high catastrophic risks, such as Japan, have the ability to respond to the huge losses caused by natural disasters. However, other countries that lack an insurance market or are unable to insure such risks face potentially enormous economic losses (please refer to Figure 2). In such conditions, the government must promote effective Disaster Risk Finance policies to sustain Financial Resilience as a necessity for responding to catastrophic risks and further encourage cooperation between public and private sectors to promote catastrophe insurance and jointly apply capital market power or to even establish cross-field cooperation to ensure economic growth and development.

Figure 1: Catastrophe losses and insurance amounts in 2018



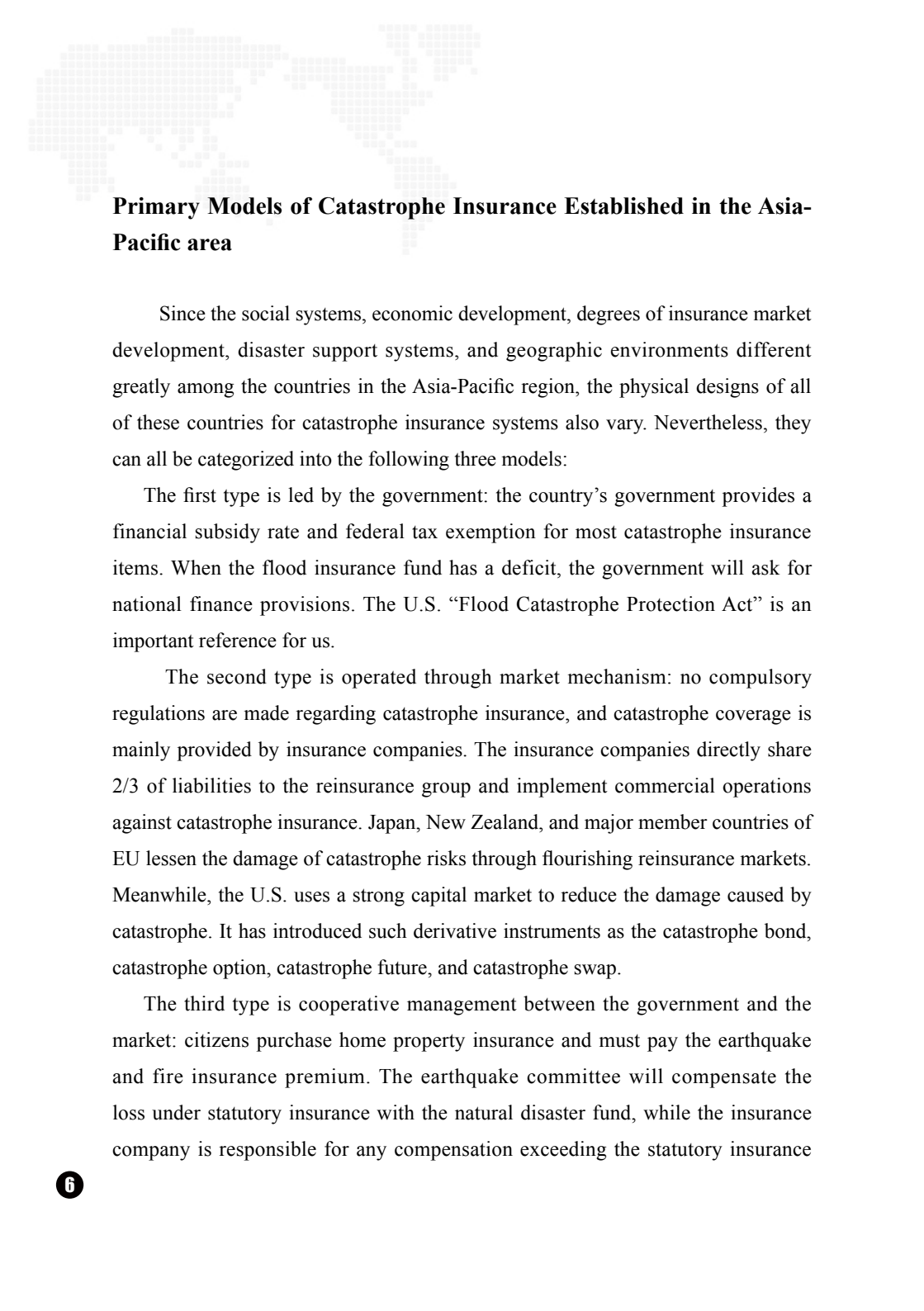
Source: Munich Re NatCat SERVICE

Figure 2: Costliest Natural Disasters in Asia and the Pacific (1980-2015)



PRC = People's Republic of China.

Sources: Munich Re. 2015. Loss Events Worldwide 1980–2015 (10 Costliest Events Ordered by Overall Losses). Annual statistic, Munich. Government of Vanuatu. 2015. Post-Disaster Needs Assessment: Tropical Cyclone Pam, March 2015. Post-disaster assessment. Port Vila: National Planning Commission, Government of Nepal. 2015. Nepal Earthquake 2015 Post Disaster Needs Assessment. Post-disaster assessment. Kathmandu.



Primary Models of Catastrophe Insurance Established in the Asia-Pacific area

Since the social systems, economic development, degrees of insurance market development, disaster support systems, and geographic environments different greatly among the countries in the Asia-Pacific region, the physical designs of all of these countries for catastrophe insurance systems also vary. Nevertheless, they can all be categorized into the following three models:

The first type is led by the government: the country's government provides a financial subsidy rate and federal tax exemption for most catastrophe insurance items. When the flood insurance fund has a deficit, the government will ask for national finance provisions. The U.S. "Flood Catastrophe Protection Act" is an important reference for us.

The second type is operated through market mechanism: no compulsory regulations are made regarding catastrophe insurance, and catastrophe coverage is mainly provided by insurance companies. The insurance companies directly share 2/3 of liabilities to the reinsurance group and implement commercial operations against catastrophe insurance. Japan, New Zealand, and major member countries of EU lessen the damage of catastrophe risks through flourishing reinsurance markets. Meanwhile, the U.S. uses a strong capital market to reduce the damage caused by catastrophe. It has introduced such derivative instruments as the catastrophe bond, catastrophe option, catastrophe future, and catastrophe swap.

The third type is cooperative management between the government and the market: citizens purchase home property insurance and must pay the earthquake and fire insurance premium. The earthquake committee will compensate the loss under statutory insurance with the natural disaster fund, while the insurance company is responsible for any compensation exceeding the statutory insurance

in accordance with the insurance contract. Taiwan established an earthquake fund and issued a catastrophe bond after the 911 earthquake. Meanwhile, Japan has an agricultural and earthquake insurance system, and the New Zealand government organized an earthquake committee and established a natural disaster fund.

Most countries in the Asia-Pacific area integrate the government force with market functions, but they may take different cooperation styles and major focuses. The major function of government is to solve the “market failure” problem of catastrophe insurance through policies, funding, and disaster and loss prevention facilities. Meanwhile, the market mechanism develops the advantages of commercial insurance with regard to professional technology and risk distribution to increase the protection provided by the catastrophe insurance system and its operational efficiency.

The First Insurance Structure Corresponding to Natural Disasters in Asia: SEADRIF

In order to help important member countries in the ASEAN, to rapidly acquire disaster rescue funds after encountering a natural disaster, the finance ministers of Japan, Laos, Myanmar, Singapore, and Cambodia held talks at the 21st meeting of finance ministers and governors of central banks of ASEAN, China, Japan, and Korea (10+3) in 2018 and jointly agreed to set up the Southeast Asia Disaster Risk Insurance Facility, or SEADRIF. Japan would be responsible for such insurance fund in the preliminary stage and the World Bank would offer the technical consultation due to its rich experience with assistance regarding reconstruction. After official operation began in June this year, benefits will be paid depending on the rainfall during the flood period so that member countries can quickly get compensation for reconstruction.



Conclusion

Natural disasters frequently occur in the Asia-Pacific area, which may result in significant threats and impacts especially by catastrophes. In response to huge losses, one of the aforementioned models can be adopted. However, the catastrophe insurance system must be based on complete legal protection and the proper operation and management of a catastrophe fund. In addition, the public and private sectors can join a risk sharing mechanism of catastrophe information through accessible policies in order to minimize the huge losses of disaster. As for the Cat Bonds issued by the public sector, governments must undertake their complexity and pricing mechanism. Derivative instruments issued by the private sector need to face the supervision of the public sector. While establishing cooperation between the government and private sector for catastrophes, applying the geographic and potential disaster information from public database, effectively controlling risks and estimating the financial needs for disaster losses in advance, and reinforcing the role of the private sector to innovate risk transfer tools are the potential responding resolutions for future catastrophes in the Asia-Pacific region.

(The author is assistant researcher of Taiwan Institute of Economic Research)


The Trade Liberalization of the Asia-Pacific Region Moving Forward by CPTPP and EU-Japan EPA

Wang, Sheng-Ming

The Comprehensive and Progressive Partnership (CPTPP) and the Japan and EU Economic Partnership Agreement (EPA) came into force separately on December 30, 2018 and on February 1, 2019. These two large free economic trade agreements include the Asia-Pacific area and major economies in Europe. The coverage is very extensive, and the affected economies and populations are huge, so that the trade liberalization in Asia-Pacific and European region is moving forward.

Trade Protectionism and REI

The United Kingdom passed the UK's Brexit vote in June 2016. On October 2nd of the same year, British Prime Minister Theresa May announced that the procedures of Brexit would be launched at the end of March 2017 and Brexit had shocked the development of regional economic integration. After U.S. President Trump assumed office in January 2017, he expressed that trade liberalization should be based on the principle of fairness and thus announced the U.S.'s withdrawal from the Trans-Pacific Partnership (TPP) and reevaluated the content of FTA signed again for renegotiation and conclusion. Brexit and the new U.S. FTA policy give rise to concern whether trade protection would revive and slow down the development of regional economic integration.



Although the U.S. has changed their trade policies, the development of regional economic integration has continued. After the U.S. announced its withdrawal from the TPP, Japan and Australia led the remaining 11 member countries to complete the negotiation and to sign the revised version of the agreement in March 2018, namely Comprehensive and Progressive Agreement for Trans-Pacific Partnership.

The Main Content of CPTPP

The content of CPTPP is still based on the original TPP, and member countries have a flexible arrangement by putting off some disputed content to make CPTPP to be effective as soon as possible. For example, the disputed content includes "Investor-To-State Dispute Settlement Mechanism", "Intellectual property protection", and "Governmental procurement", etc. It aims to reserve the U.S. joining in the future. CPTPP accounts for 13% of global GDP, with a total amount of GDP over US\$10 trillion and around 500 million people in 11 economies. After the agreement takes effect, 95% of tariffs for agricultural and industrial products would be cancelled among the member countries. CPTPP has been effective since December 30, 2018, and tariffs of various products will be gradually abolished among member countries.

The tariff elimination schedules differ among member countries. For example, the tariff on beef exported to Japan will be reduced gradually from originally 38.5% to 9% over 16 years. Meanwhile, the tariff on fish exported to Japan was reduced to 0% on the effective date of CPTPP, while the tariff on red wine will be gradually reduced to zero in 8 years. The tariff on automobiles exported to Canada from Japan will be gradually reduced from originally 6.1% to zero in 5 years, while the tariff on automobiles exported to Vietnam will be reduced from 70% to zero in 10 years. Japan's automobile manufacturing industry will benefit from the


reduced tariff in the future. For Japan, CPTPP would eliminate more than 95% of tariffs on all kinds of products, including industrial and agricultural products. Japan reserves the tariffs on rice, wheat, beef, pork, dairy products, and sugar, but 10 other member countries of CPTPP would eliminate 99% of tariffs on all kinds of products. For domestic consumers in Japan, they will buy cheaper food products in the near future.

The Elements of EU-Japan EPA

The EU-Japan EPA has been effective since February 1, 2019. The scale of the EU-Japan EPA economic circle has surpassed CPTPP which came into effect at the end of 2018. This EPA, which covers 640 million people while the trade amount accounts for 37% worldwide and 28% the global GDP, has become the biggest global free trade zone.

The EU expects to be more active in terms of global trade, economic growth and employment opportunities, and business competitiveness; therefore, it has aggressively promoted the establishment of the free trade agreement. On July 17th, 2018, the Chairman of the EU Commission and President of the EU Council Tusk signed the agreement with Japan's Prime Minister Shinzo Abe. The EU is Japan's third largest trade partner, while Japan is the second largest trade partner of the EU in Asia. The export amount of EU enterprises to Japan is 58 billion euros approximately every year, while Japan annually exports around 28 billion euros to the EU.

Following the implementation of the EU- Japan EPA, The EU will cancel 97% (around 1 billion euros) of import tariffs for goods, including such imported products as agricultural and aquaculture products. However, the automobile tariff will not be cancelled until the eighth year of EPA effectuation. Japan will also



cancel tariffs over 99% of products but also reserves the tariffs of five agricultural products in sensitive areas, including rice, wheat, beef and pork, dairy products, and sugar. The EU-Japan EPA will open up the service market, especially financial services, telecommunication, e-commerce, and transportation. Japan estimates that the EPA will increase JPY\$5 trillion (about US\$44.1 billion) of GDP and create 290,000 jobs. However, the Japanese government also estimates that the production amount of domestic agricultural products will be reduced by as much as JPY\$110 billion (around NT\$30.9 billion) every year. Japan will eliminate the tariffs on wine, spaghetti, and chocolate imported from Europe. Meanwhile, Japanese consumers also expect advantages from daily consumption.

The Impact of Brexit on the EU-Japan EPA

With regard to the impact of Brexit on the EU-Japan EPA, the UK Parliament has vetoed the draft Brexit agreement in May's version, and the original withdrawal deadline of March 29th had been postponed to April 12th. To avoid market fluctuations as a result of Brexit, British Prime Minister Theresa May applied to the EU for the extension for the withdrawal to June 30th. Finally, the EU decided to postpone the deadline from April 12th to October 31st. However, the UK government must still sign the extension agreement in June. The EU-Japan EPA was effective prior to the formal Brexit, so the EU-Japan EPA will be automatically applied to Britain during the transitional period by the end of 2020.

The U.S. has taken bilateral position toward regional economic integration. In addition, it has been seeking fair trade much greater trade liberation. For example, the U.S., Canada and Mexico signed the "U.S.-Mexico-Canada Agreement" (USMCA) to replace NAFTA on November 30, 2018. The important contents included tax-free regulations on the automobile manufacturing industry, the

open partial dairy market, and medicine patents in Canada. With regard to the automobile manufacturing industry, the USMCA requests that the percentage of parts to be manufactured in the U.S., Canada and Mexico for tax-free automobiles shall be increased from 62.5% to 75%. Of the new intellectual property chapter, the regulations on patents and trademarks are stricter, covering biotechnology, financial services, domain names, etc.

Conclusion

British Parliament has vetoed the draft of Brexit agreement several times and has delayed the withdrawal deadline. Brexit will complete in what kind of form is unknown. The attitude of the U.S toward regional economic integration and Brexit have been uncertain factors for wide and multilateral regional economic integration. However, the successive effectuation of CPTPP and EU-Japan EPA was a shot in the arm for the development of multilateral economic integration. We can expect that regional trade liberalization could keep moving forward. (The author is an associate research fellow of Taiwan Institute of Economic Research).



Promoting Authorized Economic Operator (AEO) programs in Asia-Pacific Region

Yu, Mu-Hsiang

Promoting participation in Authorized Economic Operator (AEO) programs is the priority issue of Integration 4.0 in APEC 2019. Under the leadership of hosting economy Chile, the main purpose of AEO programs is to actively incorporate Small and Medium Enterprises (SMEs) into the Asia-Pacific market by reducing trade risks as a result of safe and convenient customs declarations.

AEO has been of great significance to Taiwan, especially SMEs can improve their access to international supply chains through the mutual recognition arrangements (MRAs) of AEOs. Therefore, Chile and Taiwan jointly proposed in March to hold a workshop for 2 days in the second half of 2019. This proposal has been supported by APEC economies. For example, Philippine considers that it's highly satisfactory to the spirit of “APEC Cebu Action Plan” to assist SMEs developing international market. Meanwhile, both Indonesia and Vietnam want to learn from more experiences sharing of AEOs best examples in APEC and to encourage more SMEs to understand and participate in AEOs. As such, these SMEs can develop their business opportunities by AEOs program, especially by utilizing the APEC-wide AEO network across the Asia-Pacific efficiently.

Background of AEO

An Authorized Economic Operator (AEO) is defined by the WCO SAFE Framework of Standards¹ as a party involved in the international movement of

1 The World Customs Organization (WCO) adopted the Standards to Secure and Facilitate Global Trade (SAFE) Framework in 2005. The SAFE Framework introduced the concept of an Authorized Economic Operator (AEO). AEOs may include manufacturers, importers, exporters, brokers, carriers, consolidators, intermediaries, ports, airports, terminal operators, integrated operators, warehouses, distributors and freight forwarders.

goods and approved as complying with WCO or equivalent supply chain security standards. In other words, AEO Programs create customs-to-business partnerships aimed at securing the supply chain and facilitating trade. After the 9/11 terrorist attack, the U.S. hopes to ensure logistic safety as well as trade convenience through AEO system. To those SMEs, they can save dispensable time and costs from procrastination due to the certification of AEO.


Current AEO conditions in the world and Asia Pacific region

There are 57 member countries signing AEO MRAs worldwide according to 2018 WCO AEO Compendium, Among them, 36 AEO MRAs have been completed among member economies of APEC following the AEO MRA was reached between Japan and China in late October last year.

Among 21 member economies of APEC, 17 member economies have implemented AEO system. All member economies mainly refer the AEO favorable items provided in WCO SAFE Framework 2018. Most member economies have the ability to share their AEO implementation experiences, while few member economies which have not yet implemented AEO expect to implement AEO system as early as possible through capacity building and experiences learning from other economies. It's noticed that all of the formal agreements are almost concluded bilaterally.

(1) Bilateral agreement

The AEO mutual recognition agreements are almost concluded bilaterally among all member economies of APEC. In such atmosphere, it is very difficult practically to reach bilateral AEO MRAs with specific member economies through multilateral fora, such as APEC. Moreover, APEC adopts consensus decision and



the standards of AEO is formulated in accordance with on different conditions in all member economies. The bilateral AEO MRAs, therefore, could be only concluded through negotiation between two member economies separately. In other words, the purposes of all APEC member economies participating in APEC Sub-Committee on Customs Procedures (SCCP) are to extensively understand the newest developments and future plans of AEOs or AEO MRAS in this region.

(2)Overview of AEO MRAs concluded recently

Advanced APEC member economies are most aggressive to the promotion of AEO. For example, there were 7 mutual recognition agreements reached by Australia in the last two years, including New Zealand, China, Singapore, Hong Kang, Korea, Canada and Taiwan. Among them, we may take the AEO MRA between customs of China and Australia as an example. Since they initiated the consultation and negotiation of AEO MRA in 2016, they have completed the AEO system comparison, field certification, observation and assessment, convenient measures and e-data exchange in August 2017. Meanwhile, they reached consensus towards the main contents and article arrangements for mutual recognition.

Japan signed AEO MRA with China in late October last year to facilitate certified enterprises enjoying convenient custom declaration measures. From the beginning of this year, it dramatically reduced the inspection samples of Japan's AEO certified traders when their goods are shipping through the customs of China. And it's anticipated that time of custom declaration will be reduced to one-third more than before, which is the most favorable to fresh foods.

Meanwhile, Japan has been discussing AEO MRA with Australia since 2017. It needs more room to find a good resolution because the AEO status is corresponded to different conditions of each applicant in Australia and Japan.

There are more than 680 enterprises are awarded AEO status in Japan,

including large companies and suppliers. Japan further encourages small to mid-size enterprises for participating in AEO system to enjoy the same benefit of facilitation for their good in condition of safety standards and relevant regulations are complied.

On the other hand, it's observed that Korea has engaged in international custom cooperation with non-WCO member OCO after the AEO mutual recognition agreements are concluded with Canada, Singapore, USA, Japan, New Zealand, Hong Kong, Mexico and China. Korea's action would facilitate external trade development of 300 SMEs economic operators in Korea. It is worthy to learn from this successful model.

Current conditions of AEOs and AEO MRAs promoted in Taiwan

Taiwan Customs has implemented its AEO program since December 2009 and 717 AEOs have been granted as of today, including 362 general AEOs and 355 Safety and Security AEOs, whose import/export value accounts for 46% of its total trade volume.

To maximize the advantage of its AEO program, Taiwan Customs has signed AEO MRAs with the United States, Singapore, Israel, Korea, and Australia in November 2012, July 2013, December 2013, December 2015, and September 2018 respectively. In addition, the signing of Japan-Taiwan AEO MRA during the 43rd Taiwan-Japan Economic and Trade Conference was made in December 2018 just after the Agreement on Cooperation and Mutual Assistance in Customs Matters (CMAA) was concluded during the 42nd Conference held in 2017. Through the Japan-Taiwan AEO MRA, the Customs administrations of Taiwan and Japan are able to mutually recognize each other's AEO programs. Exporters awarded AEO status from both counties can enjoy facilitated Customs clearances at borders.



Conclusion

In view of the fact that Japan is the 3rd largest trading partner of Taiwan and the trade volume between Taiwan and Japan in 2017 amounted to \$62.7 billion, the MRA will bring substantial economic benefits to both sides. It is expected that, through working closely in a consistent manner, the two Customs administrations will further strengthen their cooperation on trade facilitation and supply chain security issues.

Taiwan has consulted the feasibility of AEO mutual recognition with New Zealand and Vietnam, respectively. Among them, the custom representative of New Zealand expressed that he will pass the information to their AEO window. In Vietnam, the Department of Trade and Industry and Ministry of Legal Affairs consider that this agreement should be signed through ministerial level and Vietnam's President.² We expect that it will bring a new vision for promoting AEOs and AEO mutual recognition in the AEO workshop held in the latter half of this year. (The author is assistant researcher of Taiwan Institute of Economic Research).

2 As to the AEO MRA between Vietnam and Korea, it has been elapsed 2 years and not completed so far. The main reason is that the Custom Administration of Vietnam has not yet been authorized by the Director General of Custom and President to sign AEO MRA.



