

# APEC PERSPECTIVES 2006

Towards a  
Dynamic Community for  
Sustainable Development  
and Prosperity



Asia-Pacific  
Economic Cooperation

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# Foreword

**O**ver the past years, as APEC has entered a new stage of its maturity in the fast changing regional and world

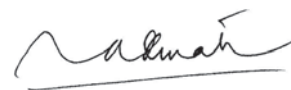
environment, there have been a series of research and discussion papers, articles and speeches dedicated to a variety of issues and problems, which are highly relevant and essential for APEC. The ideas and points of view of authors, including government officials as well as representatives of academia and the business community, many of whom have been associated with the APEC process since its inception, are of great diversity and interest.

Deeming it useful to introduce these to the APEC stakeholders and a wide range of readers, the APEC Secretariat, in collaboration with the APEC Study Centre of Monash University in Australia, has taken the initiative to select a series of papers presented during the year and publish them into a book entitled, *APEC Perspective 2006*. The book is intended to provide a snapshot of current thoughts on a number of important APEC issues that are at the forefront of thinking for APEC Leaders, Ministers, Senior Officials and the thousands of people involved in the APEC process. These include, among others, complex behind-the-border obstacles to trade and investment, capacity building for sustainable growth, the role of FTAs/RTAs vis-à-vis realizing APEC's goals of free and open trade and investment,

the new security agenda, APEC and sustainable development, and the way forward on APEC reform.

It is meaningful that this book is being released at the conclusion of the APEC Viet Nam Year 2006 under the theme "Towards a Dynamic Community for Sustainable Development and Prosperity". I would like to express our high appreciation to Viet Nam for presenting a fulfilling APEC year that has generated many interesting ideas as contained in the book through a host of meetings, workshops and seminars held in 2006. I would also like to thank all the authors and especially the APEC Study Centre of Monash University in Australia for their cooperation and contribution so as to make the publication of this book possible.

I have the great honour and pleasure to introduce this book to you with the hope that you will find it rewarding and thought-provoking. APEC is in a new stage of development and innovative thinking can only help propel our forum forward.



**Ambassador Tran Trong Toan**  
Executive Director, APEC Secretariat  
November 2006

# APEC Perspectives

## Introduction

*Alan Oxley, Australian APEC Study Centre, Monash University*

**A**s we progress through the first decade of the twenty-first century, the economies of the Pacific Rim continue to power global economic growth, as they have for the last thirty years. They have increased wealth and reduced poverty for more people, and in a shorter period, than at any time in human history.

The APEC region is host to the two most important drivers of the global economy - China's rise as a global economic power and, less spectacular, but possibly more profound, the demonstration in the US economy of how the world's economies will function in the information age.

This has been a period of dynamic change, so as APEC advances towards its third decade, it is entirely appropriate that questions should be asked about whether or not the organization is still serving the interests of its members.

APEC was the response of Pacific Rim economies to the formation of regional trade groupings in Europe and North America in the late 1980's. Its aim was to foster integration by opening economies to

promote growth, both for its own sake and as a defense against the risk that Europe and North America might turn inward and reduce access to their markets.

APEC elected not to create a regional arrangement based on preferential trade arrangements. Instead, it set common policy targets to open markets by reducing barriers to trade and investment. Over the last decade, however, many members of APEC have negotiated regional and bilateral preferential trade arrangements, which pose questions about whether they support or erode APEC's economic goals.

Globalization has also altered the dynamics of economic integration. When APEC was formed, liberalization of access to markets was regarded as the principal tool for economic integration. Since then, the steady global reduction of trade barriers has created genuine global markets.

Today, members of the APEC Business Advisory Council (ABAC) reflect the reality of global business, which is, that it is as important to reduce barriers to investment, as it is to reduce trade barriers. In addition, the domestic regulatory

environment should facilitate, not impede, business. In the same vein, the work of the APEC Finance Ministers and finance officials has increasingly demonstrated the importance of properly functioning financial systems, for the realization of APEC's aims.

**Does the way APEC is structured address this new reality?**

The final question to be asked about APEC is the biggest. Has the inauguration of the East Asian Summit process foreshadowed the eclipse of APEC? The APEC Leaders' Summit has become APEC's most important institution, so does the emergence of a similar forum diminish its status and role, and ultimately that of APEC itself?

The papers in this collection reflect a diverse set of reflections, which all relate to this question. They have been drawn from APEC's various institutions - the intergovernmental fora, the APEC Business Advisory Council and the Network of APEC Study Centers, as well as the Pacific Economic Cooperation Council (PECC), from which APEC emerged.



# APEC Then and Now

## The Catalytic Role of the APEC Process: Behind the Border, Beyond the APEC Goals

*Peter Drysdale, The Australian National University*

*EXTRACT from Paper presented to the APEC International Symposium,  
“Catalytic Role of the APEC Process: Behind the Border, Beyond the Bojor Goals”  
Chiba, Japan, 14–15 March 2006*

### Introduction

**T**he establishment of APEC was importantly a response to the rise of Japan's and East Asia's economic power and the need to include Japan in a framework for managing the growth of economic interdependence in East Asia and the Pacific.

The growth and deepening integration of the East Asian economy was driven by three huge waves of trade and industrial transformation. The first came with the rise of Japan and its emergence as a major industrial power, especially in the first three decades after the Pacific War. The second was led by the newly industrializing economies (NIEs) of Northeast and Southeast Asia in the late 1970s and 1980s. Now there is a third great wave sweeping the region, with the remarkable rise of China. There is the prospect of a fourth in India.

These successive waves of trade and industrial transformation have created a new centre of East Asian economic power that has begun to rival North America and Europe in terms of its contribution to world output and world trade.

The regional economy was in continual and large-scale transformation. The problem

was how to accommodate the rise of Japan in a framework of international economic pluralism. The rise of Japan and its new regional role was APEC's early and central focus. However, the history of the East Asian and Pacific economies and polities, the structure of the regional economy, and regional political imperatives, recommended regional arrangements in which no one country played the central role. It also recommended a set of inter-governmental relationships that involved no overarching supra-national structures. And it encouraged a regional agenda that embodied significantly global objectives.

### APEC and Open Regionalism

Unlike other regional arrangements, within Europe or North America, APEC eschewed inward-looking approaches to regional economic integration, focusing instead on the region's powerful global trade and economic interests, initially through pressing a successful conclusion to the Uruguay Round of trade negotiations in the GATT. The organizing idea of APEC was 'open regionalism' or the promotion of trade liberalization on a most favored nation or non-discriminatory basis.

But open regionalism had a political and diplomatic dimension as well as a trade and economic dimension. After successfully exercising some leverage over Europe in these multilateral negotiations through its first Leaders' Meeting in Seattle in 1993, APEC sought acceptance of the idea of open regionalism beyond its role as a regional coalition in the global arena. The Bogor Declaration, from the APEC Leader's Meeting in Indonesia in 1994, was a bold and innovative step which set a transition path to trade and investment liberalization for APEC members.

The 1980s and early 1990s, saw strong commitment in East Asia and Australasia to unilateral trade liberalization and internationally-oriented economic reform. These policy developments were the driving force behind exceptionally strong regional trade and economic growth, and the emergence of the East Asian hemisphere as a new pole of growth and influence in the world economy. The Bogor Goals defined a new path towards an open trade and investment regime in East Asia and the Pacific, setting targets for trade and investment liberalization in 2010 for developed and 2020 for developing economies in the region.

While APEC is unlikely to be able to declare complete victory on trade and investment liberalization by these target dates, there has been sufficient progress towards the goals to justify the new mode that it set in place for encouraging economic reform. China's use of APEC as a vehicle for liberalization and reform, on the way to accession to the WTO, is a notable example of APEC's success in promoting open trade via this strategy.

Border protection, of course, is not the only, nor probably the most important, barrier to deeper economic integration. Contingent protection remains an important issue. Behind-the-border liberalization and reform (APEC's trade and investment facilitation

agenda) offer a far bigger future prospect for economic gain.

The approach to cooperation within Asia Pacific economic institutions involved no legally binding institutional arrangements. Rather it made a virtue of the necessity that diversity of political and diplomatic circumstance prevented aping European and North American regional institutions, stressing capacity building and transition towards policy goals by independent, but mutually reinforcing commitment, not by negotiated agreement or fiat.

### **Challenges to APEC in the late 1990s**

The East Asian financial crisis, and the failure of global financial institutions and global trading institutions alike, to deliver support to maintaining regional financial stability and the momentum of growth through multilateral trade liberalization, presented a major challenge to APEC's economic agenda in the late 1990s. The difficulty in dealing with the 'hard' issues of liberalization on the basis of volunteerism coincided with the collapse in confidence in global solutions and Washington's commitment to global solutions. These were the circumstances that spawned the emergence of a new regionalism in East Asia.

### **The Idea of an East Asian Community**

By one measure, the rise of East Asia in the world economy still has a long way to go. When national products are valued at current exchange rates, the United States economy, accounting for more than 30 percent of world output, appears resurgent against a flagging East Asian challenge. East Asia's share of world output declined from around 25 percent at its peak in the mid-1990s, to 20 percent in 2002. Moreover, Japan - by this measure still the second biggest economy in the world - appears to dominate the East Asian economy, accounting for roughly two-thirds of the region's total output.

But this is only one measure of the relative importance of East Asia, and probably not the most accurate, because of the way in which current exchange rates, and short-term influences upon them, distort the underlying picture. A better measure uses purchasing power parity (PPP) valuations of national product to estimate the relative size of economies in the global economy. East Asia's share of world output, by this measure, has risen substantially over the past two decades, from just over 15 percent in 1980 to over 27 percent in 2004, overtaking the United States by 1993. Moreover, within East Asia, China's share of world output had already surpassed that of Japan by 1994 and, by 2004, its share of world output was already more than half that of the United States.

China's economy, of course, remains less sophisticated than that of Japan, but its sheer scale now gives it much larger weight in world output. While East Asia's share of world trade has not grown so strongly in the last decade, at almost a quarter of world trade it more than matches that of North America. Within East Asia, the story is one of rising trade share for China and a steadily falling trade share for Japan (China's share of world trade, measured appropriately as China's trade plus the trade of Hong Kong, China net of intra-China-Hong Kong, China trade, is already over 7 percent).

The emergence of ASEAN+3 and the idea of an East Asian economic community reflected the interest in re-grouping and building a framework for substantive economic cooperation within the East Asian region. ASEAN + 3 was not established as a regional trading arrangement but was set up in response to the financial crisis, to foster East Asian cooperation in financial affairs and project East Asian interests globally. An overarching objective was to provide a framework for demonstrating East Asian influence and leadership on regional and international affairs. The initial focus was

very much on regional financial cooperation but that was simply the hook on which to promote high level economic and political dialogue.

In January 2002 in Singapore, Prime Minister Koizumi proposed an East Asian community encompassing cooperation beyond trade and financial issues (and including Australia and New Zealand) to promote regional integration. The agenda of ASEAN + 3 extends beyond the issue of financial cooperation and the ambition, stated more clearly at meetings in Bali in 2005, is for the evolution of an East Asian Economic Community.

#### **Discriminatory Bilateralism in East Asia**

A parallel development was the rush towards bilateral or sub-regional free trade agreements (FTAs). FTAs are preferential or discriminatory trade arrangements. Preferential trade arrangements within East Asia (including the participation of key regional economies such as Japan, China and Korea) had never before found favor.

Not only, it was thought, would they have inflicted costs on important economic partners, but also they were likely to elevate political tensions in predictable ways between countries that were included and those that were excluded from such arrangements. That was acknowledged explicitly in designing the architecture for APEC. Yet in the early twenty-first century there has been a rash of new proposals and initiatives in East Asia to promote bilateral FTAs of an explicitly discriminatory kind.

At the centre of this shift in policy direction was Japan. Japan was then the only major economy in the world other than China or Korea that was not a member of any FTA or economic union. One of the consequences of Japan's FTA initiatives was to encourage China to join the FTA game.

Most importantly, China, in dealing with the political sensitivities in Southeast Asia about its economic rise, was freed to propose an FTA with ASEAN. The reaction in Australia was also of consequence. Advised that a comprehensive FTA was not possible with Japan because of agriculture, Australia's initial reaction was to try to secure an arrangement between CER and ASEAN. Rebuffed initially in that bid, Australia, significantly, scrambled to negotiate an FTA with the United States and sought to do deals with Singapore and Thailand (both of which have now been signed). Australia has now entered negotiations with ASEAN and is the first developed economy after New Zealand, to commit to the negotiation of an FTA with China.

What is emerging in East Asia and across the Pacific is a set of competing but separate preferential or discriminatory trade arrangements, ordered around the power and leverage of the large economies in negotiating bilateral trade deals. China, the United States and Japan are the hubs in this process. Korea has similar aspirations. Other countries are spokes around one or other or both of these hubs. It is difficult for such a system of hubs and spokes to link up except within the framework of a comprehensive round of multilateral negotiations in the WTO. But even then, once established, these preferential arrangements are difficult to unravel because they protect producers within them from third-party competition and those producers have a vested interest in not giving away their preferred position.

In East Asia, the principal FTA contest is between China and Japan. The structure of this contest can be seen in the pattern of FTA deals already completed or under negotiation within the region. Across the Pacific, the United States has embarked on its own hub and spokes strategy.

### **East Asia and APEC?**

The practical consequence of ASEAN+3 might thus far have been limited to the Chiang Mai Initiative on mutual swap arrangements, aimed at containing the spread of financial instability and other modest regional initiatives. But ASEAN+3 has transformed the theatre for regional diplomacy and provided the breeding ground for a plethora of bilateral trade initiatives in the guise of East Asian regionalism and, more importantly, impetus to the hosting of the first East Asian Summit in Kuala Lumpur in December 2005.

The East Asia Summit encompasses a broader group of countries, including Australia, New Zealand and India as well as the ASEAN+3 countries. How this forum will relate to ASEAN+3 and APEC in the longer term is not yet clear.

The dramatic shift towards the negotiation of bilateral and sub-regional 'free trade areas' since the late 1990s, raises two big questions. How can this bilateralist strategy be made consistent with broader East Asian and Asia Pacific cooperation? And how does it relate to the trade liberalization and economic reform agenda in APEC, notably the commitment to trade and investment liberalization under the Bogor goals? These issues are discussed below.

The idea of institutionalizing East Asian economic cooperation arrangements, perhaps in the form of an East Asian Free Trade Area, has attracted support, especially since the formation of the ASEAN+3. But East Asian interests have always been, and remain, global in their nature, and East Asian economies are also important participants, partly for that reason, in APEC, encompassing a broader regional and multilateral economic agenda with North America.

Moreover, within the region, the contest between Japan and China and the failure of ASEAN+3 to effect a permanent political reconciliation between East Asia's two major powers, bedevils attempts at comprehensive sub-regional economic integration. The incorporation of India in the Kuala Lumpur summit may be thought as much a symbol of East Asia's incapacity to deal with the growing internal asymmetry in the region between China and Japan, as it was an acknowledgment of the Indian priority for East Asia at this time. But it also presages at sometime in the future a broader conception of Asia Pacific economic cooperation, incorporating an increasingly outward-looking India, whether centered on the East Asian Summit or, more likely, an enlarged APEC.

Do these developments in East Asia threaten finally to derail trans-Pacific cooperation in APEC? Certainly there were many, especially those involved in launching the East Asian arrangements, who saw the waning, if not the demise, of APEC as the inevitable consequence of the growing focus on dealing with East Asian problems. And APEC was slow to re-position in response to the changed circumstances that challenged its agenda in the late 1990s. But there are few who question its value today, as the primary locus for dialogue among the Asia Pacific powers. How it develops in the future in significant part depends on American engagement in the APEC process and its recognition of APEC's continuing value in mediation with the Asian powers across a range of economic and also political issues.

### **The Future**

Why has APEC survived these challenges? Importantly, the rationale of APEC today is not in dealing with the accommodation of Japan's rise but in dealing with the rise of China's economic and political reach and

the locus of economic power in East Asia centered on China and Japan. The Shanghai Summit was symbolic of this development. India may later join the club. For now APEC provides a broad and helpful framework for economic and political dialogues between China, the United States, Japan, ASEAN and all their Asia Pacific partners, including Russia. The dynamic of China's rise on the region's economic and political transformation was bound to make it so.

### **APEC's Agenda Now**

There are two aspects of APEC's agenda for the future which require some final comment. The first relates to how APEC can contribute to unraveling the mess that has developed in trade policy, and invigorate the momentum of regional economic reform. The second, relates to how APEC deals with the challenge of East Asian arrangements and re-focuses its economic agenda to promote Asia Pacific prosperity.

APEC was never designed to be a negotiating forum on trade liberalization or any other issues. While there are still those, in North America and elsewhere who continue to dream of an Asia Pacific Free Trade Area, and the institutionalization of APEC within an FTA framework, this strategy defies reality. The dynamic of economic and political development in Asia and the Pacific, promises only the most destructive outcome for any attempt at negotiating a trans-regional arrangement of this kind. APEC's trade liberalization focus remains clearly on invigorating and strengthening the WTO.

The mess of counter-productive bilateral FTAs emerging in the region, demands that priority is accorded to developing rules and strategies within the WTO and within APEC, that serve to open FTAs in a way that promotes multilateral trade liberalization and limits their discriminatory effects.

Most of the benefits of trade liberalization are realized by the economy that reduces border barriers to trade. Hence, support for unilateral economic reform and trade liberalization in the structure of APEC, though recently out of favor, remains an important priority for APEC economies.

There is, however, a more important economic agenda on which APEC now needs to focus. The biggest gains from economic reform in East Asia, and indeed throughout the APEC region, will come from behind-the-border regulatory reform. The big gains are to be had from reforming the non-discriminatory restrictions on competition that affect both foreigners and domestic new entrants equally. This is best done through domestic initiative, where the debate can be held about how any losses to incumbents can be managed politically. The APEC economies could provide important moral support, and even 'benchmark' each other in these domestic initiatives.

The most effective way to tackle remaining border barriers is through the WTO. APEC, on the other hand, can be used to facilitate both trade and investment, especially if some Asia Pacific economies set practical examples which others are encouraged to follow.

A way forward could be to commit to what elsewhere has been called a Single Market Agenda for Asia and the Pacific. The idea of a single market agenda is closely aligned to the objectives set out in the Busan Action Agenda. It provides a way of channeling the strong business sentiment in favor of expanded regional trade and investment into an ambitious agenda, that could make a real difference; an agenda which complements, rather than tries to substitute for, multilateral trade reform.

Major elements of this agenda are already underway in the context of APEC's work on trade facilitation; this work can be intensified

and new elements added. This approach is well-suited to APEC's capabilities. It is consistent with WTO principles, and would take APEC a long way down the path to the Bogor goals. It constitutes a package of initiatives for market integration in the broadest sense, and these initiatives can be pursued in parallel with ongoing multilateral, regional and bilateral trade liberalization efforts.

### **Staying On Track**

APEC governments have been working over the years with some success on the massive program of trade liberalization and facilitation that is needed to achieve free and open trade and investment. The Osaka Action Agenda set this process in motion. Has APEC made a difference? Is there any effect on trade performance, for example, that can be associated with all this effort? Is it possible to measure APEC's achievement in improving the region's trade performance?

The un-weighted average export trade efficiency for APEC members improved from 39 percent in 1991-1995 to 50 percent in 1996-2001 and the un-weighted average import trade efficiency improved from 36 percent to 46 percent. Trade efficiency among APEC members was also higher for both exports and imports at the beginning and end periods than it was for the rest of the world. Overall, APEC members increased both export and import trade efficiency over these years by 28 percent.

Interestingly, in 1996-2001 export trade efficiency among APEC members was 6 percentage points higher, than it was with all countries in the sample of world trading nations, and import trade efficiency was 2 percentage points higher. The positive effect of APEC on trade performance over these years, and among APEC members in the later period is evident in these measures.



They imply that APEC generated an additional US\$36 billion worth of export trade and US\$32 billion worth of import trade, over this period.

Business considers that insufficient progress has been made. The essence of the Busan Business Agenda is, therefore, to invigorate APEC's existing trade facilitation initiatives, bringing them together under a single banner, and setting new and more ambitious goals, so as to create much greater momentum for reform. This is consistent with working towards a single Asia Pacific market.

At the same time, it should be possible to bring in some new aspects of trade and investment liberalization (not currently part of APEC's agenda), that are unlikely to be dealt with fully in the Doha Round or the WTO. As an outward looking, trade-oriented region, APEC should be able to agree on regional arrangements to facilitate, for example, international investment and trade in services in ways that can set examples for the rest of the world.

### **Conclusion**

Over the last half century, the East Asian and Pacific economy has been the centre of one of the most remarkable transformations in the world economy in modern times. Building policy consensus on how to manage the international economic dimensions of that, and articulating it through APEC, has played an important role in keeping this achievement on track. The success of East Asia's trade and economic transformation is, in part, a significant achievement of international economic diplomacy, both within the global system and through innovation in regional economic cooperation.

The huge economic and political changes that are being swept along by the third great wave of East Asian industrialization, and the emergence of South Asia as a major centre of world economic growth, present new risks as well as new opportunities. On balance, APEC still seems able to continue to play a positive role in reducing these risks, and improving regional outcomes, in both their economic and political dimensions.

# APEC in a New Regional Architecture

*Ambassador Tran Trong Toan, 2006 Executive Director, APEC Secretariat*

*Remarks at the Seminar on “Regional Institutional Architecture”  
organized by PECC in Ha Noi, Viet Nam, 8 April 2006*

**I**t is very timely and meaningful that PECC has organized discussions on the very relevant issue suggested by the title of the seminar. I would like to highlight some salient features of the new regional architecture, the roles APEC can play as the most important regional structure in the Asia–Pacific region, and the necessity for reform so that APEC can successfully achieve its goals and vision.

## **New Regional Architecture**

The current regional architecture is fundamentally different from that which existed when APEC was established in 1989. There are at least five key developments that could contribute to shaping the new regional architecture in the Asia-Pacific.

1. The most important development is the rise of China as a formidable economic and political force in the region. For the first time in the region’s history post World War II, there exists an overwhelming trend towards peace, stability and cooperation for development. Maintaining the balance among great powers such as the US, China, Japan, Russia and possibly India, and their commitment to regional cooperation and development, is an essential factor for peace and prosperity in the Asia-Pacific region.
2. The proliferation of Free Trade Agreements/Regional Trade Agreements (FTAs/RTAs) has become a phenomenon in the region. This proliferation has exerted a centrifugal effect on the multilateral trading system, and has made it fundamentally fragmented. Economies that used to champion the multilateral trading system have now jumped onto the bandwagon of signing FTAs/RTAs of their own. While the WTO has done little to deal with the situation, FTAs/RTAs have formed new institutions in the regional economic architecture.
3. The human security agenda in the region has, for the past few years, become burdened with emerging issues or non-traditional threats, such as terrorism, epidemics and natural disasters. Due to their trans-boundary nature, no single country can deal with these threats alone, but each must work with other countries and international institutions to cope with these new threats. While traditional security issues continue to be addressed in the existing frameworks, such as the ASEAN Regional Forum (ARF) and the second non-governmental track, the Council for Security Cooperation in Asia–Pacific (CSCAP), the newly emerging issues need to be dealt with in certain regional arrangements.
4. With the collapse of the bi-polar world, there has been a rise in regional institutions to deal with new changes. In addition to ASEAN, which was formed



after the cold war period, a number of important new regional institutions and groupings, such as APEC, ARF, Asia-Europe Meeting (ASEM), Asia Cooperation Dialogue (ACD) and most recently the East Asia Summit (EAS), have emerged. Although each institution and grouping has its own agenda and role to play in the regional set-up, there is some concern about the duplication of effort and competitive pressures among these groups.

5. One of the common and salient features of the important regional institutions is the practice of community building. ASEAN has come up with an ambitious roadmap to build a community and establish a Charter based on three pillars: security community, economic community and socio-cultural community. APEC, since its First Leaders' Meeting in 1993, has envisioned an Asia-Pacific regional community, based on the common interests of stability, security and prosperity. The newly formed East Asia Summit has also ardently promoted the building of a community in East Asia.

All these developments have contributed to the formation of multi-layered and interlocking structures in the regional landscape. They have also created challenges for APEC in discharging its role as the premier regional cooperation framework.

### **APEC's Roles in the New Regional Architecture**

1. A force for peace, stability and cooperation for development:
  - APEC has, over recent years, enjoyed rapid economic development. This is attributed largely to its successfully maintaining peace, stability and strengthening cooperation for development. APEC will continue to be a force for peace, stability and

cooperation in the region. This is not merely because it is the only regional forum that engages major powers such as US, China, Russia and Japan at the highest levels to promote those values, but also because this is the only way to achieve development and prosperity. Notwithstanding the rise of East Asia, or any other future regional institution, APEC will continue to play a unique and indispensable role in promoting peace, stability and cooperation in the region.

- One could argue that ARF and CSCAP have the security mandate, so they could play a better role in ensuring peace and security in the region. While not disputing this, I think the advantage of APEC is that although it does not deal directly with international security per se, it ensures international and regional security through greater economic and policy interactions among its members. By virtue of not being a security organization, it can avoid suspicion from outsiders and focus on handling the underlying causes of security threats; that is, poverty and lack of development.

2. A testing ground for new cooperative ideas in the future:

- While some argue that the very principles of flexibility and non-binding agreements hinder APEC progress, I consider them as the unique strength of APEC. In the absence of binding rules, it is easier for APEC to play a creative and pioneering role in new areas of cooperation. The "best practices" and "path-finder" initiatives have proven to be useful instruments in promoting cooperation among member economies in the new areas.
- This is also an area in which APEC could supplement legally binding organizations such as the WTO. Following a loose and non-binding mode of operation, APEC could pioneer efforts in many difficult areas where the WTO could not. One example of such

an effort is the model provisions for chapters in FTAs/RTAs. New ideas could be tested in APEC first, and brought into the purview of the WTO later, as in the case of the Information Technology Agreement (ITA) in 1996.

### 3. A learning ground for developing member economies:

- This looks set to be one of the key roles for APEC in the future, given its increasing focus on capacity building and human resource development. More effective efforts in these areas will help improve APEC members' awareness and integration into the world economy. I encourage them to venture into more difficult but important areas of trade and investment liberalization. The important objective is to help developing members to catch up with, and derive benefits from, the liberalization process.
- After many years of cooperation and thus appreciation of the benefits of free and open trade and investment, there is no longer a lack of political will to go ahead with many areas of trade and investment liberalization. Rather, there is a lack of institutional and human capacity to cope with them. The learning function of APEC is very important, if APEC is to achieve the shift of issues from APEC to WTO for more effective implementation. APEC cannot force issues onto the WTO Agenda unless it can ensure that its members possess adequate capacity to deal with these issues.

### 4. A staunch supporter of the multilateral trading system:

- As a beneficiary of the WTO, APEC has always played an important role in promoting the multilateral trading system. It has issued political statements, fostered common positions on certain issues and WTO capacity building activities. The support of APEC is crucial for the success of the WTO,

since it is a grouping of 21 Member Economies, accounting for around 41 percent of the world's population, 56 percent of world GDP and 48 percent of world trade.

- In the future APEC will continue to support the WTO liberalization process: through commitments of APEC Ministers Responsible for Trade, direct interactions with the WTO Director General, and the APEC Geneva Caucus. In the immediate future, it is a priority of APEC to push for the successful conclusion of the WTO Doha Development Agenda, with ambitious and balanced outcomes by the end of 2006. APEC has also taken the lead in fostering high-quality FTAs/RTAs through common model provisions. This is a way of minimizing adverse impacts of different FTAs/RTAs and ensuring the integrity of the multilateral trading system.

### 5. A crucial factor in building a regional community in the Asia-Pacific region:

- Building an Asia-Pacific community is a long-term vision shared by APEC member economies. Other institutions, such as ASEAN, PECC, ASEM and EAS, also strive to contribute to building a regional community, but APEC, as a region-wide institution, has a crucial role to play in this process. There is absolutely no delusion that the path will be without difficulties and challenges, as a number of outstanding issues and problems still exist among countries in the region, including APEC members.
- Striving to realize the APEC vision of a regional community, APEC has exerted considerable and conscious effort in this direction. The annual APEC themes have consistently incorporated the element of community building: as in "Connecting the APEC Community" (Canada 1997), "Delivering to the Community" (Brunei 2000), "One Community, Our Future"

(Chile 2004), “Towards One Community: Face the Challenge, Make the Change” (Korea 2005) and now “Towards a Dynamic Community for Sustainable Development and Prosperity” (Viet Nam 2006). In fact, all APEC’s work to date has contributed significantly towards the goal of building a regional community. APEC will continue to strive for this.

### Meeting the Challenges

APEC has been successfully playing its unique role as a premier institution in promoting development and prosperity in the Asia-Pacific region. In the new regional and global environment, there are both demands and expectations that APEC must maintain its relevance, and continue to dynamically and effectively respond to the needs of its members and stakeholders. For this purpose, APEC initiated its reform process, which has picked up momentum in recent years.

It began in 2003, when APEC Leaders expressed the need to strengthen APEC as an institution. The process continued through 2004 and 2005. Those early efforts focused essentially on the internal working processes of APEC, the aim being to streamline operations and the decision-making process. Key outcomes of the reform efforts undertaken in 2005, were the decisions on restructuring the SOM Steering Committee on Economic and Technical Cooperation (SCE) and on implementation of measures to ensure the long-term financial sustainability of APEC from 2007 onwards.

APEC regards reform as a continuous process. With the endorsement of APEC SOM I in Hanoi (March 2006), the 2006 reform efforts would build upon the decisions and work of past years. They would aim at enhancing the operational dynamism, operational linkages and overall

operational efficiency of APEC. Member economies are now working on this and will come up with concrete proposals for implementation.

To my mind, as a student of APEC, there are three major areas on which APEC may consider focusing its reform efforts. Within each area there are a number of important issues to be addressed:

#### 1. Organizational area:

- Restructuring its internal mechanism (review of the terms of reference of all its fora, such as committees/working groups/task forces), strengthening the roles of Chairs/Lead shepherds in APEC cooperation:
- Creation/disbandment of fora;
- Reducing the number of meetings through enhancement of inter-sessional works;
- Considering the effectiveness of the moratorium on new membership.

#### 2. Operational area:

- Strengthening coordination and cooperation among APEC fora, and with the APEC Business Advisory Council (ABAC) and the APEC Study Centre network;
- Improving the decision-making process (bottom up/top down, increasing responsiveness, making APEC more efficient and results-oriented);
- Implementing prudent management of project financing;
- Prudent expansion of the scope of APEC activities and cooperation.

#### 3. External cooperation:

- Coordination with sectoral ministerial processes and promote the development of public-private partnerships;
- Coordination/cooperation in policy issues, research, capacity building with international organizations

(IFIs, OECD, WTO, PECC, ASEAN, ASEM, EAS);

- Increasing participation of other economies and international institutions in APEC activities at the Working Group level;
- Raising APEC's profile through strengthening communication and outreach activities.

There are short-term and long-term issues to be considered. I think all reform measures should aim to strengthen APEC's responsiveness to the needs of its people in this fast changing world. It must show increasing dynamism in its identification, consideration and solution, of any emerging issues, which may affect APEC's goals and the well-being of its people. The 2006 priority of "Reform APEC towards a Dynamic and Effective Community", set by the host economy Viet Nam, is highly significant.

To conclude, I would like to say that APEC is developing in the right direction. Over the years since its inception, APEC has indisputably made important contributions to peace, stability and cooperation for development in the region.

APEC has now entered its 17th year. The Vietnamese people have a saying: "A 17-year-old can break up the buffalo horn". I believe that APEC has now reached its maturity. It will, with its synergy and vitality, continue to play an important role as a factor for peace, stability, cooperation for development, and prosperity in the Asia-Pacific region. As a key structure in the regional institutional architecture, APEC will work with other institutions in the region to realize the vision of building an Asia-Pacific regional community.

# A Fresh Core Economic Mission for APEC

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Ho Chi Minh City, Viet Nam, 23–24 May 2006*

## APEC at the Crossroad

**T**he Economist<sup>1</sup> has consistently mocked East Asian summitry for five years. It has scolded ASEAN Summits for setting unrealistic targets, the East Asia Summit as pointless and APEC for lacking practicality.

It has a point. ASEAN has practised “achievement by Declaration” rather than action for a long time. In April 2006, ASEAN Trade Ministers decided to reduce the target date set for creating the ASEAN Economic Community by five years to 2015. The original goal, to build by 2020 an economic community comparable to the European Union, with a common ASEAN currency and a regional monetary institution, was very ambitious. It has been criticized by leading analysts in Southeast Asia, such as Hadi Soesastro, as an impractical goal.<sup>1</sup>

Creating institutions without clear purpose is another manifestation. The Asian European Mechanism (ASEM) was created to build dialogue between East Asia and the EU. It has foundered because of lack of common purpose. Yet this has not reduced the appetite for new institutions.

## The East Asian Economic Summit

Now the ASEAN Leaders, with Chinese encouragement, have set up the East Asian Summit (EAS). It has no clear goal; it is a “process”. But there is controversy about whether or not the US should have been invited to participate. The goal was an East Asian only grouping to foster economic cooperation. The new Summit process realizes it in part – it does not include the US or Canada – but now Australia, New Zealand and India are part of it. The Summit does not have a specific mandate.<sup>2</sup>

The capacity of the EAS to create new institutions is weak. It is unlikely to forge common approaches on diplomatic issues. It is commonly seen as a group shaped by Chinese leadership, but there are several members of the Summit (Japan, Viet Nam, Indonesia and Australia), who prefer it to be a forum for consultation, not a vehicle advancing common diplomatic positions. Diplomatic interests divide, not bind, Summit participants.

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<sup>1</sup> *ASEAN's Future*, 2004, ISEAS

<sup>2</sup> Hurewitz, Jeremy, op. cit.

Can the EAS be the basis for a hemisphere wide Free Trade Area (FTA)? Japan has proposed this but so far there is little support. The ASEAN plus 3 process has already set for itself the ambition of building first a free trade area and then an economic community. Setting aside the practicality of these ambitions, an Asia Summit FTA would serve simply to add Australia, New Zealand and India to the ASEAN plus 3 FTA. This attracts India, which has few effective free trade agreements. However, the inevitably weak trade rights such a wider grouping would create, is unlikely to appeal to Australia and New Zealand, who are already negotiating FTAs with ASEAN and China.

The political feature of the EAS is that it supports China's emerging ambition to become the hub, if not the leader, of economic integration in East Asia.<sup>3</sup> This is advanced somewhat by not having the US in the group. The practical effect of the EAS is that it crowds East Asian summitry. With the ASEAN Summit and now the East Asian Summit, the uniqueness of the APEC Summit for bringing East Asian Leaders together is significantly reduced. In addition, members of APEC have established new economic relationships with each other through a dizzying array of bilateral and regional free trade agreements. This has stimulated the question: "Is APEC becoming redundant?"

### **Is APEC becoming Redundant?**

Some reference points are required to evaluate the importance of these fora and institutions to governments. Two are proposed. The first is "does the body increase economic welfare?" The tests for that are: does it create institutions which either increase economic welfare through formal integration or foster economic policies that advance growth? The second point of reference is "does it serve political interests?" The tests for that are: does it

strengthen political relations and/or protect rights of access in trade?

The importance of distinguishing between economic and political interests arises when they are used to evaluate FTAs. On the surface, an FTA may appear to advance economic welfare. The effect, however, might do little to enhance welfare and may even reduce it. Governments enter FTAs to strengthen political relations or protect against the erosion, or perceived erosion, of right-of-access to markets. The upsurge in FTAs in East Asia, is principally accounted for by political, rather than economic interests. Of themselves, they do not render APEC redundant.

APEC was established to foster the value of building growth on open economies. Its primary focus was on trade liberalization. There is more to building growth with open economies than that, but APEC consolidated at a time when trade liberalization was a widely supported global priority.<sup>4</sup> Part of the deal in getting APEC established, was not to institutionalize it. The Secretariat was kept small and members financed a lot of its activity directly. An effort was made to institutionalize a process of trade liberalization to demonstrate how members would achieve the goals of the 1993 Bogor Declaration. This failed in 1998, damaging the standing of the organization in the eyes of onlookers – the media, business and observers in other regions.

But by that time, APEC had acquired other momentum. The Leaders' Annual Meeting drove the organization. Where else did the leaders of the Pacific Rim economies meet?

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<sup>3</sup> This was described to the author as the point of Boao Forum for Asia, the annual Davos-style business and economics forum by Long yong-tu, the Director and a former Vice Minister of China's Ministry of Commerce

<sup>4</sup> The Uruguay Round of trade negotiations was in full swing, the EC was completing its Single Market program and negotiations for the North American Free Trade Area were underway.



They broadened the APEC agenda with human security and the impacts of terrorism, following the September 11 terrorist attacks in New York. The trade agenda shifted focus to trade facilitation. And over time, the work programs broadened in a range of technical areas central to building open economies – financial management, energy, telecommunications, transport, tourism, standards and customs administration.

This technical work is generally not recognized by the APEC Leaders whose focus is on strategic and contemporary issues. In recent years, Meetings have produced headline declarations on international trade (usually to boost the WTO), human security, pandemics and related questions. Privately they complain about lack of focus in Meeting discussions. What keeps them meeting is who they will meet. There is always something to talk about with the Presidents of the United States and China, and the Prime Minister of Japan. Is this enough of a mission to keep APEC relevant?

The first meeting of the East Asian Summit was convened to meet, not to do anything in particular. But it did issue a statement on action to address the threat of Avian flu.<sup>5</sup> However, this is the sort of issue that has become policy heartland for the Leaders at the APEC Meeting. What is the difference between the two Meetings if much the same group of leaders discusses the same issues? One answer is membership. APEC has more leaders and, in particular, includes the President of the United States.

Japan has proposed that the US President should be invited to attend the East Asian Summit as a guest. This was how the annual meeting of ASEAN Leaders spawned the bigger summit. If the US President started to become a regular attendee at the EAS Summit, how valuable will the APEC Meeting be? Is there room for two such Meetings?

APEC's original core mission, promoting growth based on free trade, has also lost steam. After the failure to put into practice an APEC program of trade liberalization, the focus shifted to "trade facilitation".

The agenda is valuable, but the work is technical and does not warrant the attention of heads of governments. It is not appropriate, or effective, for them to focus on issues such as management of customs procedures.

APEC is at a crossroad. It is in danger of being lost in the static of the reportage of communiqués from a seemingly endless round of Meetings among leaders. Today, the unique value of its Annual Economic Leader's Meeting is the presence of the US President.<sup>6</sup> There is much more to APEC than that, and a very significant economic role for the institution lies currently unrealized.

### Why APEC is Different

There is a basic reality, which people in East Asia take for granted, but those outside do not. The reality is that the Pacific Rim is the dynamic heart of the world economy. The core is not just China's relentless growth and the pull effect it has had on other East Asian economies, it is the combination of prolonged record growth in the US economy and the prospect of economic revival in Japan. It is a constant preoccupation in Brussels and other European capitals to work out how to tap into it.

There has been a strong demand from members for APEC's most dreary offering.

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<sup>5</sup> Soesastro, Hadi, 'East Asia: Many Clubs, Little Progress' *Far Eastern Economic Review*, Jan/Feb 2006, Vol 169, Issue 1.

<sup>6</sup> This is not strictly true. APEC is also attended by Canada, Latin American Pacific Rim economies and Russia. But with China's growth fixing attention in East Asia, they do not add much contemporary value to the organization in East Asian eyes.

This is collaboration on specialist technical work. This spans improvement in the regulation of life assurance, cross recognition of systems for conformance to technical standards, management of genetically modified organisms and the use of paperless systems in management of border controls. Each year there is an average of 70 meetings on APEC affairs. ASEAN demonstrates that a large number of meetings, does not necessarily indicate progress. APEC is different in two respects. Most programs are jointly sponsored by developed and developing economy members and the meetings are usually funded by the developed economy sponsor. Second, the meetings entail transfer of technology and enhancement of capacity.

So while APEC has a weak central administration, it has spawned extensive collaboration among a large number of officials. Many identify their relationships with each other through APEC collaboration. APEC was established for a purpose cooperation to promote growth based on open economies. It is the only inter-governmental organization in East Asia or the Pacific Rim established for that purpose.

APEC reflects the economic reality of Trans Pacific trade. East Asia's trade flows with the US are significantly larger than those with Europe. Access to the US market, notwithstanding conflicts over trade, has been a key feature of the growth of the East Asian economies over the last 20 years. The US has been central to the fastest growing industrial sector in the world and in East Asia, namely IT and communications products. Manufacturing of components and computers has been one of the growth drivers in East Asia. The US has been the leading market. China today, is using the blueprint of the history of economic growth in the US, to support its own pace of development.<sup>7</sup>

The result is that APEC includes the largest of the fastest growing industrialized economies<sup>8</sup>, the leading global high growth developing economies and the developing economies which have joined the OECD. It is a heady mix of success, which members value. Yet, there is a sense of uncertainty, if not weariness, about APEC at senior political levels in APEC member states. The reason is clear, its economic core mission, trade liberalization, is no longer a high priority policy concern in APEC economies.

### **Trade is no Longer Enough**

The struggle to secure tangible results from the WTO Doha Round shows that many countries do not consider liberalization of trade as a major reform required to secure consistent growth. Ministers and Leaders of APEC ritually announce the need to secure action to liberalize trade, but when it comes to taking concrete action, little is seen.

ASEAN members have found it difficult to secure tangible commitments to liberalize internal trade. This is not that significant, as trade among ASEAN economies is a small share of their total trade. China and Viet Nam are the standouts. They have used trade liberalization to buttress the transition to market economies as evidenced by the actions taken to secure membership of the WTO. The fact is, that trade liberalization is not seen as central to growth prospects by the ASEAN economies.

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<sup>7</sup> James Krynge in "China Shakes the World" Weidenfeld and Nicolson, London 2006, shows how Chinese planners studied the US transcontinental highway system and its role in supporting growth in designing China's transcontinental system

<sup>8</sup> Australia, Canada and the United States



This is reflected by the trend of the trade agenda in APEC. The focus is extending beyond the reduction of trade barriers. Investment barriers, trade facilitation, competition policy, reduction of regulation, now occupy at least as much attention. These are matters for domestic policy, and are important for getting economies to operate efficiently and productively. But efforts to improve the operation of the domestic market by leveraging changes through trade policies or restrictions on foreign goods and services, is an inefficient way to achieve these changes. Also, in APEC the wrong Ministers are discussing them. Programs are settled by Foreign and Trade Ministers. Yet they are not responsible for these internal issues - domestic competition policy, de-regulation of services industries or implementation of policy on customs administration or standards.

If APEC is to be effective in these areas, they need to be put front and center on the APEC agenda, not effectively introduced as subsidiary matters. To argue this, is not to say efforts should not be made to improve trade policy in APEC economies.

The proliferation of FTA's is risky public policy. The risk of results which after reduce, not enhance the economic welfare of national economies is significant. It is important that APEC continue to try to improve trade policy and to stress the need for further liberalization.

But maintaining this as a priority will not appeal to leaders as a matter of major, public importance. It is a matter of minor public importance. On the other hand, economic growth and how to achieve it, is a matter of leading public interest to APEC economies.

### **Growth Matters**

There is no APEC economy where growth is unimportant. Over the last decade and a half, average growth in the US, Canada and Australia (3.5 percent), has been double the OECD average – one to one point five percent. It is a hopeful sign that Japan appears to be emerging from its prolonged slump.

East Asia has had the highest growth rate of any region of developing countries for nearly half a century. China is achieving consistently higher growth, for a longer period, than any economy in recent history. The Latin American members of APEC have enjoyed higher rates of growth compared to Latin America at large.

APEC governments agree growth is not everything. And there is work in APEC on social welfare safety nets. A recent priority is to understand strategies to manage the impact of trade liberalization. These are not, however, major preoccupations. A leading reason is that if economies enjoy consistent growth, policies to manage adjustment are less important. Economic growth creates its own process of adjustment. New industries grow and new jobs are created.

For so long as governments ponder if growth should be the leading national priority, instead of perceiving it as an essential pre-requisite for meeting other national priorities, their economies will under-perform.

In APEC the importance of growth is not contested. The focus is on how to maintain it. Economies in APEC have experienced extraordinary rates of structural change. Groups of economies have passed through successive development phases. Because of technology, each new phase, like Chinas as

it moves up the value adding ladder in manufacturing, is different from the phase passed through earlier by others, like Japan and Korea.

This process is not restricted to developing economies. The United States has shown how economies need to adjust to new technologies to maintain growth. A recent comprehensive review by the OECD of what creates growth and the role of productivity in it, demonstrates how the embrace of IT has been an important driver in the US.

The fundamentals of what enables the US economy to maintain competitiveness are the same in other economies. Government interference in business should be restricted; property rights should be strong, and legal institutions need to be independent and effective at protecting property rights. The emphasis on respective fundamentals will of course vary according to the circumstances of each economy.

#### **“Building Sustainable Growth” – an Obvious New Core Mission for APEC**

The set of issues that need to be addressed to improve growth is large. An organizing idea or principle is needed, against which to examine these issues to give focus and direction. In 2003, the OECD undertook a major study on growth, which sets an interesting precedent. It commenced a major review of what contributed to growth in OECD economies, with a particular focus on the role of information technology.<sup>9</sup> The methodology it employed was to assess the relative performance in productivity by OECD countries and to analyze what contributed to it.

An interesting lesson emerged from the study. A systematic examination of productivity is a very effective organizing idea to examine how the fundamentals in an economy are contributing to growth.

The concept of a comparative analysis of productivity and its relevance to growth should have strong appeal to APEC economies. It is widely recognized that productivity is a key factor in competitiveness. All APEC economies have experienced how competitiveness alters as costs, particularly labor costs, rise, and the balance of dependence on performance in sectors change as the economies change. Lower income economies depend more on agriculture, higher income economies on services. But all sectors have to be competitive if growth is to be sustainable. How to maintain competitiveness is a common interest throughout APEC.

Securing sustainable growth is an obvious, prospective, new mission for APEC. It could be launched with a large study of productivity in APEC economies. It could draw on the OECD work as a point for departure. It already includes work on a number of APEC economies. Another point of reference is a review last year by the World Bank on the drivers of growth.<sup>10</sup> While there has been considerable work done on these issues in the OECD economies, work on developing economies in East Asian and Latin America has been limited.

This would be a two or three year study and would probably require some ground breaking research on how to measure productivity, as well as measures relevant to developing economies. This is work that is not being done in any other forum and is a natural mission for APEC.

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<sup>9</sup> The OECD Growth Project, Sources: OECD (2003) *The Sources of Economic Growth in OECD Countries and The Policy Agenda for Growth* (summary document), available from the Growth Project homepage at: [www.oecd.org](http://www.oecd.org).

<sup>10</sup> *Economic Growth in the 1990s: Learning from a Decade of Reform*, 2005 World Bank [http://publications.worldbank.org/e-commerce/catalog/product?item\\_id=4386199](http://publications.worldbank.org/e-commerce/catalog/product?item_id=4386199).

The results of such work would open up a large agenda of issues for APEC members to consider. There would be ample scope for Leaders to address issues that were strategically important to strengthening open economies securing consistent growth among APEC economies.

This is not a project for Foreign and Trade Ministers. It is clearly a project for Leaders. APEC's institutions would need to be adjusted if this work were to become a new leading agenda item for APEC. If Leaders decided to adopt such a leading economic priority for APEC, the institutional changes required to support it, would become self-evident.

# APEC's Trade and Investment Liberalization and Facilitation (TILF): Its Achievements and Tasks Ahead

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*EXTRACT of full paper, "APEC's Trade and Investment Liberalization and Facilitation (TILF): Its Achievements and Tasks Ahead"*

## **Initiative for Liberalization in APEC**

**N**owadays we often hear that there has been a paradigm shift from APEC to East Asia and APEC has finished its role. It is a pity that this argument is often made by those who are not aware of APEC's past experiences.

However, it is true that Individual Action Programs (IAPs) have not gone far beyond the Uruguay Round commitment and that another liberalization program to supplement IAPs, Early Voluntary Sector Liberalization (EVSL), actually failed to be realized because of the conflict between major participants in 1998. These setbacks, together with the East Asian crisis, which hit Southeast Asian economies, a leading APEC group of high growth potential, decreased the liberalization momentum and expectations of APEC.

However, the pessimistic views about APEC, which we hear occasionally today, ignore the real capabilities of APEC. Recent experience has certainly revealed that APEC is not a negotiating body and cannot do much alone in the liberalization area. However, it can still contribute to liberalization under the World Trade Organization (WTO), by acting as a catalyst.

This paper aims at a brief overview of APEC's experiences in its main activity, Trade and Investment Liberalisation and Facilitation (TILF); first APEC's unique Individual Action Plan (IAP) approach and its modest achievement, and the Early Voluntary Sectoral Liberalization's (EVSL) failure. And then we will seek a way to link APEC's liberalization programs under open regionalism with the WTO. Then we extend our overview to the mushrooming Free Trade Agreements (FTAs) and other forms of sub-regional trading arrangements within APEC, and our suggestions about how to reconcile them with APEC's open regionalism. Last, we examine, through the Midterm Stocktake, APEC's current efforts to meet the first deadline towards the Bogor Goals.

## **TILF: Its Unique Modality and Achievement**

The Osaka Action Agenda for liberalization and facilitation started with eight general principles: comprehensiveness, WTO-consistency, comparability, non-discrimination, transparency, standstill, simultaneous start, continuous process, differentiated timetables, flexibility, and cooperation.

It had an extensive coverage of 15 areas: tariffs, non-tariff measures, services, investment, standards and conformance, customs procedures, intellectual property rights, competition policy, government procurement, deregulation, rules of origin, dispute mediation, mobility of business people, implementation of the Uruguay Round (UR) outcomes, information gathering and analysis. The Action Agenda suggested a menu of actions by individual member economies and concerted actions by all members in individual areas.

Its new modality, the way to implement its liberalization and facilitation programs, was the 'concerted unilateral liberalization' (CUL). That is, individual member economies announced unilaterally their own liberalization and facilitation programs, and implemented them in accordance with their domestic rules. However, individual APEC members watched closely each other's liberalization program and its implementation. They felt obliged to submit liberalization programs as big as their neighbors. They were encouraged to implement what they had committed to. We relied upon 'peer pressure' to urge all members to join the liberalization. This was the essence of CUL.

The Osaka ACTION Agenda was a guideline for individual members to draft IAPs. All member economies submitted their IAPs by September 1996 and The Philippines, the APEC host that year, packaged them together to be adopted as the Manila Action Plans for APEC (MAPA) in November. All members started to implement their IAPs on 1 January 1997.

This modality was criticized as lacking assertiveness in comparison with the western approach of negotiating, as in GATT and the WTO, a liberalization agreement, which was legally binding. Signatories to such agreements would be punished and sanctioned if they failed to

implement their commitments. At the initial stage this legalistic approach could not be accepted by Asian members. However, this should not be understood as Asian members' hesitating to commit to liberalization. Asian members have so far implemented trade and investment liberalization unilaterally. They realize that their recent high growth has been based on their open economic policy and that continued efforts towards liberalizing their trade and investment was indispensable for further growth. This understanding was reflected in their leaders' commitment to the Bogor Declaration.

The CUL technique has both advantages and disadvantages. On the one hand, it provided a flexible framework for liberalizing within a short time. On the other, results were difficult to measure; the plans differed considerably, and they were structured so as to list accomplishments, while omitting significant obstacles which remained. The author organized a study team in the Japanese PECC Committee, and made quantitative assessments of IAPs for 1996-1998. This was a way of objectively measuring progress toward APEC's free trade targets (2010 for developed members and 2020 for the rest of members). Although being handicapped by gaps in the available information, we tried to provide a fair and objective assessment of the IAPs. We examined carefully the Osaka Action Agenda and Chair's Common Format and selected check-points, to assess progress objectively and consistently.

Our assessment conveyed a mixed result. Generally speaking, many economies committed to liberalization in concrete figures only for the short term and their commitments were characterized as 'UR agreement plus small  $\alpha$ '. That is, liberalization they had committed to under the UR agreement, plus additional unilateral liberalization measures. However, prospects in the area of facilitation were

brighter, especially in the collective action plans (CAPs), which detail joint actions. These collective plans have been strengthened, thereby supporting the concerted implementation of members' IAPs. The precise degree of progress in advancing collective action depended to a large extent on the degree of initiative exercised by the conveners in charge of various APEC subcommittees and expert groups.

How were the collective plans related to IAPs? APEC members participate in the CAP voluntarily, and report on their involvement via their individual plans. Participation in collective plans is a very important means by which members can move towards APEC's goals, especially in the areas of trade and investment facilitation, and in economic and technical cooperation. The encouragement offered by CAPs is likely to mean that APEC's objectives will be achieved earlier than the 2010/2020 deadlines, by both industrialized and developing economies.

While APEC's trade and investment liberalization agenda has achieved its goals in some areas, it has proved unable to tackle certain difficult sectors. These have been left to WTO negotiations.

### **Failure of Early Voluntary Sector Liberalization**

EVSL was introduced as a way to break through the slow liberalization process using the IAPs. It is also a part of CAPs and jointly implemented by individual economies. The Osaka Action Agenda had already mentioned EVSL: "APEC members will identify industries in which the progressive reduction of tariffs (and non-tariff measures) may have positive impacts on trade and on economic growth in the Asia Pacific region or for which there is regional industry support for early liberalization" (The Osaka Action Agenda, 1995, Section C, pages 6-7).

The concrete plan for implementing EVSL was scheduled to be agreed upon by the Trade Ministers' meeting in June 1998. However, they failed to agree on the Chair's proposal.

The implementation plan stated as follows: "Participation in the 9 sectors and all three measures (trade liberalization, facilitation, and ECOTECH) in each sector will be essential to maintain the mutual benefits and balance of interests, which Leaders had established when selecting the sectors in Vancouver".

The idea of liberalization had changed to a package deal with less flexibility. The EVSL idea could supplement the IAP, but this proposal of 'all 9 times 3 in a package' seemed to be too ambitious at the current stage of APEC process.

Some economists warned against the EVSL approach on the grounds that it tended to lead to piecemeal liberalization of easier sectors, leaving difficult sectors untouched. However, this criticism was not relevant to EVSL. It neither aims at a full-scale package of sectoral negotiations like an across-the-board negotiation as in the Uruguay Round, nor would it replace the IAPs as the principal mechanism of APEC's liberalization. It was only additional to the major tracks of IAPs. Whatever liberalization was achieved through EVSL would enhance the IAPs of individual economies and should therefore be welcome.

However, it became the package proposal of 9 sectors times 3 measures. The element of voluntarism was weakened so that each economy must either say yes or no to this package proposal. The flexibility arrangement was yet to be elaborated but it would generally be in the form of a longer implementation period.

Eventually, while the tariff element of the nine sectors of EVSL was forwarded to the WTO, the implementation of their NTMs, facilitation, and ECOTECH elements will proceed under a New Zealand initiative. Facilitation and ECOTECH form a WTO plus element in APEC. EVSL aimed to push them together with liberalization, that is, first achieve a “critical mass” agreement on a suitable package of liberalization, facilitation, and ECOTECH within APEC, and then forward the liberalization element to the WTO to bind with the WTO liberalization commitments. The EVSL initiative has continued in the form of surveys and sector seminars/workshops, to progress the work on NTMs, facilitation and ECOTECH, but failed to break the slow process of APEC’s liberalization.

#### **Catalyst Role in WTO Liberalization**

The third disappointment about APEC was its failure in successfully preparing for launching the New Millennium Round negotiation of the WTO in Seattle in November 1999. Indeed APEC leaders had declared their support for the launching of the WTO negotiations at the Auckland meeting two months earlier. Quite a few other reasons were cited as responsible for the failure in Seattle. However, APEC trade ministers could not reach an agreement on the agenda of the coming round in their June meeting. The same structure of conflict as one over the EVSL initiative was observed on the agenda for agricultural liberalization among major APEC members.

In November 2000, in Brunei, APEC Leaders declared their wish to launch the New Millennium Round in 2001. The Doha Development Agenda (DDA) negotiations started in January 2002, on a wide range of issues as well as the UR Built-in Agenda of agriculture and services. The DDA could not be concluded in three years as originally scheduled, and is now in the middle of its

extended two years. However, we were not informed of any significant efforts towards resolving these conflicts. On agricultural negotiations, Japan talked only to the EU, against the US and Cairns Group members, including many APEC members. On the anti-dumping rule, Japan, Korea, and developing economy members looked to the new Bush administration expecting that it would persuade the protectionist groups at home.

APEC, meanwhile, has started a new initiative for facilitating liberalization of its developing economy members, with a program that links technical cooperation to trade-related capacity building. Developing economy members are often handicapped by their limited capacity to implement liberalization, which is often a major reason why they cannot actively join the multilateral trade negotiations. Japan proposed this program at the Trade Ministers’ Meeting in June 2000 and undertook a field survey of nine developing economy members about individual economies’ need for such assistance. The APEC Ministerial Meeting in November 2000 accepted its report and adopted the idea as an APEC program for supporting developing members’ efforts towards liberalization.

#### **Open Regionalism as a Good Asset of APEC**

The catalyst role for APEC in WTO liberalization efforts is consistent with the open regionalism of APEC. Since its start in 1989, APEC has been associated with the term ‘open regionalism’, which is used to convey APEC’s philosophy of not becoming inward-looking. Indeed, the philosophy has been widely accepted by almost all APEC members because most of them rely heavily on trade and investment with economies outside of APEC. However, the meaning of “open regionalism” has not been clarified.



The term itself is self-contradictory since 'regionalism' conveys a closed grouping. It needs to be clarified. Firstly open regionalism does not mean 'free admission'. Economists of non-member economies often object to the term, because APEC has an embargo on admissions to APEC membership. The author does not deny the desirability of admitting any applicant who fulfills all the requirements for membership. However, any group needs to constrain its membership, so that it maintains integrity and the effective working of the group. Broadening and deepening the membership need to be balanced, as we observe in the history of the European Union.

More important than membership, is the availability of benefits that accrue from APEC. A good example is the application of APEC liberalization to both members and non-members, on an MFN basis, thereby resulting in no discrimination at all. This was recommended for all APEC members, because APEC liberalization was delivered unilaterally. This perception was widely shared in the western Pacific. As a matter of fact the author once characterized its new modality as an 'Open Economic Association' (OEA).

This provides a new type of regional integration different from a free trade area, which does not discriminate against non-members and is strengthened by facilitation and Ecotech. However, this perception of open regionalism was not shared by American economists, who claimed that effective liberalization was not usually delivered unilaterally and on an MFN basis. As a matter of fact, the US has not committed to liberalization beyond the Uruguay Round agreement, in its IAP. It also pointed out that such an arrangement will encourage free-riding (that is, suspending your own liberalization but benefiting from other's liberalization) and that it is constrained by the parliamentary procedure in the United States.

It would be too strict if we defined open regionalism as the MFN application of liberalization. A more practical definition is an 'open regional cooperation'. That is, promoting regional cooperation in accordance with multilateral rules. The catalyst role of APEC suggested in the previous section fits this concept of open regionalism. It also fits the current state of the Asia Pacific economies. Because of their long-term dependence on trade and investment links outside the region, Asia Pacific economies have shown great interest in global trade liberalization and participated actively in the Uruguay Round negotiations. The Osaka Action Agenda confirmed 'consistency with multilateral liberalization' as one of its general principles. The open regional cooperation is the most workable concept of APEC's open regionalism.

#### **How to Incorporate Sub-regional Trading Arrangements with APEC**

During the last decade we witnessed the prevalence of sub-regional grouping proposals within the APEC region. The prevalence of FTAs has been a global tendency over the last decade. One hundred and twenty FTAs were reported to GATT/WTO by May 2000, more than a half of which were formed in the latter half of the 1990s.

Some outside observers warn against the possible erosion of APEC's fragile efforts for liberalization. They contend that new bilateral FTAs are inconsistent with the Bogor goal and will also impede their liberalization efforts under the WTO. An East Asian Free Trade Bloc could become inward looking and discriminate against non-East Asian members of APEC. This would stimulate similar regional groupings in other regions, especially in North and South America. APEC would fall apart into a Free Trade Area of America and East Asia.



The FTA initiatives are criticized because of their inconsistency with multilateral liberalization, and because of trade diverting effects, mainly to non-member countries.

This is based on the negative static effects of the elimination of tariffs and non-tariff measures between members of an FTA.

However, many economists admit it is likely to be more than offset by positive dynamic effects of intensified competition, economies of greater scale, promotion of investment and technology flow.

Furthermore, the criticism is addressed to the conventional FTA defined by Article 24 of GATT. Nowadays many of the current FTA initiatives aim to include a greater coverage such as investment and services, rules of origin, harmonization of rules and standards, intellectual property rights, and a dispute settlement mechanism, as well as tariffs and NTM. This type of agreement has been given a new name, a Comprehensive Economic Partnership (CEP) agreement, and is aimed at pursuing the dynamic effects.

The dynamic effects of a FTA are realized only through structural changes. This inevitably meets strong resistance by vested interest groups at home. It succeeds only through breaking their resistance, which is common to the WTO liberalization. In this respect, forming a FTA serves as a laboratory for overcoming domestic resistance and thus contributing to preparation for liberalization under a greater coverage such as APEC and the WTO.

An FTA imposes negative trade diversion effects on non-members, and thus introduces discrimination within APEC. Critics of the new FTAs insist that, under the name of open regionalism, liberalization and other measures of the FTA should be applied to non-members on a Most Favored Nation (MFN) basis, so that there will be no discrimination. Indeed, it is ideal for a sub-regional FTA to be applied to non-member APEC economies on an MFN basis. This, however, does not take into

consideration the difficulty of breaking through the vested interest groups at home. Furthermore no existing FTAs, such as NAFTA, ANZCER, and AFTA, are applied on an MFN basis. It would be unfair to apply the stricter rule only to late comers.

A proposal for a FTA for APEC (FTAAP) was made recently by some economists and businessmen. They argue that to strengthen the weakened momentum in APEC for achieving the Bogor Goals, and to prevent the bilateral and sub-regional FTAs from distorting trade and investment and dividing the Asia-Pacific, APEC should make a new attempt to negotiate for a FTAAP, departing from the traditional non-binding and open regionalism approach.

It seems to me that FTAAP is beyond the current capacity of APEC. I agree with the need for strengthening the momentum for achieving the Bogor Goals and share the concern about possible trade and investment distortion by the FTA moves among APEC members. But we also witness severe conflicts of interest between APEC members. I would like to see more efforts to resolve these conflicts within APEC, to support the feasibility of FTAAP.

After all, the FTAAP proposal seems to be a hasty approach and it may endanger the APEC framework itself. Rather, I would like to take advantage of the current momentum for bilateral and sub-regional FTA moves among APEC members, and cleverly guide them in a direction consistent with multilateral rules. Let them serve as a laboratory for breaking through domestic resistance. APEC should remain a catalyst rather than playing a negotiator role itself.

### Mid-term Stocktake

The IAP practice has continued with its CUL modality. APEC member governments have continued to submit revised versions of their IAPs annually, and their content has improved steadily. The CTI (Committee for Trade and Investment) project team prepared a Style Guide for Presentation of IAP Templates which encouraged all IAPs to follow the same broad tabular format:

- a brief overview statement of the economy's vision/policy approach to the area;
- a table which outlines improvements implemented over the preceding year, the current situation, and planned further improvements against specified reporting criteria; and
- a table providing base-year information for that area of the economy, and cumulative improvements made towards Bogor goals against specified reporting criteria.

As the IAPs are improved along this line, they will provide both policymakers and business people with useful information about the trade and investment environment of individual APEC economies. They will also give a clear indication of the progress being made toward the Bogor Goals.

A peer review process within SOM started in 1999, in which individual member economies submit their IAPs for peer reviews at CTI meetings. In Shanghai APEC in 2001, the Midterm Stocktake was started in order to prepare for the first deadline of the Bogor Goal in ten years. A small team was formed to review individual member's IAPs. The author participated in a team on Australia's IAP and experienced this practice. The review was mainly based on a detailed check of the most recent IAP and hearing from officers from the member economy, taking into account comments and questions on the IAP by other members. The report was submitted to SOM and exposed to further comments and discussion.

### Conclusions:

- APEC's liberalization initiative has met impediments and failure. It has been affected by too much expectation and hasty attempts to follow WTO practice. We need to guide APEC in accordance with its capacity and the readiness of its members.
- Constrained by its original modality of voluntarism, APEC cannot be a negotiating body. It should leave binding liberalization to WTO or FTA negotiations. However, APEC can play a catalyst role to supplement the WTO in promoting liberalization.
- APEC has developed facilitation, and assistance to capacity building, as supplementary programmes to liberalization, in parallel with the WTO. This takes advantage of regional cooperation. APEC is expected to continue its contribution to these areas in the WTO regime.
- Most members of East Asia participate in APEC and East Asia has served as an engine of dynamic development in the Asia Pacific region. The increased momentum for East Asian regionalism reflects the emerging dynamism in the region. However, East Asian members still need technical assistance in implementing facilitation and capacity building measures. I wish non-East Asian members of APEC to understand this reality correctly and to participate in the East Asian development.
- An East Asian FTA is still a remote goal, constrained by economic differences between members and immature market economies. APEC, with its existing taskforces, can help East Asian development by providing assistance with facilitation and capacity building, thereby guiding East Asian regionalism in a direction consistent with APEC's open regionalism.

# Capacity-building for Economic Cooperation with Shared Prosperity

*Andrew Elek, The Foundation for Development Cooperation, September 2006<sup>1</sup>*

**A**PEC is doing many useful things. As described in the 2005 Busan Roadmap the process has encouraged our governments to make many good decisions. Obstacles to trade and investment are coming down and the collective activities to facilitate trade and investment are already delivering benefits worth billions of dollars each year. ECOTECH projects are also adding value. Many of them are supporting the drive towards free and open trade and investment, confirming that there is a productive and symbiotic relationship between TILF and ECOTECH.

## Capacity Building

Despite all that, APEC has a serious credibility problem in converting its good intentions to promote capacity-building into real strategies. Achieving something significant in terms of capacity-building will need persistence as well as patience, combining a strategic outlook for the next decade, with what needs to be done immediately.

Existing ECOTECH efforts should not be cast aside. But they need to be much more focused. APEC needs to find better ways to coordinate and rationalise the many existing

low-key efforts. But a second track is needed – an additional track of a few big strategic efforts, which are well understood, clearly linked to the implementation of the Busan Business Agenda, and endorsed at the highest levels.

If APEC leaders perceive these new efforts to be significant, then they will be in a position to encourage existing agencies, like the World Bank, to work in partnership with the private sector to finance and implement well-defined Action Plans, to complement the existing Action Plans for TILF.

To understand the problem with ECOTECH, it is essential to understand existing and potential objections and resistance, to more substantial capacity-building. In any process with lots of committees, there is resistance to real change. A more valid question is whether more emphasis on capacity-building would divert APEC away from the ‘main game’ of trade liberalisation? Free and open trade and investment, is certainly a crucial ingredient of the effort to help all Asia Pacific economies realise their potential for

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<sup>1</sup> This paper is adapted from a presentation to an APEC symposium on “ECOTECH and capacity-building: assisting integration into the global economy” held in Acapulco, Mexico, August 15, 2002.

sustainable development. However, it is not the only ingredient. A lot more can be done to enhance human and institutional capacity, including the capacity to take advantage of new opportunities created by more open markets.

Conversely, the Bogor Goal will not be achieved, unless the trend towards ‘opening to the outside world’, is accompanied by a wide-spread perception that life is getting better for the currently disadvantaged. As Fred Bergsten put it in Merida in May 2002:

“APEC has made a major contribution to the spread of globalisation with its adoption of the Bogor Goals. Achievement of ‘free and open trade and investment in the Asia Pacific’ by 2010 or 2020 would further expand [these] gains.”

However, it will not be easy to realise these benefits. As he reminded us, while trade and investment liberalisation is:

“... clearly in the overall interest of all of its member economies, [it] levies costs on some groups and individuals within each of those economies. Globalisation creates losers as well as winners. Bogor thus covered only half the issue. APEC must address these concerns effectively, for social reasons and to maximize the economic benefits from its liberalization program, but also to minimize the political resistance to the pursuit of liberalization itself.”

### **Shared Prosperity**

Efforts to promote shared prosperity need to be encouraged alongside free and open trade and investment. What are the issues, and does APEC, as such, have a role in this effort?

Shared prosperity is not just a matter of compensating short-term losers. However,

thinking about compensation and social safety nets is also not enough. Safety nets are important to deal with symptoms of deeper problems, but we also need to address the causes. Why can’t everyone take advantage of new opportunities, created by new technology as well as more open markets?

The reasons include

- poor health and education services;
- inadequate access to communications, physical as well as electronic; and
- inadequate access to finance for investment, especially for the large number who are involved in micro-enterprises.

Under these conditions, it is easy for a coalition of protectionists, greenies and others, to resist free and open trade and investment. Therefore, dealing with these broader issues is not a diversion from APEC’s current goals, but essential for achieving them.

At the same time, many others are trying to address these issues of economic development. Governments, development agencies and non-governmental organisations have been trying to deal with these problems for several decades. Can APEC add value? The APEC process can make a useful contribution. That will not be by duplicating the efforts of others, but by creating new opportunities; facilitating and encouraging others to invest in capacity-building.

Dealing with these problems of development requires massive investment in what are often public goods; some of which are international public goods. Individual businesses cannot be expected to meet economy-wide needs for education and training. And it will not always be efficient for Asia Pacific governments to design and administer such institutions, or human resource development programs, in isolation. In many cases, international economic cooperation can realise economies of both scale and scope.

APEC working groups are already dealing with issues related to health, education, communications and finance. They are assisting ongoing efforts by sharing information, experience, expertise and technology, about what works best in different situations in our diverse region. By doing so, they are generating new opportunities for economic cooperation; and new ways of encouraging others to build on these. Such a catalytic role can transform what are currently exchanges of good ideas, into programs that can make a real difference.

As an example, APEC is already laying the groundwork for a potentially comprehensive set of region-wide agreements, on mutual recognition of product and process standards. That is a vital means to facilitate international trade and investment.

To give effect to such agreements, many people will need to be trained to acquire the relevant skills. APEC working groups have already developed excellent new training methods and materials, including techniques for understanding, adopting and conforming to international product and process standards. Some people have already been trained.

However, region-wide mutual recognition of many standards will require not just dozens, but thousands of people. All of these will not only need to be well trained, but they will also need to trust each other to administer standards fairly, as well as competently. The most effective way to meet this combined challenge is to train these people at regional centres of excellence.

It would be desirable to expand training in this, and many other relevant fields, to a scale that can make a real difference. And it will be far more efficient to do this regionally, or at least sub-regionally, not just economy by economy.

## Facilitation

There are many other ways that the APEC process can add value, by facilitating region-wide, rather than fragmented, capacity-building efforts.<sup>2</sup>

The word 'facilitating' is a fundamental to the concept of APEC.

APEC is a voluntary process of cooperation – it is not an implementing agency, or even a decision-making agency. Its task is to facilitate: to encourage Asia Pacific governments, and others, to make the decisions and investments needed to achieve mutually beneficial economic integration, and to create the environment in which free and open trade and investment becomes politically possible.

If APEC is to become usefully involved in promoting capacity-building for shared prosperity, it must not become another aid institution. The main investments to improve access to health, education, finance and communications, are not going to come from an APEC budget. These investments will be made by Asia Pacific governments, the private sector and existing development agencies, such as the World Bank. The challenge for APEC is not to beg for funds, but to generate new opportunities to create region-wide public goods and to create a policy environment that will encourage others to make the necessary investments.

It can be done. There are some good precedents. For example, APEC Leaders have focused a lot of their attention on the new information and knowledge-based economy. That paved the way for the

<sup>2</sup> More such examples are set out in "ECOTECH at the heart of APEC", by Andrew Elek and Hadi Soesastro in Ippei Yamazawa ed. Asia Pacific Economic Cooperation (APEC): challenges and tasks for the 21st century, Routledge, London and New York (2000) and also published, with their permission, by The Foundation for Development Cooperation.

high-level meeting on human capacity-building for the new economy, hosted by China in 2001. That, in turn, has led to a significant private sector investment in information technology (IT) training. The program is based in China, but open to others in the Asia Pacific region.

APEC Leaders can expect a positive response from the private sector and the multilateral development agencies, to other good ideas emerging from the ongoing ECOTECH work of APEC.

However, we can't approach them with several hundred such ideas. Much clearer priorities are needed. It is essential to combine an understanding of the broad challenge of building the capacity to achieve shared prosperity, with common sense about where APEC can make a useful contribution.

To focus APEC's ECOTECH effort, it will be important to set targets which:

- are sufficiently significant to be well understood;
- are measurable;
- complement other goals already set by APEC Leaders, especially the implementation of the Busan Business Agenda; and
- are realistic.

Before leaders stake their credibility on a new target, they should insist on seeing a strategy which would, at least, make it feasible.

Meeting these criteria will be hard enough, but there are more ...

Potential targets endorsed by APEC Leaders should be in areas where APEC can make a difference. They should be ones:

- where APEC working groups, or others, have pointed to new opportunities;

- where there are economies of scale or scope from international co-operation, rather than working in one economy at a time; and
- where APEC can play a catalytic role, mobilising the implementation skills and financial resources of others, to achieve the desired outcomes.

These are a fairly tough set of selection criteria. The next question is, are there, in fact, any targets that meet all these criteria?

Fortunately, thanks to the 2000 leadership of Brunei Darussalam, there is one which fits pretty well.

At their 2000 meeting, APEC Leaders adopted the targets of trebling access to the internet by 2005, and for region-wide, community-based, access by 2010. The objective of region-wide access to ICT does meet most of the selection criteria listed above. APEC Leaders were right to adopt this target.

The only selection criteria which has not been met in full, is the requirement for a clear strategy for implementation. Trebling of access to the internet by 2005 was no problem. However, it will be much harder to reach the most remote parts of the region, so there is more to be done.

### **What is the state of play?**

As set out in the declaration of APEC Ministers in Shanghai, APEC groups are doing a lot of work which will be relevant to promoting region-wide access to ICT via the internet. However, no overall strategy has been presented to, or endorsed by, APEC leaders. No particular part of the APEC structure is responsible for monitoring progress towards this 2010 goal. The Brunei commitment of APEC Leaders did not even get a mention in their Shanghai declaration. Reaffirming the Brunei Darussalam target as part of the Busan Roadmap, would be welcome.



# The New Security Agenda and Emerging Concepts of Regional Resilience

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## The New Security Agenda

**T**he term “new security agenda” is widely discussed and debated in the literature, but there is no real agreement on the content and nature of this allegedly new set of concepts. To add to the complexity, almost everyone agrees that all of the elements of the agenda, however defined, are inter-related in complex ways, and while some elements are essentially global in nature they have particular local and regional manifestations and inter-act with a range of essentially local factors. However, in the Asia Pacific region, most commentators would agree on at least some elements of this new set of security issues as they apply to this pivotal region:

- a set of essentially old issues that have been redefined. There are some important old issues in the region, many of them hangovers from the Cold War, that remain important, but these have been redefined in important ways and thus interact with the new agenda in novel ways.
- the regional manifestations of the ‘War on Terror’. The terrorist attacks on the United States in 2001 had a profound impact on the global security agenda, and there have been some important regional manifestations, notably in Indonesia, the Philippines and Thailand. But China has also expressed concerns about the threats in its own western regions.
- concerns about the spread of weapons of mass destruction. The apparent break down of the Nuclear Non-Proliferation Treaty (NPT) has raised sensitivities about the possibilities of state actors and various terrorist groups gaining access to such weapons. There have also been concerns about the knock-on effects of such proliferation. Notably, it has been suggested that if North Korea is successful in retaining and enhancing its nuclear capacity there would be strong pressures on both Japan and South Korea to acquire a matching capability, with strong implications for regional stability.
- the redefined security philosophy and posture of the US. Largely, but not entirely, as a result of 9/11, the administration of President George W. Bush has enunciated a new security paradigm based on the possibility of pre-emptive strikes against potential security threats of various kinds. The President’s ‘Axis of Evil’ speech, in which he included North Korea as a key potential security threat, had a profound impact on the situation on the Korean Peninsula and

on US relations with both Koreas. This new posture has also been echoed by a number of key US allies in the region, including Australia.

- downgrading of support for multilateral organisations. In its new security endeavours the US has expressed a clear preference for the creation of strong bilateral alliances and special purpose 'coalitions of the willing' rather than relying on a range of multilateral agencies, notably the United Nations. If necessary, the US has expressed a willingness to take unilateral action without the express approval of the world body.
- the growing emphasis on a number of new kinds of threats, usually described as threats to human security. Potential pandemics such as HIV-AIDS and avian influenza, a number of large-scale environmental problems, the growth of international crime, the illegal movements of people across international borders and similar concerns are usually included here.
- the economic and military rise of China. The rapid growth of China has had a transformative effect on the regional economy and trading system, and some doubts have been expressed about the destabilising effects of China's expanding military budget. Deteriorations in China's relations with Japan are also seen as a potentially dangerous regional issue.
- new military technologies. The continued enhancement of new high-tech weapons, usually under the general title of the Revolution in Military Affairs (RMA), is having important ramifications for defence postures and on military acquisition strategies in the region.

### **Response of APEC to this New Agenda: Development of a Focus on Human Security**

Faced with this enormously complex new situation, APEC's response - at least at the level of public pronouncements - has been to concentrate on the part of the agenda that is usually termed human security. I have argued elsewhere that this rather narrow focus is not entirely desirable, although there are persuasive arguments on both sides. It is not my intention here to re-visit that debate. Rather, I want to look at the whole agenda for human security and other non-traditional (or 'soft') security concerns, that have now become so central to the APEC programme, and ask if they are being pursued in an adequate way. I want to present three arguments here:

- the way in which the issue of human security is presented in APEC fora does not do justice to the rich literature that has emerged on this concept in recent years. Debates about the whole focus and central concerns of the concept have been glossed over and some key policy and political differences have been ignored.
- the links between human security concerns and other key elements of the new security agenda as I have summarised it above, have also been glossed over, with some potentially serious consequences.
- the whole development of the human security agenda in APEC has been haphazard to say the least, and there is an urgent need for a much more coordinated and comprehensive approach.
- the concept that has been used elsewhere to focus debate about human security and to anchor assessments of regional and local capabilities to meet potential threats, the idea of resilience, needs to



be carefully examined within the APEC regional context to assess its potential viability and usefulness.

- finally, I argue that there is a need to do much more work in this area, and this might usefully be the focus of a new collaborative research project, perhaps through APIAN.

### **Exploring the Literature on Human Security**

The current debate about the re-definition of the whole concept of security, and the definition of the field of human security, is based around three separate but related threads. The first concerns the place of economic relations within the security domain. It has often been contended that trade and other economic linkages play a positive role in the development of stable and productive links between nations, but this has been challenged in a number of recent studies. Secondly, the scope of what constitutes the security domain is under question, with a number of writers arguing that we must look at definitions that are much broader than have been conventionally used. Thirdly, even those writers who still concern themselves with the traditional concerns of security studies now argue that new kinds of threats to stability must be included in our analyses.

In the literature on international relations and security, there has been a long-running debate about the relationships between economic change and the degree of resultant stability or instability in the security environment. On the one hand, some analysts have argued that economic growth will inevitably lead to greater interdependence between nations and a general desire to avoid any conflict that might interrupt economic progress. Hence, economic growth and change lead to regional stability. Also, as growth proceeds, there has been a tendency in many countries for more

democratic forms of government to emerge, and some commentators have gone on to argue that two democracies will never go to war - the so-called democratic peace theory.

In marked contrast, some analysts have argued that the process of growth itself can lead to instability, especially in the current phase of capitalist development. There have been marked shifts in power distribution between nations and a seemingly inevitable widening of the gap between rich and poor, both between and within nations. The intense competition that now characterises the world economy can lead to serious rivalries and disputes that can escalate into armed conflicts.

At the same time, the increased national wealth that has resulted from rapid growth can be used to purchase ever more sophisticated and destructive weapons, intensifying the damage resulting from any conflict. Few, if any, nations in the region can be regarded as supporters of the status quo, especially in the economic realm, and intense competition has been an inevitable consequence of the greater integration into global markets. If, however, economic prosperity leads automatically to a more peaceful region, APEC needs only continue its present path to make a significant contribution to peace and security. If, on the other hand, economic growth is rather more problematic in its security implications, then a rather more complex set of policy and institutional solutions need to be designed.

The gathering pace of globalisation is also adding a number of complications. Growing international linkages and interdependencies are, at least in the view of some, weakening the power of the nation state. In many countries, the nation state is no longer the sole arbiter of policy, even of policies that have implications for security, especially if one accepts the new, broader concept of security discussed above. The entire post-war security system has been built

around relations and treaties between sovereign states. However, this concept looks rather shaky in some parts of Asia, where economic and political weaknesses, and fragmentation through religious or ethnic conflict, are causing serious problems of instability. Indonesia is a prime example here.

Some of the best of this new literature is not arguing that traditional security concerns have become obsolete; this is clearly not the case. Rather there is a search for conceptual linkages between the old and new issues. Tow and Trood have suggested four potential linkages between the two schools of thought, and these are used in my later analysis:

- Conflict prevention. Traditional security studies have spent much time dealing with the ways in which conflict can be prevented, and this is very much at the centre of the debate about human security
- Reducing vulnerability. Traditional studies have dealt with the nation state as the subject of security, and have employed concepts of state sovereignty and social contract to deal with over-riding issues of order. Human security stresses human welfare goals and sees the state only as a means to achieving these goals, and only one means among many.  
A meeting point between these concepts can be the use of various instruments such as collective security to overcome behaviour that could threaten states, communities or groups.
- Who is to be governed and secured?  
A number of recent studies have argued that security is a problem of civilisation. This acknowledges that fault lines do exist between peoples, an area of concern in traditional security as well as human security analysis.
- Collective Security. Both traditional and new concepts of security concede that there is a crisis of collective security at regional international levels,

and the development of new institutions and mechanisms is regarded as a high priority.

Attempts to push the new agenda of human security have met some strident criticisms, including some particular objections from various parts of Asia. Some critics have seen the human security agenda as yet another example of Western models of economic and political development being foisted on Asia. The emphasis in much of this agenda on the individual is seen as potentially undermining the jurisdiction and power of the nation state.

To summarise the arguments presented in this section, I want to argue that:

- formulations of human security within APEC have not taken due account of the complexity and subtlety of much of this literature and its key arguments.
- key political differences over many aspects of the human security agenda have not been resolved. In particular, the emphasis in some formulations of the concept of the centrality of the individual as the primary concern needs to be brought out into the open and debated.
- the links between human security concerns and other key elements of the new security agenda have also been glossed over, with some potentially serious consequences.
- the whole development of the human security agenda in APEC has been haphazard to say the least, and there is an urgent need for a much more coordinated and comprehensive approach.

One possible way out of these difficulties is offered by the concept of resilience, which has been used elsewhere to focus debate about human security and to anchor assessments of regional and local capabilities to meet potential threats. The idea needs to be carefully examined within the APEC regional context to assess its potential viability and usefulness.

### **The Emerging Emphasis on Regional and National Resilience**

There appears to be a growing perception that the world is an increasingly dangerous place, and in many ways fear and dread seem to characterise policy responses to the various kinds of threats described as characterising the new security agenda. This process has of course intensified since the terrorist attacks on the US in 2001, but has also been given added impetus by threats from a number of pandemics such as HIV-AIDS and avian influenza, and the apparent increase in a number of natural disasters such as tsunamis. Recent catastrophic events have also thrown into doubt the effectiveness of response mechanisms even in the most advanced nations. The controversy about the slow, ineffective, response to Hurricane Katrina in New Orleans is a clear case in point here.

The immediate response to these fears, especially in the US and Great Britain, has been to develop new response mechanisms that draw heavily on military models for their methods of assessing risks and dangers and in the design of appropriate counter measures. The much debated use of military terminology, methods and responses to counter terrorism, is just the most prominent example of a much broader trend.

Most interesting for our current discussion is recent research on human security and resilience which has been used to illustrate a number of key policy issues and tensions:

- the tensions between military and health care approaches to disease threats are illustrated with reference to HIV-AIDS and avian 'flu. In particular, narrow concerns with national security are seen to be in conflict with broader humanitarian and development issues.
- the aim of maintaining security can conflict with longer-term aims of positive political and social change. In many situations, this may also involve conflicts

between national governments and civil society, and between central authorities and local or regional levels of government.

- disasters of various kinds can be seen in narrow terms as isolated acts of terrorism, acts of God, or whatever, or they can be viewed more broadly, as failures of development and failures of existing political and institutional systems.
- the extremely large amount of work being done on the 'militarisation' or 'securitisation' of cities, raises many serious political, ethical and social issues. Cities have been seen as particularly vulnerable to several kinds of attack or other threats. Four key responses have evolved to enhance urban resilience: surveillance, territorial control, contingency planning and embedding security within regeneration. However, a number of commentators have argued that governments and particular interest groups are using the terrorist threat to justify their own policy agendas. The climate of fear that is being generated also serves to merge different aspects of crime prevention. Anti-sociability and security concerns are being merged, some have suggested, to create new and serious challenges to basic civil liberties and the whole foundation of urban life. This key area of urban security is, of course, extremely important in the Asian context.

### **Resilience as a Possible Concept for APEC: A Proposal for Research**

In assessing the possible contribution that the idea of resilience can make to the development of the APEC agenda in human security, we must recognise that the term has a particular history within the organisation. For a while, resilience was championed by Indonesia in particular, but it became associated with particularly authoritarian

ideas; making sure that the state was able to resist any disruptive influences from individuals and civil society organisations intent on destabilising (as it was portrayed) legitimate governments. My use of the term here is very different in nature, but it may be that the concept is so tainted by its earlier history that an alternative may have to be found – however, at the moment I cannot think of anything more appropriate.

Having said this, it does seem to me that the ideas I have outlined do have some merit in giving focus to APEC's agenda in this area. They could provide a way of developing quantifiable measures of how well the region as a whole, and individual units at various levels within the area covered by APEC, is prepared to handle various threats. However, this is only a preliminary assessment, and much more serious analysis is needed.

With this in mind, I would like to propose that APIAN undertake a large-scale collaborative project on the human security agenda within APEC and the role that concepts such as resilience might usefully play.

Such a research activity would consist of the following inter-related parts:

- a more thorough review of the whole concept of human security, and an evaluation of the appropriateness of its use within the APEC context. This would identify gaps and confusions in the current usage.
- a review of the extent to which human security interacts with other elements of the new security agenda I have identified. Also the ways in which it is important for APEC to be cognisant of these inter-relationships.
- a review of the work on resilience and its application in various countries. An evaluation of the extent to which this has application in the work of APEC.

- if resilience is seen to be useful, a detailed development of measures that can be used in the APEC region, to identify the degree of regional and local preparedness for a range of threats. This would include an evaluation of the capabilities that exist at present, and the ways in which they can be improved.
- the emphasis on military capabilities and resilience, must be balanced by a major research component that seeks to unravel the causes of terrorism and other threats in the region. It should highlight the relationship between these threats and broader issues of development.

# An “Agenda-driven” Reform for APEC

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## Introduction

**A** reform process is already under way in APEC. This reform appears to have been driven by two concerns. First, that the most important agreement amongst APEC leaders so far, to achieve the so-called Bogor Goals, will not be realized as scheduled. The first target date for its realization by the developed members of APEC is 2010, which is fast approaching. Second, that the APEC process has been losing steam and that APEC no longer captures the imagination of governments and peoples in the region.

If so, the objective of the reform is also two-fold. First, it is to ensure that APEC can deliver on its own pledge. Second, it is to maintain APEC’s relevance and attractiveness to its stakeholders. But what will guide the reform?

APEC’s pledge to achieve free and open trade and investment in the region remains ill defined. Therefore, it will not be easy to translate this commitment into a clear and operational agenda. This could be the reason why the Bogor Goals no longer create the excitement they once did. APEC will be regarded by its stakeholders as

relevant and attractive only if its agenda is seen as relevant and attractive.

But what will be required to successfully modify and improve the organization’s agenda? APEC needs to make changes in its agenda-setting mechanism and procedures. Setting the agenda also requires sufficient appreciation of its implementation. Institutional structure and capacity will determine if an agenda can, or cannot, be successfully implemented by APEC. The past 16 years should provide sufficient information about the weaknesses of its institutional structure and capacity, for these judgements to be made.

APEC’s reform should be “agenda-driven”. The reform is essentially about changing the mechanism and procedures to setting the organization’s agenda that can be implemented. This should begin with a renewal of APEC’s agenda.

## Current APEC Reform Efforts

Let us briefly review APEC’s current reform efforts. At a Pacific Economic Cooperation Council (PECC) meeting in early April 2006, in Ha Noi, Ambassador Tran Trong Toan,

Executive Director of the APEC Secretariat, outlined APEC's latest efforts.

The reform process in APEC began in 2003. It gained momentum when APEC Leaders expressed the need to strengthen it as an institution. The focus of effort has been largely on the internal working processes of APEC, with the aim of streamlining operations and the decision-making process.

In 2005, APEC set the following priorities for its reform: (a) higher efficiency through better coordination (led by Japan); (b) APEC's financial stability (led by Australia); and (c) continuous reform (led by Singapore). Specific recommendations under these headings are contained in APEC Senior Officials Meeting (SOM) II, Paper No 33, with the following suggestions:

- APEC should strengthen communication with stakeholders, including by "seeking effective measures to better coordinate work with PECC";
- without financial reform, projected APEC income and expenditure could see APEC reserves exhausted within 2-3 years; and
- the roles and responsibilities of SOM should be reformed, and changes should be made to how it interacts with other APEC fora.

With the endorsement of APEC SOM I in Ha Noi (March 2006), the 2006 reform efforts would build upon decisions and works of past years, and aim towards enhancing the operational dynamism, operational linkages and overall operational efficiency of APEC. A Friends of the Chair (FOTC) Reform Group was established in early 2006, to come up with concrete proposals for implementation.<sup>1</sup> Three reform areas have been identified:

- improving operational efficiency (led by Singapore). Efforts include ensuring that working groups/task force Terms of Reference (TORs) are relevant, enhancing the roles of Chairs of working

groups/task forces, and assessing whether the number of APEC meetings should be reduced;

- promoting operational linkages (led by Australia). Efforts include closer coordination between committees, establishing a mechanism to assess ABAC recommendations, promoting closer linkages between APEC and the Finance Ministers Process, and further APEC-research on community/private sector cooperation through policy dialogues.
- enhancing operational dynamism (led by the US). Efforts include making APEC more efficient and results-oriented, revitalizing its profile, making the APEC Secretariat more effective, and promoting the use of best practices and pathfinder models.

Ambassador Tran also proposed three major areas on which APEC could focus its reform efforts,<sup>2</sup> namely:

- organizational area: Restructuring its internal mechanism (review of TORs of all its fora, such as committees/working groups/taskforces), strengthening the roles of Chairs/Lead shepherds in APEC cooperation; creation/disbandment of fora; reducing the number of meetings through enhancement of inter-sessional works; and considering the effectiveness of the moratorium on new membership.
- operational area: Strengthening coordination and cooperation among APEC fora, and with ABAC and the APEC Study Centre network; improving decision-making process (bottom up/top

<sup>1</sup> Membership of the group comprises the APEC Secretariat Executive Director and Deputy, the Budget Management Committee (BMC) Chair and officials from Australia, China, Japan, Peru, Singapore, US and Viet Nam.

<sup>2</sup> See, "APEC in a New Regional Architecture", remarks by Ambassador Tran Trong Toan at the PECC Seminar on Regional Institutional Architecture, Ha Noi, Viet Nam, 8 April 2006, [www.apec.org](http://www.apec.org).



- down, increasing responsiveness, making APEC more efficient and results-oriented); implementing prudent project financing; prudent expansion of the scope of APEC activities and cooperation.
- external cooperation: Coordination with sectoral ministerial processes and promote public-private partnerships; coordination/cooperation in policy issues, research, capacity building with international organizations; increasing participation of other economies and international institutions in APEC activities at the Working Group level; raising APEC's profile through strengthening communication and outreach activities.

These are important measures, but they may not be sufficient. Ambassador Tran has also argued that there are both short-term and long-term issues that APEC needs to address. He believes that “all reform measures should aim to strengthen APEC’s responsiveness to the needs of its people in this fast changing world through increasing dynamism in its identification, operation and solution of any emerging issues, which may affect the APEC's goals and well-being of its people.”<sup>3</sup>

Viet Nam, as host of APEC in 2006, has clearly identified the priority for APEC’s reform, namely with a view to building a “Dynamic and Effective Community”. This suggests an “agenda-driven” reform, the main agenda being the achievement of a dynamic and efficient community. That agenda is yet to be formulated.

### Alternative Proposals

APEC has developed an agenda that will assist its members to achieve the Bogor Goals. On the basis of its mid-term stock take, it has designed a roadmap for future works. That is, the Busan Roadmap to the

Bogor Goals. The Roadmap is meant to “fix” APEC’s agenda, which now should have the following key components:

- continuing work of the WTO;
- more ambitious and effective CAPs and IAPs with strengthened implementation and review processes;
- a more intensive focus on trade and investment facilitation and improving the business environment behind the border;
- more focused and action-oriented cooperation on ECOTECH and a strategic approach to capacity building; and
- a comprehensive workplan on RTAs/FTAs.

Should APEC re-open the debate on how the Bogor Goals relate to APEC’s objective of building a regional community? Some have felt that the Bogor Goals are too ambitious, but at the same time too narrow. They are too ambitious if “free and open trade and investment in the region”, means a removal of all barriers to trade and investment by the target dates. But APEC has not defined this, and so long as this is left open, the process remains flawed.

ABAC has also made suggestions on APEC’s reform. ABAC’s agenda is straightforward. This group of stakeholders wants to get business done. They feel that the process of removing barriers to trade and investment is too slow. Their suggestions include:

- make the IAP review process more robust and forward-looking, and IAPs more specific, transparent and accessible. Focus on what member economies have yet to do to reach the Bogor Goals;
- strengthen capacity-building initiatives, especially tailoring them to each economy, and building public-private partnerships to this end;
- transform the APEC Secretariat into an OECD-type Secretariat, with greater resources and authority;

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<sup>3</sup> Ibid.



- enhance ABAC-APEC communication, aimed at increasing private sector input, including the establishment of a formal feedback mechanism for ABAC recommendations;
- increase APEC coordination on positions in WTO and other multilateral fora, including the key areas of agriculture, market access and services liberalization.

ABAC feels that APEC should be able to make binding commitments. It is considering whether it should, or should not, propose the idea of a Free Trade Area of the Asia Pacific (FTAAP). However, it is likely to abandon this when it realizes that it will take a very long time to form an FTAAP.

In a recent policy brief, the Lowy Institute in Australia made the following suggestions:<sup>4</sup>

- APEC should abandon any aspirations to intra-APEC trade liberalization and get back to its original purpose. That is to use its economic weight to support global multilateralism, and to facilitate economic integration around the Asia Pacific region;
- it should pare back much of its current, over-ambitious agenda, possibly transferring some of this activity to new East Asian forums;
- it should resist efforts to bureaucratize the annual Leaders' Meeting;
- when the current membership embargo expires in 2007, APEC should declare its membership permanently closed;
- the inadequate APEC Secretariat should be reorganized and provided with a more realistic funding base.

These may be some of the real issues that APEC has to confront. The underlying interest here is "to save APEC". This is perhaps a legitimate agenda, but there must be compelling reasons for saving APEC. APEC should re-open a debate on what these compelling reasons are.

### Setting a New Agenda?

The first question to address is, why the East Asian members of APEC have the strong urge to organize themselves in an East Asian regional structure, and why the US has great difficulty sustaining an interest in participating actively in APEC? The second question is whether an East Asian regional structure will compete with APEC, or whether there can be a kind of division of labor between the two regional structures?

In East Asia, a strong momentum is building up to seriously explore alternative ways ("regional architectures"), that could strengthen East Asia's position in the wider region and also globally. For East Asia, APEC's attractiveness is the promise that this forum can actively engage the US in a community building process. Community building, to be meaningful, must have a strong strategic underpinning. Is this still present in the Asia Pacific region?

An East Asian process began in 1997 in the form of ASEAN Plus Three (APT). To some extent, this was a reaction to APEC's inability to come to the assistance of crisis-hit countries in East Asia. Why could this assistance not be mobilized in time and in a meaningful way? Is it because, as an organization, APEC was ill-prepared to do so, as it has no mechanisms to deal with financial crises? Or is it because the US, the largest economy in APEC, was not sufficiently focused on assisting fellow members of APEC, their partners in Asia Pacific community building? Is this because the notion of community building is too vague? Why, on the other hand, was the US capable of making maximum use of APEC to mobilize support in its fight against global terrorism following September 11?

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<sup>4</sup> Malcolm Cook and Allan Gyngell, "How to save APEC?" Policy Briefs, Lowy Institute for International Policy, 14 October 2005.

East Asia then, began with the search for its own regional mechanisms. An Asian Monetary Fund (AMF) failed to materialize; instead, it has set up a network of bilateral swap arrangements, known as the Chiang Mai Initiative (CMI). This CMI is a poor substitute for an AMF-type regional financing facility, but it has become an important cornerstone of community building in East Asia.

The East Asia Summit, as it came into being, was an accident, both in the timing of convening it, and the expansion of its membership beyond APT, to include Australia, India, and New Zealand. The agenda of EAS is likely to overlap that of the APT and also of APEC. EAS is not based on the concept of geography. Instead, it is rather fuzzy. Senior Minister Goh Chok Tong of Singapore, recently suggested that an EAS should be “an architecture of variable geometry and flexible boundaries”.

As such, it could accommodate the US in some fashion, yet to be designed.<sup>5</sup> Many members of EAS feel that, in one way or the other, the US must be drawn into this East Asian process. But isn't this re-creating APEC?

If EAS succeeds in engaging the US, it could well be that APEC loses its appeal to both East Asia and the US. A new regional architecture may emerge, with a competitive edge over APEC. First, its membership would be smaller, but would include the important Asia Pacific countries, with India as a bonus. Second, it could set an agenda that will not repeat the mistakes of APEC. Is there hope for APEC to come up with an agenda that makes it compellingly attractive? Let us do a quick assessment of the APEC organs that produce the organization's agenda.

### **Main Organs:**

**Leaders Meeting :** This is perhaps the single most important event in the public's eyes. How should the leaders influence APEC's agenda?:

- should they be the start of “top-down” processes, promoting regional cooperation by issuing “instructions” to ministers?;
- should they, instead, be at the end of “bottom-up” processes, promoting regional cooperation by “signing off” recommendations by ministers, and advised by the SOM and the Working Groups?;
- can the top-down and bottom-up processes be combined?; or
- should the Leaders Track “be decoupled” from APEC's “Track One”, to be the region's G-8 for dialogue on strategic, critical, regional and global issues.

The modality eventually opted for, will determine how all other APEC organs should function.

**Ministerial Meeting:** Since the Leaders Meeting has gained prominence, the Ministerial Meeting appears to have lost influence.

**Sectoral Ministers Meeting:** Thus far, they are no more than “social clubs”.

**SOM and its Committees:** The real “work horses” of APEC, but they are without a cart.

**Working Groups:** They are “the living dead” in APEC. There are many important, interesting, and relevant subjects to be tackled, but the right format is yet to be found.

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<sup>5</sup> Goh Chok Tong, Towards an East Asian Renaissance. Address at the opening session of the 4th Asia-Pacific Roundtable, organized by the Global Foundation, the World Bank and the Institute of Southeast Asian Studies, Singapore, 6 February 2006.

Secretariat: If it is to function only as APEC's "P.O.Box", it cannot become APEC's kitchen. Without a proper kitchen, APEC cannot open an attractive restaurant that can cater to the tastes of its potential clientele from the rather wide and diverse neighborhood.

### **Broad Agenda:**

The APEC "Restaurant" must have an attractive menu, offering a variety of dishes, but they should not be overwhelming.

Liberalization: The focus should be on regional efforts to strengthen the multilateral trading system. APEC's own liberalization agenda should be strengthened, but "No Champion, No Go". Unfortunately potential champions are currently more interested in "quick-yielding" bilaterals. Should the liberalization agenda be seen as the "appetizers?"

Facilitation: The Lowy Institute sees this as APEC's "hidden strength". It may be the "main course".

ECOTECH: This is definitely the sweetener. It is the dessert that will complete the meal; but a bad dessert will spoil the entire meal. In this sense, ECOTECH is at the heart of APEC.<sup>6</sup> Today, many of the ECOTECH projects should be put out for a fire sale. This may finally be realized by APEC officials. A decision was made in 2005, to restructure the SOM Steering Committee on Economic and Technical Cooperation (ECOTECH). But this SOM Steering Committee cannot be turned into the kitchen.

How should this agenda be put into operation and be advertised to the wider public? The main course (facilitation) cannot be attractive on its own. Facilitation measures are meticulous efforts and do not capture the public's imagination. Thus, it should be the entire meal (the Set Menu) that

makes it an attractive proposition. Viet Nam's proposal for APEC, presented under the theme of "Towards a Dynamic Community", is an offer for a specific Set Menu; a set of programs in all the three main components of APEC's agenda.

Implementing this will definitely require further reforms, but the reforms will be guided by this agenda. This is "agenda-driven" reform at work. APEC's mode of operation should be task-oriented. Working Groups, for instance, must have a clear sunset clause.

A Hanoi Action Plan that is concise, and focused, could guide this process. It could complement the Busan Roadmap, and together they could produce a more balanced agenda for APEC.<sup>7</sup>

Beyond the reform, it may well be found that, after all, APEC itself should be an "agenda-driven" process. For some time to come, it cannot be a process that is driven by leaders or by institutions. But leadership is still important for the process. This underlines the notion of "issue specific" (or agenda-driven) leadership, that should characterize APEC.

Viet Nam is now exercising that kind of leadership. It deserves full support in its efforts.

<sup>6</sup> See Andrew Elek and Hadi Soesastro, "Ecotech at the heart of APEC: capacity-building in the Asia Pacific," in Ippei Yamazawa (ed.), *Asia Pacific Economic Cooperation (APEC) – Challenges and tasks for the twenty-first century* (London: Routledge, 2000), pp. 218-254.

<sup>7</sup> See Neantro Saavedra-Rivano, "Options for APEC Reform", paper presented at the International Conference 'APEC Reforms and Evolving Trends: New Ideas for Materializing Busan Roadmap and Making Hanoi Plan' organized by the Vietnamese Academy of Social Sciences (VASS), Ha Noi, 27-28 April 2006.

# Increasing Sub-regionalism within APEC and the Bogor Goals: Stumbling Block or Building Block?

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## Introduction

Since the Asian financial crisis in 1997, APEC has been facing two crises. There is an identity crisis, which has APEC member economies' losing confidence, and weakening their commitment to the APEC process. There is also a credibility crisis, which refers to APEC's inability to generate momentum for internal liberalization and, therefore, the ability to contribute to multilateral liberalization. The achievement of the Bogor Goals has encountered enormous difficulties over the last 10 years. APEC has launched several approaches to achieve these goals, but none of them have produced any tangible success until now. It would be premature to judge this as failure, but APEC is running the risk of being termed "a failed venture".

It is the observation of this author that open regionalism stands at the core of these problems. Member economies' efforts at achieving the Bogor Goals have been burdened by the unspecific and ambiguous definition of open regionalism, which gives wide room for individual interpretations. Together with the non-binding characteristics of cooperation schemes, the problems attached to open regionalism have been one

of the main reasons for the "identity and credibility crises. Increasing participation of APEC member economies in Regional Trade Agreements (RTAs) has become an additional headache for APEC policy makers. An increasingly complex network of FTA arrangements involving APEC economies – both with other APEC members and non-APEC countries – has emerged and intensified over the last five years or so.

## **Bogor Goals as the Long-term APEC Vision**

The Bogor Goals of APEC were set out in the Bogor Declaration, adopted at the Second APEC Leaders' Meeting in 1994. It set out the commitment of APEC member economies to the realization of the vision of trade and investment liberalization in the Asia-Pacific region. Taking the different levels of member economies' economic development into consideration, two different target years for full liberalization in trade and investment have been set up: by 2010 for developed and 2020 for developing members.

In the course of their ten-year efforts to achieve these goals, APEC member economies have had enormous difficulties. The most important difficulty has been to motivate enough member economies to undertake unilateral liberalization, and to avoid “free-rider” problems within and outside APEC. The fact that none of APEC’s initiatives for achieving the Bogor Goals has proved effective, seems to be closely related with the ambiguity of the “open regionalism” concept.

From a more practical point of view, it can be said that despite these difficulties, APEC member economies have been gradually, but continuously, approaching the Bogor Goals and continue to acknowledge them as the long-term vision of APEC. After a series of intense internal APEC discussions about whether, and how, the goals should be pursued, the following three principles have been adopted as modalities for achievement of the Bogor Goals. First, the liberalization of trade and investment regimes of member economies should be in line with the process of “open regionalism”. Second, the Goals have to be pursued in such a way as to strengthen the multilateral trading system and contribute to its increasing openness. Third, in the course of nearing the Bogor Goals, the member economies must take into consideration the nine principles of APEC adopted by the Osaka Action Agenda (OAA).

### **Increasing Worldwide Regionalism and the Asia-Pacific Region**

Regionalism has become increasingly prevalent in the world economy, especially since the beginning of 1990s. The wave of regionalism since that time, the force of which seems to have continued until now, shows several new features. First, there have been an increasing number of South-North or North-South agreements, with NAFTA and the Australia-Thailand FTA being examples. Second, many FTAs that entered

into force since the beginning of 1990s – the so-called new-generation FTAs – pursue comprehensive cooperation agenda, including areas such as: environment, labor standards, and trade remedy measures. Third, Asian countries, which had been long immune to the intensifying regionalist tendency, have become actively involved. They have been intensifying their attempts to pursue both intra-regional and trans-regional FTAs since their recovery from the Asian financial crisis in 1997.

With an increasing number of Asian countries pursuing FTA initiatives, the Asia-Pacific region has become burdened with an increasing complexity of FTA agreements. On the one hand, the horizon of freer trade within Asia-Pacific has been widened, and consequently the readiness of APEC member economies to liberalize their trade regime has been strengthened – but not necessarily within the Asia-Pacific region. On the other hand, this has led to an increasingly complex network of sub-regionalism within APEC, thus making the achievement of the Bogor Goals a more complicated venture than it was 10 years ago when the Bogor Declaration was officially adopted in APEC.

### **Increasingly Complex Cobweb of Sub-regionalism within APEC**

The following are main characteristics of the emerging pattern of sub-regionalism. First, when the Bogor Goals were adopted in 1994 as an ambitious long-term trade policy agenda for APEC member economies, we had only three sub-regional trade agreements in place: the ASEAN Free Trade Area (AFTA), the North American Free Trade Agreement (NAFTA) and the Australia-New Zealand Closer Economic Relations Agreement (CER). However, the number of such agreements increased rapidly, to at least 14 by the beginning

of 2005. Second, besides those regional trade agreements already in force, there have been numerous other FTA initiatives within APEC, that are in different stages of consultation, feasibility studies, and negotiation.

A number of APEC member economies have concluded, and maintained, FTA agreements not only with APEC partners, but also with non-APEC countries. It seems that the national FTA strategies of APEC member economies are quite different from each other, especially in their selection of partner countries.

### **Possible Ways of Achieving the Bogor Goals**

There are a number of ways for APEC member economies to pursue the Bogor Goals. APEC economies might not be allowed to conduct liberalization based on conditional MFN treatment, unless it develops into a regional trade agreement (RTA), such as an FTA or customs union. Also, whether or not APEC member economies are already WTO members should be taken into consideration, when deciding the proper modalities for delivering liberalization within APEC. In principle, the following have been identified as practical ways of pursuing/achieving the Bogor Goals: unilateral; multilateral; or preferential liberalization.

#### Unilateral Liberalization

Countries that liberalize their trade policy unilaterally do so in order to capture the benefits of trade liberalization, without expecting or requiring reciprocal liberalization by their trading partners. In practice, these countries are normally small, with economic growth highly dependent on international trade relations, and which have no power to influence their terms of trade. For example, Hong Kong, China, Macau and New Zealand, have been maintaining their trade barriers at

relatively low levels, and tried to continuously reduce tariffs and eliminate non-tariff barriers at their own initiatives rather than being forced to do so.

In the context of the Bogor Goals and their relationship to open regionalism, the unilateral liberalization with unconditional application of MFN treatment, constitutes the best way to achieve these goals. However, unilateral liberalization within the APEC context has so far only been pursued on an individual-economy basis, and not as an APEC-wide initiative.

#### Multilateral Liberalization

Multilateral liberalization can also lead to the achievement of Bogor Goals, if its speed and coverage is the same as the liberalization taking place within APEC. This can be done in two alternative ways: First, APEC member economies can make the internal liberalization keep pace with multilateral liberalization. Second, APEC member economies can take an active part in the multilateral trade negotiations, and try to have their liberalization package adopted as a multilateral liberalization package. One difficulty of this method is to motivate the majority, and if possible, all of APEC members to be locked in an initial APEC liberalization package, which then can serve as a basis for multilateral liberalization.

With the Doha Development Agenda currently going on, and APEC not having been able to produce its own liberalization packages, multilateral liberalization appears to be an unrealistic option to rely on to achieve the Bogor Goals.

#### Preferential Liberalization

With intensified regionalism among APEC member economies – both within APEC and with non-APEC countries – preferential liberalization has become an alternative way of achieving the Bogor Goals. Basically,



we have to distinguish between preferential liberalization by individual member economies, and the same thing done by APEC as a whole. In the former case, the benefits of liberalization would be extended to a limited number of APEC member economies, and only if the preferential liberalization is done with other APEC member economies. However, if preferences are exchanged with non-APEC countries, the participating APEC member will have made absolutely no contribution towards the Bogor Goals. If the preferential liberalization is done by APEC as a whole, however, the Bogor Goals will have been achieved effectively.

#### **The Relationship between Increasing Sub-regionalism and the Bogor Goals**

Two APEC member economies – Chile and Singapore – are outstanding in their attempts to make use of intra-APEC FTAs as an instrument to achieving their Bogor Goals. However, the increasing complexity of FTA agreements concluded by APEC member economies – both with APEC member economies and non-APEC countries – do make achieving the Bogor Goals an uneasy venture.

There has been a relatively intensive discussion of the relationship between multilateralism and regionalism in the world trading system. Similar discussion can be scaled down to the relationship between APEC's movement towards the Bogor Goals and the increasing sub-regionalism. The issue at stake is whether or not, the increasing FTA agreements, both within APEC and with non-APEC member countries, contribute to achieving the Bogor Goals. In principle, sub-regionalism can be both a stumbling and a building block, as in the case of the relationship between regionalism and multilateralism.

#### **Potential of Increasing Sub-regionalism to be a Stumbling Block to the Bogor Goals**

First of all, increasing sub-regionalism within APEC can become a stumbling block on APEC's way towards the Bogor Goals, due to a relatively high degree of heterogeneity among the concluded agreements. Although agreements may contain all of the four main items (Initial Provisions, General Definitions, NT and Market Access for Goods and Rules of Origin Procedures), in a standardized sample agreement, the degree of usage of other items can differ from agreement to agreement. Additional provisions may include: labor, environment, financial services, accession clauses, sanitary and phytosanitary (SPS) measures, technical barriers to trade (TBT), trade remedy measures and dispute settlement mechanisms.

Another problem lies in the different strategic approaches of individual APEC member economies. Whereas FTA agreements concluded by Chile, Singapore, the United States and Australia tend to be rather comprehensive, economies such as Peru and Japan appear to exclude sensitive trade policy areas from their agreements. Also the fact that two economies (Chile and Mexico) account for nearly 60 percent of the 40 FTAs concluded by APEC members – within and with non-APEC members – suggest different trade policy orientations among individual members. These differences found in the coverage of FTA agreements, and in national FTA strategies, of individual APEC member economies, can become a stumbling block on APEC's way towards the Bogor Goals.



### **Potential of Increasing Sub-regionalism to be a Building Block to the Bogor Goals**

There also are potential for intra-APEC FTAs to function as building blocks towards APEC-wide liberalization. As have been raised often in the related literature, there are at least three possible contributions of regionalism to multilateral liberalization process, which can also be applied to the relationship between intra-APEC sub-regionalism and APEC-wide liberalization. First, increasing sub-regionalism itself; if the sub-regional agreements within APEC were concluded in consistency with WTO rules governing regionalism, then the overall degree of liberalization of APEC would increase, thereby leading to an “expansion of horizons of freer trade” within the APEC region. Compared to the situation with no such sub-regional agreements, increasing sub-regionalism has the potential to bring APEC closer to its long-term vision of trade and investment liberalization within the region.

Second, countries concluding sub-regional agreements can “experiment” liberalization with a selected number of trading partners, thereby gathering experiences of its real impacts on their economies. This information can prove instrumental when they participate in liberalization with more countries, possibly at the venue of APEC. In a sense, sub-regionalism can be a useful “laboratory” for APEC-wide liberalization.

Third, participation in sub-regionalism inevitably involves negotiations on the coverage, scope and speed of liberalization, which also imply “learning process of negotiation skills” for government officials and expert groups. The accumulated negotiation skills can be utilized so as to reflect national positions better into the agreements, thereby strengthening the confidence of APEC members to liberalize their trade and investment regimes.

### **Making APEC’s Sub-regionalism a Building Block towards the Bogor Goals**

Considering the positive and negative impacts of increasing sub-regionalism on the APEC-wide liberalization process, it would not be an easy task to find ways to make Sub-regionalism a building block towards the Bogor Goals. However, my research leads me to make the following proposals.

First, it is advisable for APEC to discuss more seriously the negative impact of different types of intra-APEC FTA agreements, develop a useful manual for concluding such agreements and devise a meaningful and effective mechanism to persuade member economies to comply with this manual. The manual should contain measures that are more concrete and have stronger enforcement power than those available at present.

Second, the possibility should be considered, that too wide a scope and coverage of liberalization, combined with widely differing national FTA strategies, have the potential to divert member economies’ interests from APEC-wide liberalization. The manual should also serve as a basis for gradually harmonizing the existing agreements.

Third, it seems imperative that APEC be given some degree of authority to be involved in discussion on newly emerging intra-APEC FTA initiatives, and to intervene if its plans could be damaged. This monitoring and consulting activity of APEC may be resisted by member economies, but would be seen as a necessary precondition, if they had a ‘really’ strong commitment to the Bogor Goals.

To adopt and implement these three proposals would require a large shift in the way member economies view the APEC process. Considering the track record of

APEC member economies' involvement in, and commitment to, APEC's TILF agenda, it is maybe premature to expect that they will adopt them. What remains then as a feasible alternative?

### **Developing APEC into an FTA**

Developing APEC gradually to an FTA provides an alternative way of achieving the Bogor Goals, through increasing FTA initiatives. Though an extremely difficult and complex venture, it is suggested as an alternative strategic option that APEC can take. This alternative would be acceptable only if APEC economies build up a consensus to do so. It would be effective, only if they discard open regionalism as one of the principles for pursuing free trade and investment in the region. Open regionalism, with its unspecified definition and wide possibilities for diverse interpretations, has burdened the process. As the target dates for reaching the Bogor Goals come closer, debates on how to interpret open regionalism have become incrementally unproductive. Sticking to the open regionalism principle seems to have been one of the main reasons for the current "credibility and identity crisis" in the whole process.

Building up APEC-wide consensus is not easy, but rather an extremely difficult task. The conditions, however, seem to have improved substantially, compared to 10 years ago when the Bogor Goals were first adopted. The increasing number of FTAs involving APEC economies suggests an increased readiness among those economies to liberalize their trade and investment regimes. It might be possible to expand this to include liberalization at the APEC level.

One of the main consequences of this new complexity, is that there is an increasing degree of overlap among the FTA initiatives. This might make a positive contribution

towards an APEC-wide FTA in the mid- and long-term. Overlapping FTAs would increase the costs of maintaining them, and the need to harmonize and possibly merge them, could emerge as a result. This would, in turn, increase the possibility of developing APEC into an FTA.

Establishing an APEC-wide FTA would involve discarding open regionalism as a principle of pursuing the Bogor Goals, and this would make an APEC-wide FTA more effective. If APEC, however, would like to stick to open regionalism, then it is advised to adopt the EU's open regionalism concept: "opening regionalism". Opening APEC's regionalism has the establishment of an APEC-wide FTA as a pre-requisite, and would require the conclusion of other FTA agreements with other countries and/or regions. The recent FTA strategy of the European Union provides a powerful example of this kind.

# Analysis of APEC Approaches and Activities Promoting Sustainable Development

*Nicola Borregaard (Ministry of Economy) and José Leal (Consultant)*

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## APEC Approaches and Activities Promoting Sustainable Development

**T**he APEC vision for the 21st century is embodied in the following statement: “...a dynamic and prosperous Asia-Pacific region, built on the development and application of industrial science and technology that improves the quality of life while safeguarding the natural environment and achieving sustainable development”.

The APEC forum has been one of the few initiatives for international cooperation that has worked with the notion of sustainable development - rather than merely the environment - to tackle the challenges of sustainability and the consideration of environmental protection and natural resource conservation. As APEC is a forum for facilitating economic growth, cooperation, trade and investment, this approach makes sense, providing a useful and comprehensive framework.

The Environmental Vision Statement (1993), the Declaration on Sustainable Development and the Action Program (1995), have laid the foundations for the APEC way of dealing with sustainable development. In essence, this is to treat sustainable development as an integrated, cross-sectoral

concern and not as an issue per-se; for example, not considering it as a trade-related issue only, but as an economy-wide issue. The overall approach is not by drawing up rules and regulations, but primarily through cooperation and exchange of information and experiences between member economies.

The Manila Declaration by the Ministers of the Environment (1996) was an important step forward. Priority topics of primary importance were defined in this Declaration. They included the promotion of public-private partnerships, local empowerment, innovative approaches to sustainable cities and urban management, clean technology and production, and a sustainable marine environment. The period between 1997 and 1999 was rich in initiatives concerning sustainable development, as documented in the APEC Annual Reports, which are available to the public.

The year 2004 marked renewed efforts to address the issue. This is reflected in several official declarations, including the Leaders' Declaration, the Patagonia Declaration on Tourism (2004) and the Joint Statement of Mining Ministers (2004), among others.

The 2004 Science Ministerial Meeting suggested a definition: "...growth that meets the needs of the present without compromising the ability of future generations to meet their own needs". This advocates a qualitatively different development, calling for economic growth that takes into account past environmental damage as well as future risks.

Sectoral initiatives on the environment and also, to a certain extent, on sustainable development, have been implemented in the period between 1999 and 2004.

The only cross-sectoral initiative over the period considered here, is the "Contribution of APEC to the World Summit on Sustainable Development", issued during the Senior Official's Meeting (III) that took place in Mexico in August 2002. This was not an official APEC paper, but was presented by the Mexican delegation, as host of the meeting, on behalf of APEC.

Even though this certainly implies a step forward, it does not solve the operational difficulties of the integration of all the dimensions of sustainable development. In practice, at the operational level, work by APEC on sustainable development will continue displaying a bias towards environmental aspects, given that both social and economic aspects are dealt with in specific APEC fora.

Both cross-sectoral and cross-thematic integration, have been slow in getting established. They currently lack prominence and an appropriate administrative structure. Briefly, the APEC approach to sustainable development is certainly still "under construction". It requires, as will be shown in the following sections, greater involvement by various actors. The APEC approach can potentially be an interesting challenge to the integration of economic, social and environmental aspects, both for the associated economies and the world at large.

Hundreds of initiatives and activities on sustainable development have been carried out over the last seven years in the different APEC Working Groups. Each of these has contributed to the promotion and consolidation of sustainable development efforts in APEC economies.

Most of the initiatives have been sector-specific. Examples are numerous. They can be looked up in the project database, accessible on the APEC Secretariat Website ([www.apec.org](http://www.apec.org)) or in the annual ECOTECH Reports.

In a preliminary analysis the following cross-sectoral topics were identified:

- Environmental Goods and Services
- Environmental Policy and Economic Instruments
- Assessment of the Impact of Increased Trade on the Environment
- Voluntary Tools
- Information Exchange and Capacity Building on Sustainable Development
- Biodiversity

### **Environmental Goods and Services**

Environmental goods and services and its sub-sectors - including energy, biotechnology and communications technology - are probably the predominant topics. The links between sustainable development and innovation are emphasized in many of the technologies used in these sectors. Sustainable energy has become an increasingly strong program in this context.

This is an area in which small companies can have interesting opportunities. In fact, the Small and Medium Enterprise Working Group (SMEWG), has set, as one of its priorities, to make advances in applying the principles of eco-efficiency in this sector. A proposed plan of action will ensure that policies for SMEs form an integral part of

sustainable development policies among APEC member economies.

Common strategies could offer competitive prices and efficient mechanisms, to capture the economic value of global environmental services. The commercialization of these projects could:

- bring economic benefits,
- increase energy efficiency, and
- conservation and management of large forest areas as CO<sub>2</sub> sinks.

### **Environmental Policy and Economic Instruments**

There is a wide field of action for cross-sectoral initiatives in this area. Above all, there is scope for cooperation between economies, particularly those that have gained more experience on these policies, instruments and indicators, which they could share with other member economies.

### **Assessment of the Impact of Increased Trade on the Environment**

The liberalization of trade and investment represents a competitive advantage for some stakeholders. However, others worry about growing inequity and its impact on the environment. The distinction between the concepts of sustainable growth and sustainable development in the APEC region, and its member economies, represents a major conceptual challenge.

The main issues here are:

- the impacts of increased integration on sustainable development,
- methodologies that might be applied to assess those effects, and
- existing information gaps on the status of international markets.

### **Voluntary Tools**

A variety of instruments have gradually been developed, as a complement to both direct regulation and economic instruments to tackle problems of sustainable development in productive sectors.

Voluntary standards, certification schemes, quality assurance procedures and best practices, are common among the new instruments used, particularly in the private sector.

### **Sustainable Development, Information Exchange and Capacity Building**

Capacity building gathered momentum in 1999, following the completion of a project on Human Resources for Sustainable Development, funded by Australia. The study addressed the capacity building requirements for environmentally sound economic development in the APEC region.

Under the aegis of that project, a number of activities have been undertaken. These include:

- an APEC Master of Sustainable Development program, providing scholarships to candidates from developing APEC economies;
- a network to share information, promote academic collaboration, and develop a permanent education program on sustainable development.

### **Biodiversity and Biotechnology**

In APEC economies, significant environmental problems are linked to unsustainable resource use and management practices. Inappropriate pricing undermines the sustainability of forests, while inappropriate management has caused the collapse of several fisheries.

Financial and environmental resource subsidies continue to place some APEC economies among the world's largest per capita users of water and energy. This causes distorting effects on trade. Farming and grazing practices cause soil erosion and the decline of water sources.

Other factors are:

- institutional aspects
- involvement of non-governmental actors in APEC sustainable development activities
- integration of APEC activities on sustainable development with international initiatives and players
  - CSD
  - Millennium Development Goals
  - Multilateral Environmental Agreements
  - The Monterrey Consensus
  - WTO and OECD

#### **Some preliminary conclusions:**

1. APEC's involvement in sustainable development activities during the period has been important.
2. Special efforts should be made to develop coordination mechanisms, between economies and between sectoral working groups within the organization.
3. The environmental challenges for APEC are considerable, so it is necessary to develop a broad framework for capacity building and technology transfer.
4. Administrative structures dealing with sustainable development should be strengthened, promoting cooperation between partners.
5. There is a consensus that the priorities chosen, namely sustainable cities, clean production and conservation of marine resources, are still useful and necessary. But these priorities must be reviewed, according to the cross-sectoral themes that have been dealt with in recent years and that are identified in this report.
6. Collaboration between economies is a valid way to mutually benefit from experiences.
7. The interaction between APEC and other international organizations should be improved, particularly with the UN System, the OECD and the World Bank.
8. The organizations of civil society play a valuable role in seeking Sustainable Development. Even though APEC, as a Forum between economies, is not a platform to work with NGOs, the Guidelines for Non-Members participation, open a path for dialogue with civil society.
9. APEC's specific contribution to sustainable development is still poorly defined and communicated. More effort should be made to overcome this situation.
10. There is limited standardization among APEC economies in the definition, collection, and organization of environmental data. Cooperation between APEC economies should be encouraged to develop a coordinated and systematic infrastructure for environmental information.
11. Sustainable Development is a concept on which APEC has been working on since 1996. It can be considered as a basis for a new phase.

# Examining APEC's Progress Towards Reaching the Bogor Goals for Services Liberalization

*Dr. Sherry Stephenson, Member, PECC Trade Forum, 30 October 2005*

*EXTRACT from Report on Study "Examining APEC's Progress towards Reaching the Bogor Goals for Services Liberalization" conducted for PECC*

## Overview of Main Findings

**T**he study finds that APEC Members have made only modest progress towards the realization of their Bogor Goals for services liberalization during the past decade. Considerable liberalization remains to be carried out, and opening of services markets in APEC still has a long way to go.

The study also finds that information provided on services liberalization in APEC, as contained in the current format of the Individual Action Plans (IAPs), is very incomplete. Both sectoral and modal coverage are often less comprehensive than what is found in the WTO Schedules of Commitments, and bears no comparison to what is found in the most recent bilateral Regional Trade Agreements (RTAs) that are comprehensive in their sectoral coverage.

The study finds that the degree of transparency surrounding services policies by APEC member governments is not high in spite of the IAPs and the individual Peer Review Process. The APEC Group on Services provides no effective monitoring mechanism for the review of Members' services policies and remaining restrictions.

Lastly, in inciting liberalization of services, the study finds that APEC as a forum has been much less effective than legally binding Regional Trade Agreements. The regional approach, through the recent new generation of "negative list" RTAs, has made considerable progress towards services liberalization among signatories of these bilateral agreements. Most of the effort towards market opening in the services area has gone into the RTAs, and not into the APEC process where forward movement on market-opening in services has been at a standstill now for several years. However, their membership is limited, and there is no obligation to extend this treatment to other APEC member economies.

## Introduction and Objective of Study

A study examining "APEC's Progress Towards Reaching the Bogor Goals for Services Liberalization", was carried out by the PECC Trade Forum during the period April to October 2005, as part of its contribution towards APEC's mid-term review. The objective was to evaluate how far APEC member economies had moved towards the realization of their Bogor Goals. The Bogor



Declaration of 1994 required complete liberalization of trade in goods, services and investment in the Asia-Pacific region by 2010 for developed economies, and 2020 for developing economies.

The study was carried out at the request of the Chair of the Senior Officials Meeting (SOM). It covers the services component of the market access liberalization process. The tariff and non-tariff components, and the investment component, have been evaluated separately. Results of the study were presented at the PECC Trade Forum that preceded the PECC General Meeting, in Seoul, Korea in September 2005. Findings of the study, and other relevant analyses, were scheduled to be considered by APEC Senior Officials at their meeting on 12-13 November 2005, prior to the APEC Joint Ministerial Meeting and the APEC Economic Leaders' Meeting, in Busan, Korea.

#### **Approach/ Methodology of the Study**

Examining the extent of progress for services liberalization is more complex and less straightforward than for either goods or investment. The services area is very broad and encompasses numerous services sectors that are quite distinctive in character, display different types of regulatory interventions by governments and are subject to different types and degrees of protection. Evaluating the extent of liberalization achieved in the services area, involves examining regulations present in the numerous services sectors. This involves both horizontal regulations that have an effect on services trade, and sector-specific regulations and restrictions. The task is monumental, and the information to be analyzed is not subject to easy, or obvious, quantification measures.

The approach chosen in this study was to examine the various arenas, or fora,

in which APEC member governments participate and compare the type and extent of market-opening commitments for services they have made in each one.

For this purpose, a voluminous amount of information for a select, but representative, number of service sectors, has been examined and summarized for each of the 21 APEC member economies. A consistent methodology allows for comparison. To the author's knowledge, this study sets out an original methodology for this examination and presents results that are the outcome of original research.

To carry out the study, it was necessary to determine the following: the choice of service sectors to examine; the sources of information to use; the years to examine; the typology of restrictions; and the modes of service supply.

#### **Services Sectors Chosen for the Study**

There are 26 service sectors defined for the information that is required annually under the APEC Individual Action Plans (IAPs). These sectors follow closely, but are not identical to, the sectors set out under the WTO Services Sectoral Classification List (W/120).

Three service sectors were therefore selected for analysis - telecommunications, construction/engineering and distribution. Selection was made on the basis of their interest to all APEC member economies: the telecommunications sector because of the extent of recent liberalization it has undergone and its critical position as an input into all other goods and services; the construction/engineering sector because of its interest to developing-country exports; and the distribution sector because of its importance as one of the infrastructure services (like telecom) that facilitates the sale of goods and services throughout domestic markets.

### **Categorizing the Extent of Services Liberalization**

Three types of entries were used to categorize individual restrictions to standardize all sources of information in the tables for comparative purposes. Additionally, the entries were color-coded for ease of identification. The three types of entry are as follows:

- liberalized, meaning that no restriction is in place (Color-coded in green).
- partially liberalized, meaning that some type of restriction is in place, without judging the degree of restrictiveness (Color-coded in yellow).
- not listed or no commitment, meaning that no information is provided on the sector in that source (Color-coded in red).

### **Modes of Supply Covered**

The author recognizes the importance of all four modes of service supply, as defined under the WTO GATS. However, for purposes of this research, mode 4 (movement of natural persons to supply services) was not taken into consideration, as not enough information was available. For purposes of simplicity, the study combines mode 1 (cross-border trade) and mode 2 (movement of consumer to consumer or purchase services abroad) into one category.

Several challenges presented themselves in carrying out this study. First, the nature of restrictions to services trade being found in the form of regulatory measures makes them harder to characterize and analyze than price-based measures. Second, the sheer volume of information that had to be examined and analyzed for the study was quite overwhelming. Third, developing a consistent approach to the classification of existing restrictions affecting services trade across the various data sources, posed a significant challenge. The elaboration of a

consistent typology of restrictions was a key feature of the research, enabling these restrictions to be compared across sources.

Fourth, deciding how to deal with the horizontal restrictions affecting services trade proved to be another difficulty in the study. In the end, results were presented with, and without, the inclusion of horizontal restrictions in the RTAs. Fifth, the non-tariff and very disparate character of the restrictions affecting services trade, makes it very difficult to quantify the restrictive impact of such measures, once identified, and this was not attempted in the study.

### **Discussion of the Results of the Study**

The results of the study are discussed below, presented first in the multilateral context of the WTO, the regional context of APEC, and the bilateral context of the various RTAs. A comparison of the results in these three fora is then outlined. Lastly, the information gaps that would be required to fill in for a complete assessment of the situation of services liberalization for APEC member economies are outlined.

### **Assessment of the Degree of Services Liberalization in the WTO**

Within the WTO GATS context, APEC member economies show very different levels of services commitments in their national schedules, with quite disparate sectoral and modal coverage. Commitments are most numerous for the telecommunications sector; of the total possible entries for GATS commitments of 114, APEC members have made commitments in all but six of these possible entries, or 108 in total. However, the very large majority of these entries show partial liberalization, that is, where APEC members have bound existing restrictions. Very few entries represent full liberalization

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or a situation of legally guaranteed open access for foreign service-suppliers (only 32 of 114).

APEC members have made many fewer GATS commitments on construction and related engineering and on distribution services than they have on telecom services. For construction and related engineering services of the 38 possible total entries of GATS commitments, APEC members have made commitments in 27. No commitments have been listed for 11 entries. Of those commitments listed, only six represent full liberalization. For distribution services, of the 114 possible entries, APEC members have made commitments in 55 or less than half. No commitments have been made for the other 59 entries. Of those commitments listed, 30 represent full liberalization.

In summary, the WTO GATS commitments by APEC members show a very small degree of full liberalization of the three service sectors examined. Under the WTO:

- 27 percent of the telecom sector has been liberalized
- 26 percent of the distribution sector has been liberalized
- 16 percent of the construction/engineering sector has been

To complement the information obtained from the GATS Schedules of Commitments, WTO Trade Policy Reviews were also examined for the APEC economies who are WTO members. In the period 1999–2005, Trade Policy Reviews were carried out for 17 of the 19 APEC WTO members. All of these reviews were consulted. Information on service sectors and on service trade restrictions and/or the state of liberalization of services was found to be very sparse, and not consistently available between the various economies.

Given the less than complete information in the case of the Trade Policy Reviews (TPRs), they cannot be considered as reliable sources for comprehensive information

on services for various reasons. The studies are infrequent; and the information that can be obtained varies by source year and is difficult to compare in an accurate fashion. Only a minor part of the TPRs are devoted to services, mostly telecom and financial services, with little discussion of the other service sectors. And the description of measures in the Reviews is very general; it is thus difficult to make this coincide with other sources.

### **Assessment of the Degree of Services Liberalization in APEC**

Within APEC, information on the extent of services liberalization should be provided by the Individual Action Plans (IAPs) that APEC member economies submit on an annual basis to detail their progress towards more open markets and the Bogor Goals. While, in theory, information should be provided on all service sectors annually in the IAPs, in reality this information has not been provided on a comprehensive basis, either by sector, by economy, or by year. Indeed, four APEC economies have not submitted any IAPs at all to date on services, and large gaps exist in the IAP coverage. Besides these gaps, the information in the IAPS is not provided on a modal basis.

Lastly, the information in the APEC IAPs is not updated each year. Much of the information is simply resubmitted with no updates. The information tends to follow closely the submissions of APEC members in the WTO context, but is often even less complete than what is found in the respective member's GATS Schedule. Very few changes or updates were found for 2000–2004 in the majority of the services IAPs.

In summary, in APEC, liberalization of services, as exemplified by the three service sectors examined, is far from complete, at least as far as it can be assessed.

Unfortunately, for many APEC member economies, IAPs are very incomplete and not regularly updated. Because of the lack of information in them on cross-border supply of services, the information in the IAPs shows an even lower degree of full liberalization of the three service sectors examined than was observed under the WTO. Under APEC:

- 8 percent of the telecom sector has been liberalized.
- 4 percent of the distribution sector has been liberalized.
- 3 percent of the construction/engineering sector has been liberalized.

#### **Assessment of the Degree of Services Liberalization in RTAs**

Besides the undertakings on services in the WTO and in APEC, several APEC members have entered into ambitious Regional Trade Agreements (RTAs) over the past few years. These agreements therefore constitute an additional, and very interesting, source of information on the extent to which APEC member governments have been willing to open their services markets.

For this study, 11 RTAs were identified, involving APEC economies that have followed a negative-listing approach to services liberalization. The information from the annexes to the RTAs by the eleven APEC members shows a very high degree of full liberalization of the three service sectors examined:

- 68 percent of the telecom sector has been liberalized.
- 74 percent of the distribution sector has been liberalized.
- 88 percent of the construction/engineering sector has been liberalized.

We compared the three fora examined (WTO, APEC and the RTAs), to assess the relative degree of openness of service markets for the same APEC member

economies in the three sectors in question. It is clear that the forum in which service liberalization has progressed farthest is that of the RTAs. APEC members that have chosen to conclude RTAs with other APEC members, have been willing to make binding commitments on the entire universe of their service sectors, and to open many of these sectors on a national treatment basis to service suppliers from other RTA members.

Although this RTA liberalization is still incomplete, it is significantly greater than is observed in the other two fora. Membership of these RTAs, however, is limited, and there is no obligation to extend this market opening through national treatment to other APEC economies.

In comparing the efforts that APEC members have made in the WTO, in APEC and, for some of them, in the RTA domain, it is clear that efforts in APEC have been to date the least satisfactory. The IAP mechanism has not proven to be a stimulus in inciting APEC members to liberalize their services markets. In fact, the APEC IAPs provide even less information on APEC members' services policies, than do the WTO GATS commitments.

#### **Information Gaps Required for a Complete Assessment of Services Liberalization in APEC**

For a complete assessment of services liberalization in APEC, it would be necessary for APEC members to make four important improvements:

- modify the current IAP format in order to include the category of cross-border trade in their submissions.
- transform the IAPs into incremental reports, not repetitions of information.
- require entries for all service sectors in the IAPs. Some APEC members report on all sectors, others only on some sectors. This does not allow for

comprehensive information to be shared, nor an overall assessment made.

- suggesting a classification system for APEC members to follow in submitting their information. The UNCPC classification system might be adapted and an APEC services classification list developed.

### **Extent of Additional Liberalization Required to Achieve the Bogor Goals**

It is clear that although the information needed to fully assess the current state of services liberalization in APEC is not presently available, that APEC member economies are very far from the realization of the Bogor Goals. According to the information that is available in the IAPs and the WTO GATS, APEC members have come less than half way towards the Bogor Goal of open markets for services trade. This study should therefore provide a sobering assessment of the very wide gap that exists between the stated liberalization objectives of APEC members, and the steps that the governments have taken to actually realize these objectives.



# APEC Means Business, A Business Perspective

*M. Brilliant and M. Hiebert, U.S. Chamber of Commerce*

*Views prepared for the APEC 2007 Symposium  
Sanctuary Cove, Queensland, 2–3 August 2006*

**T**here are a wide range of issues of importance to the U.S. business community, on which APEC leaders and the APEC Business Advisory Council (ABAC) are doing critical work. These include: trade facilitation, energy, standards, strengthening financial markets and a range of technology and health-related issues.

What follows are some suggestions from the U.S. Chamber of Commerce, the largest federation of business in the United States, indicating several additional issues in which APEC as an institution and ABAC, in particular, could become more actively engaged. The issues raised here address significant challenges facing the Asia-Pacific region. If they are confronted by APEC political and business leaders, it would bring tangible benefits to the region.

The Chamber has long provided an active voice within APEC. We want to work with other ABAC members and the U.S., Australian and other governments, to bring these issues to the forefront in APEC 2007. We are offering these suggestions now, because this symposium is setting the stage for Australia's hosting of APEC 2007.

Rather than cover every issue of importance to U.S. companies in the region, we focus here on a few critical areas, where the Chamber would particularly like to work in collaboration with others, in contributing to APEC's importance, mission and outcomes.

## **Intellectual Property**

During the past few years, APEC Leaders have raised the importance of intellectual property (IP) theft, which hampers investment and innovation, threatens public health and safety, and reduces government revenue. The US Chamber and our corporate members believe that addressing this challenge should be a top priority for APEC. IP theft not only affects multinationals, but also small and medium size companies across a wide range of industries.

Despite some recognition within APEC, the Chamber believes that more can be achieved, if there are enhanced efforts at developing tangible action-oriented measures. Some ideas for possible collective actions that APEC Leaders and ABAC could endorse include:

- develop educational materials and distribute advertisements in different languages, to boost consumer awareness that IP theft has serious consequences that could put consumers, businesses and national economies at risk. Initiatives could include: developing advertisements featuring prominent sports and cultural personalities from across the region; and launching programs to boost IP awareness in schools and universities.
- assist in the development and implementation of consumer awareness studies, to determine public attitudes toward counterfeited products. Then use these results to develop common strategies to tackle IP infringements.
- organize APEC-wide seminars for customs officials, to help develop best practices for detecting and stopping the shipment, or transport, of pirated products around the region.
- develop and implement APEC-wide IP model training sessions, for enforcement agencies, judges and administrative agencies.
- prepare multilingual manuals for APEC on best practices in customs and border control.

The US Chamber, which has developed collaborative IP protection and enforcement projects in Asia and other parts of the world, would recommend the establishment of an IP working group within APEC. This group would bring governments and businesses together to establish priority initiatives, aimed at combating and reducing the production, sale and movement of counterfeit and pirated goods.

In addition to addressing the movement of counterfeit goods, the US Chamber also encourages APEC to actively combat digital piracy. Internet piracy, including illegal uploading and downloading, and the use of the Internet to advertise and sell counterfeit products, is a growing regional problem. Often abusers of digital technology use different legal jurisdictions to evade the law.

We believe APEC could take the lead in establishing regional forums to identify better ways to tackle this problem. Some countries in the region, including Australia, Hong Kong, China; and New Zealand are updating their copyright legislation to deal with the challenges of digital piracy and distribution. We call on other APEC governments to follow their lead.

### **Regional Competitive Markets**

Many companies operating in the Asia-Pacific region are getting increasingly concerned about governments adopting national technical standards, patent rules and competition policies, that are at odds with internationally-accepted standards. APEC and ABAC have paid some attention to these issues, but greater efforts are needed. Different standards and competition policies can create barriers to market entry and undermine innovation.

Although ABAC has called for harmonization of patent laws and technical standards, this should become a higher priority within APEC. The US Chamber would like to work with governments and other business groups, to ensure that this issue gets increased attention. Some ideas include:

- urging APEC Leaders to issue a strong statement on the need for consistent and transparent technical standards regulations, patent laws and competition policies, that reinforce market competition and diminish barriers to market entry.
- establishing a high-level joint government-private sector working group for regional competitive markets. This group would examine ways in which the APEC economies could work together, to resolve inconsistencies between divergent regulatory practices and seek to eliminate rules that limit competition. It would promote regulatory cooperation, transparency, openness and conformity of business rules.

### Capital Markets

The US Chamber would support increased efforts within APEC economies to promote liberalization of capital markets and financial services and to encourage good corporate governance practices. Greater competition would strengthen capital market efficiency, stimulate innovation, and provide consumers with the broadest range of products and services at the lowest cost. To help achieve these goals, the Chamber suggests that APEC Leaders:

- set up a joint government-private sector capital markets task force, to promote efforts to open up financial services markets and ensure national treatment for foreign financial firms. Governments and the private sector should work together to improve the health of capital markets in Asia-Pacific economies.
- urge governments to establish transparent and market-friendly regulatory regimes. APEC should consider developing a model statement on corporate governance for governments to consider.
- educate the public in the Asia-Pacific region about the importance of capital markets and the role they play in the everyday lives of people in the region.

### Investment

Many APEC economies could do more to offer predictable investment regimes, to encourage potential investors to pursue bases of operation in those countries. Providing strong protection for foreign investors can both attract, and retain, foreign investment. It is critical for enhancing the competitiveness of APEC economies. APEC should consider developing a capacity-building program to enhance the investment environment throughout the region so as to attract foreign investment to boost sustainable growth.

One area that deserves immediate attention, is adopting reliable, and enforceable, third-party dispute resolution mechanisms. Some steps that APEC could take to help regional economies enhance investor confidence include:

- train judges and government officials on procedures to enforce international arbitration judgments.
- organize APEC-wide workshops, to highlight the experiences of foreign investors in economies that do not provide fair and equitable treatment, and full protection and security.
- hold APEC-wide seminars explaining what constitutes expropriation.

### Other Issues

In addition to these important issues, the US Chamber continues to support the work of ABAC, and APEC trade ministers, in the following areas:

- we support the ABAC leaders' strong backing of the multilateral round of negotiations. The Doha Development Round should remain a top priority for APEC. The Chamber urges APEC trade ministers to work to promote liberalization in the trade of agricultural goods (including cuts in export subsidies and increased market access), a sharp reduction in the barriers on non-agricultural products and improvements in the quality of government offers on services.
- we urge APEC to step up efforts to reduce trade facilitation costs and improve customs clearance procedures.

The issues raised here are by no means an exhaustive list of all the issues important to the U.S. business community, but they represent some areas of priority to the US Chamber. We continue to support the work of ABAC, and particularly the U.S. ABAC, in addressing the many challenges facing

U.S. business in the region. We also support the multiple dialogues taking place within the APEC framework, including, for example, energy security, pharmaceuticals, emergency preparedness, and environment technologies.

The US Chamber welcomes the opportunity to work with the U.S. government, the U.S. ABAC, the Australian government and private sector, and others, to advance the issues raised in this paper.

# RTAs/FTAs: Perspective from Business Recommendations for Senior Officials Meeting (SOM) Policy Response

*Brian Lynch, ABAC New Zealand, Chairman,  
N Z Horticulture Export Authority, Director, N Z Institute of International Affairs*

*Summary of Remarks at the 4th SOM Policy Dialogue on FTAs/RTAs  
Ho Chi Minh City, Viet Nam, 28 May 2006*

**T**hank you for the invitation to help bring a regional business viewpoint to your discussions at this forum. The mood of my colleagues, at the ABAC meeting in Montreal earlier this month, highlighted the importance of regular dialogue and interaction between business and the APEC policy community. The 2006 *ABAC Interim Report to APEC Leaders* speaks of the relationship between governments and business being at a “critical juncture.” The point at which political aspiration and commercial ambition encounter each other, can be a friendly interface or an unstable fault line. Both parties have to work to ensure that the latter doesn’t occur.

We were pleased at the Montreal meeting to involve a number of key SOM members in our informal plenary session. That exchange of views followed immediately after the successful and well-attended symposium on promoting private sector development, termed ‘The Ease of Doing Business’, which was co-hosted by Canada and New Zealand. The symposium brought a tighter focus to long-standing ABAC concerns about complex taxation regimes, problems in accessing finance, the growing burden of regulation, and rigid labor laws.

I welcome the opportunity today to also bring the perspective of New Zealand export business to your consideration of free trade agreements-preferential trade agreements (FTAs-PTAs). The future of our economy is heavily dependent on the wellbeing, and progress towards open regionalism, of the Asia-Pacific region. Over seventy percent of New Zealand’s exports and imports are traded within the region. The percentage is increasing. Thirty percent of our trade is now with partners in bilateral or sub-regional trade agreements. That would rise to over forty percent with the completion of agreements currently under negotiation.

Yet to date only one of New Zealand’s preferential agreements is with a major trade partner-Australia. We are faced with the reality of being disadvantaged, as a consequence of being excluded from agreements among two or more of our other partners. We are concerned about the prospect of trade flows being distorted. Most of our exporters fall into the Small and Medium Enterprise (SME) category, who find it harder to cope. So the theme and content of your deliberations, and the possible policy conclusions that arise from

this seminar, are of particular interest to those involved in the export of New Zealand goods and services. Similarly, your findings will be of keen concern to our business colleagues in other APEC economies.

I have been asked, as an ABAC participant, to focus my remarks today on: 'model measures' for FTAs-PTAs, capacity building implications, and the concept of a Free Trade Agreement of the Asia-Pacific (FTAAP).

ABAC is a staunch supporter of the multilateral approach to trade reform. Again this year, in the Interim Report, we are exhorting Leaders to apply pressure in global forums to achieve a meaningful result to the Doha Development Round. We are pleading once more for stronger efforts to reach the Bogor Goals, on time and in full.

Like Mother Nature, however, business abhors-distrusts and dislikes- a vacuum. Hence, in the absence of persuasive signs of progress in the wider international and trans-regional settings, we unhesitatingly support the aims and objectives behind the expanding network of sub-regional agreements. Admittedly, many of them are sub-optimal in ambition. But all, in varying degrees, have the potential to be useful tools of liberalization.

That comment may seem lukewarm. It simply reflects ABAC's less than total enthusiasm for the sub-regional approach to free and open trade. But let me assure you, that ABAC recognizes the forty or so FTA/PTA agreements in place, or being negotiated, across the APEC community, will influence future trade patterns. In what products, in what volume, among whom and to whom, at this stage it is difficult to forecast. Trade will follow the flag, as it has for centuries. But the process of adjustment will be gradual. It will happen, but dramatic and early shifts in trade flows are unlikely.

On that point, ABAC members are aware of some criticism at government and official levels, that regional business has been slow to seize upon the new, and seemingly tempting, opportunities available in agreements already reached. Often, with some puzzlement, business is asked by trade negotiators: "We've done the hard work; the door is now open, why don't you walk through?"

The explanation is that business does not respond to the same set of imperatives that drive the work of political Leaders and their policy advisors. Agendas, incentives, behavioral patterns; they all differ between the two settings.

Typically, company executives contemplating overseas ventures will take into account five key factors. All five of these fundamental considerations intersect. What are they? For ease of description, imagine the Olympic flag with its five linked circles:

- PD; existing and potential demand for product
- PP; likelihood of obtaining preferred price
- PE; is the operating environment predictable
- EA; ease of access to the market(s) in question
- EODB; ease of doing business in that market(s).

Assessment of the first two of those five factors is a matter for business, largely on its own. On the last three, the actions of governments obviously determine how friendly, or otherwise, the prospective market may appear to business outside. But even the most benign regulatory environment has limited appeal, if demand and likely return from that market are questionable.

Of course, business leaders prefer to be regarded as patriots and good regional citizens. But to be frank, wholesome thoughts about



the welfare of one's domestic economy, do not routinely motivate crucial export decisions. They are usually driven by the pursuit of a worthwhile return on investment; of being in a position to pass on a dividend of sufficient size to keep the shareholders happy; and of the prospect of retained earnings being at a level to underpin further market development.

I noted earlier that 'regional business abhors a vacuum'. At the same time, the typical business leader in all APEC economies is by nature cautious and conservative; compulsively wary of venturing into the unknown; of putting shareholders funds at risk, and maybe their own. What they seek in the operating commercial environment for their offshore activities in and around the region, are certainty, clarity, simplicity, consistency, and transparency. "Rules" that is, rules that are undeniably and unambiguously, are 'fit for purpose'.

That may strike you as a pretty tall order. You may well ask: How does it relate to today's topic? In essence, regional business has three core expectations:

- it seeks the maximum level of assurance that the administrative and regulatory regime surrounding FTAs-PTAs is the result of sound and credible analysis;
- that it has emerged from a process of robust, and broad-based, engagement with the parties likely to be affected by any eventual agreement, and particularly the business community; and
- that procedures and protocols envisaged, will be created only when a clear case for doing so has been established.

In other words, that the regulatory framework with which business must cope, is justified beyond argument, and does not merely reflect the risk-averse tendencies of the regulators.

In the nature of things, true to its entrepreneurial character, regional business wants to benefit in all possible ways, to have:

- a regulatory environment that is straightforward and secure, yet at the same time does not threaten to constrain the ability to innovate and exploit new opportunities; and
- where adherence to regulations is closely monitored, they would nevertheless prefer to be permitted to develop their own compliance solutions to suit their own particular circumstances.

It's also the case that the mindset of someone owning and operating an SME, can differ from that of an executive responsible for the bottom line of a multinational corporate entity. The 'little guy' wants to know that simple, clear rules will apply and be administered honestly and equitably. Big business wants that too, but is more likely to be moved by, and to argue on the grounds of, principle as much as prescription; for example, in the case of cost recovery - where is the policy line to be drawn between profit and public good?

This brings me back to the context of today's dialogue. What is the attitude expected of regional business, contemplating the emerging patchwork quilt of forty or more FTAs-PTAs, and the evolving pattern of trade hubs and spokes? Is there 'method' behind what, at first glance, might appear to be a bewildering mish-mash of disparate agreements? Is the urgency behind the proliferation of agreements in reality what, from the business perspective, could seem to be a bizarre sort of race among APEC economies to see who can get the 'most runs on the board' in the shortest time?

To say that, of course, is to severely overstate the situation and to risk belittling

the underlying political and strategic motivations of governments. But I wouldn't want to underestimate the magnitude of the challenge facing APEC Leaders and officials. It's no small task to convince regional business that the expanding tapestry of agreements is truly designed, and has genuine scope, to promote economic growth, to foster commercial confidence, and to make domestic business sectors more globally and regionally competitive.

Confirmation of the task of persuading business is not hard to find. At one level, there's evidence of 'survey fatigue', as ever fewer companies are ready to put time aside to complete the growing number of questionnaires officials put in front of them, or their trade associations do so at the request of officials.

At the macro level, the spread of preferential-type arrangements in the region, and concern whether the Doha Round will eventually succeed, help explain the proposal to establish an all-embracing Free Trade Agreement for Asia-Pacific; the FTAAP concept. Regional business is uneasy that under current trends, markets will become increasingly fragmented. And exporters will have to absorb added transaction costs through the requirement to meet varying sets of compliance expectations as their products move between one regulatory framework and another; the specter of dealing with differing sets of rules of origin is a good example.

In case those comments strike you as too bleak by far, they are meant only to convey an impression of the stark realities that regional business, in its darker moments, perceives in the FTA-PTA trend. Be assured, we also see a lighter side to the picture.

The proposed 'Catalogue of Agreements' ABAC is working on, will be submitted to APEC for approval. A positive response

would be taken as a sign of good faith, that economies accept the need to provide their business sectors with a panoramic view of the emerging pattern of trade accords. This includes individual agreements being benchmarked against WTO compatibility or better. ABAC will not waver from its position that every regional agreement should aim to be WTO-plus.

Likewise, ABAC commends APEC'S efforts, illustrated by this seminar, to develop model measures for common chapters in agreements. The Model Measures for Trade Facilitation, adopted by Leaders in 2005, provide a valuable case-study; they offer a basis for negotiation of a high quality trade facilitation chapter.

The opportunity given ABAC to contribute to the trade facilitation model measures, was a reassuring precedent. Concerns over access to trade laws and regulations, release of goods regimes, impartial and predictable administration, paperless trading, and fair treatment of fees and charges; all these have featured prominently in ABAC submissions to Leaders, ministers and officials on facilitation issues.

Going forward, ABAC will work just as willingly on model measures in other relevant fields, such as standards and conformance, IP protection, e-commerce, anti-corruption, competition policy and government procurement. There are sensitive issues involved. Moreover, it is acknowledged that model measures are non-binding and without prejudice to the content of individual agreements. Within those limitations, ABAC's goal will be to have every agreed 'measure' achieve the highest possible level of an objective standard of best practice. This includes a commitment to assist with capacity building in particular economies where necessary, and in meeting the region's ECOTECH needs.

## Recommendations

I will conclude these remarks with six key findings and/or recommendations. I believe they capture the thrust of the main points ABAC would want to submit as being appropriate to this seminar and through you convey to the MRT/Leaders:

- without prejudice to its support for the primacy of the multilateral trading system, ABAC recognizes that high quality sub-regional agreements have value and are of potential benefit to business;
- in that context, there is strong ABAC support for the 'model measures' exercise, objectively-based. It maintains its interest in further active participation in drafting additional chapters that reflect particular ABAC priorities;
- there is special support in ABAC for a comprehensive, easy-to-follow, 'Catalogue of Agreements', and the final document will be presented to APEC for endorsement, as a valuable 'tool' for business and negotiators;
- the themes and specific recommendations from the May 2006 Montreal symposium on '*An Enabling Business Environment for Private Sector Development*', are worthy of serious attention from Leaders, MRT and officials, especially the link identified between an economy's regulatory framework and its economic performance. The exercise should be repeated in 2007.
- ABAC urges a sympathetic and informed understanding of the reasons behind its decision to commission a feasibility study of the FTAAP concept; and
- this dialogue between SOM and private sector representatives, should become a regular feature on the annual work programmes of both parties.

# The Importance of an Enabling Business Environment for Growth

*David Caygill, New Zealand*

**F**irst let me thank ABAC and the governments of Canada and New Zealand, for the opportunity to speak to you today. I don't have a magic formula for making this subject easy. What I do know, is that how we regulate our businesses is vital for our future prosperity. So let me start right there: how can we be sure that the level and quality of regulation in an economy affects its economic performance?

Well the first answer is that many countries seem to think so. A recent OECD study estimated that administrative compliance costs represent around 4 percent of the Business Sector GDP for the countries (chiefly its members) that it surveyed. Comparable American studies have estimated the deadweight cost of unnecessary regulation at 4–8 percent of GDP.

The view that economic growth and the quality of regulation are linked, has led many countries and international institutions to devote considerable attention to this area. For example, the UK government has committed itself to undertaking 100 million fewer inspections, abolishing or merging 29 enforcement and inspection agencies,

and reducing form filling by at least 25 percent. In Australia, a report called "Rethinking Regulation", included 178 recommendations for reducing red tape. The Australian government announced immediate action in response. The governments of Holland, Belgium, Denmark, France, Italy and Norway, have all set quantitative goals for reducing red tape.

Among countries emerging from central planning and state ownership, the Russian Federation, Serbia and Montenegro, Georgia, Slovakia, Romania and Latvia have each made opening a business easier, and have lowered the level of other business regulation in the last three years. They have all experienced an increase in the number of businesses operating (formally) in their economies. Other countries have also been heading in the same direction. The EU has been promoting an initiative to help raise the quality of, and reduce the burden associated with, EU regulation. Here in Canada, the Government has brought together a series of projects in its "smart regulation" initiative.

Finally, APEC Leaders, in 1999, committed themselves to delivering open,

transparent and well-governed markets, both domestic and international. This was seen as the essential foundation for prosperity, and to enable enterprises to innovate and create wealth. To further that aim they endorsed a set of APEC Principles to Enhance Competition and Regulatory Reform. So clearly, most economies agree that good regulatory practice is conducive to economic growth. But are they right in this view? What is the evidence? Or more precisely, what particular harm do we incur if we don't address the quality and level of our business regulation?

Well the first point to note, is that the burden of regulation does not fall equally. The OECD study I referred to at the outset showed that regulatory costs have a disproportionate impact on small businesses (i.e. those with fewer than 20 employees). American, Australian and New Zealand studies all reach a similar conclusion. Clearly, reducing the level of demand we make on businesses' time and financial resources – particularly our Small and Medium Enterprises (SMEs) – should free up those resources for more directly productive work.

But heavy duty regulation also imposes costs on government and hence on taxpayers. In the United Kingdom 10 percent of the government's budget is devoted to the administration of business regulations. In the Netherlands it is 11 percent; and in Belgium, Norway and Sweden, between 8 and 9 percent of government spending. Reducing the cost of administering business regulation would free up funds to be used in providing additional government services – or lower taxes.

The OECD has observed that strong regulatory quality can be linked with improved economic performance. In its view, an effective regulatory system can help (amongst other things) to:

- promote flexibility and innovation;

- encourage competition and remove complexity and inconsistency;
- encourage new, or previously unheard, stakeholders into the policy debate, so that policy is better grounded.

The three World Bank reports on the ease of doing business also provide evidence of the value of regulatory reform. A key observation is that businesses in poor countries face much larger regulatory burdens than those in rich countries.

It is estimated that they face three times the administrative costs and nearly twice as many bureaucratic procedures and associated delays. And they have fewer than half the protections accorded to property rights in rich countries. Consequently, up to 40 percent of business in poor countries is conducted in the informal sector.

The consequences of that can include:

- poor economic outcomes, where firms cannot access the funds they need to grow and also - to escape regulation – keep their operations below an efficient size. That's a key reason why, in most highly regulated economies, investment and productivity are low and unemployment is high.
- a reduced tax base, because a large group of entrepreneurs and businesses never enter the formal sector;
- the poor are excluded from engaging in business. As the pioneering work of Hernando de Soto demonstrated: where regulations discourage businesses from registering and getting formal property titles, many would-be entrepreneurs can't use their informal assets to obtain loans and expand;
- fewer people are formally hired where employment regulation is rigid. Unemployment is highest in countries with a large informal sector. Women, the young, and low-skilled workers, are affected the most. The result is frequently a self-reinforcing cycle of poverty.

On the positive side, in those countries where regulatory reforms have been implemented, or where quality regulatory frameworks are in place, the payoffs appear to have been large. For example, the World Bank has estimated, based on its observations, that if a country in the “most difficult to do business” quartile of their survey, improved its business environment sufficiently to reach the top quartile, this should deliver 2.2 percentage points more economic growth every year. (Countries in the second and third quartiles doing the same thing, would enjoy 1.4 percent additional annual economic growth.)

However, economic growth is only one benefit of better business regulation and property protection. Human development indicators (health, education, employment) are also usually higher in economies with less regulation.

The World Bank’s *Doing Business in 2006* report states, for example, “*Better performance on the ease of doing business is associated with more jobs. New Zealand, the global leader on the ease of doing business, has 4.7 percent unemployment (now 3.6 percent). In Greece, the OECD country with the worst ranking ..., the unemployment rate is 10.9 percent.*”

Improved outcomes produce two financial benefits:

- First, businesses spend less time and money dealing with government regulations and chasing after scarce sources of informal finance. Instead, they can put their energies into improving, producing and marketing their goods and services, and so improving their firms.
- Secondly, the government spends fewer resources to support an overblown bureaucracy and more on providing basic social services – leading to better social outcomes and a virtuous cycle of growth.

If I might, I’d like to illustrate this beneficial process by reference to the series of reforms with which I was involved in New Zealand. Almost all the changes New Zealand implemented between 1984 and 1992 were designed, in one way or another, to free up the environment for business. While the macro changes were designed to stabilize an adverse economic environment, the micro reforms were aimed directly at improving the climate faced by particular businesses or sectors.

Let me give you just two examples.

The first relates to the wheat industry.

I choose it partly because it was the very first issue I had to address as the very new Minister of Trade and Industry in 1984.

At that time in New Zealand, the business of milling flour required a license from the Wheat Board. The Board had the sole right to import wheat, and the obligation to acquire wheat wherever it was grown.

The result was that wheat was grown in some very strange places.

Because there was little competition, there was little variety. The standard grade of flour was known as “FAQ”, which stood for “fair average quality”. “Everything goes” might have been more accurate.

The catalyst for change in this sector was the free trade agreement New Zealand and Australia fashioned in 1982. Opening our borders in this way provided considerable impetus to make overdue ‘behind the border’ reforms.

The Wheat Board was abolished, along with its system of licenses. At first, wheat growers argued against this move. On being given four years to adjust, they returned to plead that the de-regulation be sped up. Growers who had been allowed to sell directly to flour mills had an advantage that the others argued was unfair. As a consequence, it took only two years to remove the previous protections.



Flour is still milled in New Zealand, but it competes with imports, as it should. Above all, New Zealand is no longer trying to be self-sufficient in wheat or flour. Instead we pursue more rational objectives. We understand that to be competitive abroad, we need to be competitive at home. And that part of being competitive is the way we regulate our businesses.

The other example takes less time to tell, but is even more important. To an exporting nation few sectors matter more than its ports. Up to the late 1980s, ours were not a source of pride or efficiency. The national Ports Authority had to approve all capital expenditure. So ports competed for container cranes, and the government decided where these would be built. A single Waterfront Industry Commission employed all waterside workers. So, regional differences in costs were not reflected in wage rates or port charges. Industrial relations were awful.

In 1989 the Authority and the Commission were abolished. Instead, each port was corporatised and the shares passed to the relevant local or regional unit of government. Some, though not all, of the ports have since been privatized. Everywhere they are more efficient. And the industrial relations are a world away from their previous performance.

Today it is a source of modest pride that New Zealand tops the World Bank's rankings for ease of doing business. This result has flowed from nothing less than a deliberate change of mindset; in favor of reducing the cost of doing business, and away from "heavy-handed" regulation.

Wider benefits have also flowed from New Zealand's period of reform. Public debt was more than halved as a share of GDP. The rate of economic growth also picked up. Whereas between 1986 and 1994 New Zealand managed only 0.3 percent growth each year, from 2000 it has managed almost

ten times that rate of growth. While there's still plenty of room to do better, I believe that New Zealand's reform story illustrates the value to business, government and people of establishing and maintaining a quality regulatory environment.

So far we have established that there is a strong appetite for reforming regulatory systems and that, according to the experts (and my own experience), this will lead to enhanced business and economic growth. So why is it so hard to do?

Well partly it's because, as the political philosopher Isaiah Berlin once said, the tough choices in politics are not between good and bad, but between good and good. Or, if you are more inclined to focus on the downside of decision-making, the late John Kenneth Galbraith once observed that politics was the art of choosing between the unpalatable and the disastrous.

An active campaign of reform is disruptive. It touches the very heart of government. Often the power to regulate has been used deliberately to protect particular interests – often interests where a government draws its support. One person's unreasonable burden is often another person's vital support. And to stay in office, the interests of competing groups need to be balanced.

So an active campaign to ease the costs of doing business has to be presented with care. It can't appear that one group is being favored over another. Of course good quality regulation does not mean zero regulation. Top ranking countries continue to regulate their businesses; they just do so in less costly and burdensome ways. The keys to cost-effective regulation are surely good problem definition, the right incentives, correct principles and good decision-making processes; including consultation with those affected.

Even in the most modern economy the role of government does not disappear. On the contrary, it is vital. In giving advice on how to reform an economy's regulatory system, the maxim "one size doesn't fit all" is apposite. Answers to design issues, including sequencing and implementation, are unlikely to be found in off-the-rack models. Rather the right regulatory systems will be those that are tailored to the economy's particular circumstances, its society, its culture and its values. Once again, I'd like to illustrate these points by reference to the processes followed during the main period of reform in New Zealand.

The first point is that there was no grand plan. The government did not set out with a clear strategy or critical path, which laid out the required decisions in neat and logical order. Government and politics aren't like that. Instead, invariably in my experience, ministers struggle to hold on to a sense of what is important, as they wrestle to dispose of what is urgent. Perhaps we were lucky in the number of issues that were both urgent and important.

We were also lucky in that we began with clear support for change. This didn't take the form of support for the details of individual reforms. Indeed many of these, although orthodox in an economic policy sense, nevertheless came as a surprise to those directly affected, but the program as a whole, attracted widespread support. There was a general, if not a specific, grasp that things needed to change. The country couldn't go on the way it had been.

An important point is that not all of our "reforms" amounted to the simple repeal of previous controls. In some cases, regulation was strengthened rather than eased. The most obvious and important example is New Zealand's competition or anti-trust legislation. This governed both monopolistic behavior, such as predatory pricing, and the acquisition

of monopoly power through acquisition or merger between businesses. In 1986 this law was strengthened, partly to come into line with its Australian counterpart. Even here, however, outdated aspects were abandoned. For example, the previous provisions against "profiteering". And a separate law aided competition through stronger prohibitions against false or misleading representations or conduct.

Another important point is that whereas the government's principal concern in 1984 was to achieve stability in the "macro" indicators, like inflation and the government's budget deficit, the principal means of achieving this required that it address a daunting number of "micro" markets. Some years into the process, I stumbled across this advice from the economist, Mancur Olson: "*The best macroeconomic policy is a good microeconomic policy. There is no substitute for a more open and competitive environment.*" New Zealand's experience exemplified this maxim precisely.

One technique employed by the Minister of Finance for the first four years, Roger Douglas, was to present reform "packages" affecting unrelated sectors in disparate ways. This helped to maintain the momentum of reform. It also helped to underline the notion that everyone was being expected to sacrifice their previous privileges. More than one affected party confessed that they had thought to challenge the government's decision, but seeing who else was affected they forbore.

For all our enthusiasm for packages of reform, we sought with some care to avoid the trap of "picking winners"; that is, of seeking to identify the sectors of the economy most likely to prosper and bestowing on them particular assistance or protection. We thought it better to lay out clear directions and allow investors and managers to make their employment and capital choices accordingly.

In a similar vein, the direction of change seemed more important than the immediate distance traveled on any one issue. Most sectors required several initiatives before one could be satisfied with the outcome. Did this matter? Must all reform take the form of a “big bang”? I think not. What mattered more to us was the overall consistency and commitment to our approach. If one area took several years to address and another only months, then so be it.

Finally, let me make this very important point: what we did was home grown. I do not mean that the intellectual ideas involved were all fashioned locally. That is far from the case. Indeed, in almost all respects, we could look to precedents in many other countries.

What this means is that the detail of the New Zealand experience will not necessarily transplant elsewhere, and certainly not taken as a whole. But then we did not set out to impress anyone else, or to establish any grand theory or model. Rather we reacted, as we thought belatedly, to a combination of economic and business challenges that had lingered far too long unaddressed. Doing that, we thought, was the duty we owed our country.

So what might you, ABAC delegates and invited guests, conclude from this presentation? Four points I suggest:

- First, the quality of regulation is critically important to business and to economic growth.
- Second, given the dynamic pace of change in the world economy, the question of how best to regulate is relevant to us all – including today’s strong regulatory performers.
- Third, an effective regulatory reform process will work only if it is consistently and determinedly implemented – again reflecting that as fast as we change, so too does the global economy.

- Fourth, no economy has to go it alone. There may be no master plan to follow, and individual economies will want to adapt their approaches to reflect their own environments. However, there are institutions and economies out there (including a number within APEC), which have considerable experience and can offer guidance and assistance, as we jointly seek to identify and apply best practice regulation.

# Business Perspective on Trade Facilitation

*Mr Ralph Carter, Senior Executive, FedEx USA*

*Paper presented to the Public-Private Dialogue on Trade Facilitation  
Ho Chi Minh City, Viet Nam, 23–24 May 2006*

**T**hank you for inviting me to participate on this panel today to discuss the private sector's view on trade facilitation.

## **FedEx Express**

FedEx Express, which provides express delivery services in over 220 countries and territories throughout the world, is keenly interested and engaged in global trade issues. We have been active at the WTO in Geneva, in the APEC Business Advisory Council, and in the various bilateral and regional free trade agreements that the U.S. has undertaken.

Not only are we interested in what you may think would be aviation issues, but the issues critical to our business include: customs procedures, security measures at the borders, trade in services, and many other transnational matters. FedEx processes, on average, over 3.2 million shipments a day in our global network.

As you can imagine, the magnitude of shipments handled by our global business, means that trade facilitation is a paramount issue. Good policy and international trade

law would tremendously help, not only our business, but also from our vantage point, the global economy.

## **Trade Facilitation in General**

The importance of trade as a tool for economic development stands uncontested in economic theory. Trade currently represents over 30 percent of the world GDP and is estimated to grow to 50 percent by 2020. Efficiency in trade is especially important for smaller and more trade dependent countries.

The facilitation of trade procedures is seen by all major international organizations as vital for economic development, not least for developing countries. Trade procedures are, in fact, perceived to be a future bottleneck.

The World Bank regards trade facilitation as an essential component for overall success in economic growth and development. The UN estimates the potential savings from trade facilitation to be some US\$490 billion.

Based on an ABAC study, in normal trade transactions there are, potentially,

27 to 30 different parties involved. They handle approximately 40 documents, involving 200 data elements, of which 60 to 70 percent are rekeyed at least once.

There are several definitions of trade facilitation, all relatively similar. It is essentially the simplification of procedural and administrative impediments to trade, or, in other words, ensuring the smooth flow of products across national borders.

The magnitude of the possible gains has led to the issue of trade facilitation being included in the WTO Doha Round.

### **WTO Doha Trade Facilitation**

Despite all that is being said about the "Doha Round, the fact of the matter is that the trade facilitation negotiations are going well. Many WTO members have proposed specific provisions of the final WTO trade facilitation agreement and they will soon begin negotiations on the text of the agreement.

Trade facilitation provisions contained in the GATT 1947 (Articles V, VIII, X), have not been updated since the 1940s. As you can imagine, trade in the 1940s and in 2006 are quite different. Furthermore, despite good efforts by such organizations as the WCO and its Revised Kyoto Convention, or the WCO Framework, which are good compendia of best practices related to border management practice, the problem is that they are only recommendations and they cannot be enforced.

A WTO agreement would be different. But, as you know, the Doha Round is in a precarious state and its fate is uncertain. Despite the uncertainties in the WTO, APEC has really made significant process in trade facilitation.

In response to the Shanghai Accord, an APEC study in 2001 noted that if all the APEC economies enhanced trade facilitation by reducing trade costs by 5 percent in five years from 2002, APEC's GDP would increase by 0.98 percent (US\$154 billion). The study showed that trade facilitation results in more gains to the APEC economy than market liberalization.

### **APEC/Busan Business Agenda**

APEC's efforts on trade facilitation are, in many ways, a model for other regional fora. In the Shanghai Accord, Leaders laid down the objective of realizing "...a significant reduction in transaction costs by endeavouring to reduce them by 5% across the APEC region" by the end of 2006. In 2005, the Leaders, in response to new challenges that emerged from the evolving international trade environment and seeking to reach the Bogor Goals by the cleared timelines, endorsed the Busan Roadmap. This plan includes a further reduction in trade transaction costs by five percent by 2010.

The Busan Business Agenda was formulated in response to ABAC's recommendation to accelerate APEC's work on trade and investment facilitation. It addresses "behind-the-border" impediments to trade and improved competitiveness.

### **Practical Implications**

What does all this mean to businesses?

For instance, in Peru, after a five year reform of the Peruvian Customs, the cargo release time has been reduced from an average of 30 days, to a maximum of 24 hours for green channel cargo (one or two days for goods chosen for inspection). At the same time, the revenue collection has quadrupled.

At 12 percent interest and with the value of Peruvian imports in 2000, this would roughly have constituted a maximum gain of approximately US\$71.9 million to involved companies.

Another study in Sweden showed that as a result of faster Customs procedures, an express delivery company in Sweden was able to utilize all its transport vehicles one extra hour a day, resulting in an hour of extra revenue. That additional revenue roughly increased overall profits by 5-10 percent.

### **Recommended Next Steps**

Business has a vital role to play in the improvement of the border management process. Economic development through trade facilitation will not happen unless business is fully committed to, and champions, the cause. Governments require guidance from business on the benefits of efficient border management. Without some quantification of the benefits of trade facilitation, governments will have a hard task to commit resources to further this commitment, even if it were well supported by technical assistance and capacity building funds. To this end, the 2005 ABAC/APEC Customs and Trade Facilitation Handbook is instrumental in recording average cargo clearance times as of 2005 which in turn can be used as a baseline for improvements according to the Busan Business Agenda.

To compete effectively, businesses require low costs and predictability in the trading process. It is the business imperative to trade competitively that should be the engine of economic reform. Government and business must work closely together to harness the benefits of trade facilitation.

Trust between border authorities and international traders is a vital component in the development of efficient border management.

This trust should be earned through a good compliance record over a number of years. Businesses committed to trading internationally, in the long term, have similar ambitions to those of the border authority. They want to comply fully with the legal requirements covering their trade. They cannot afford to be faced with unexpected costs resulting from non-compliance, and they cannot afford to be associated with any breach in security because of their failure to implement adequate safeguards. In view of this, partnership built on trust between border agencies and business has to be the right way forward.

The impact of security measures on international trade, especially from developing countries to developed countries, is of major concern. It is potentially the biggest threat to the facilitation of trade and development that we face at present. Having said that, the discipline and modernization required to improve security might also be very beneficial. The process of progressively improving the border management process could improve security, if it is balanced with commercial reality.

More frankly, what do businesses see as the biggest challenges to achieving the goal of reducing trans-border transactional cost, particularly in the APEC region?

From our experience as a global express delivery company, we see these five main challenges or needs in the APEC region:

- single window electronic data interchange – it is necessary to implement a paperless declaration process in a single window environment, to reduce operating costs and minimize clearance times. The data required should also be harmonized and stream lined (perhaps using such models as the WCO Customs data model).
- expedited clearance – customs agencies should enable brokers and traders to pre-submit shipment information before



shipment arrival, and be prepared to issue shipment release when specific conditions are met. Most goods should be pre-cleared before arrival.

- risk management based inspections – to maximize operation efficiency and reduce resource usage, regulatory agencies should adopt appropriate risk management based inspections.
- De Minimis Value Thresholds – customs administration should institute de minimis values that will reduce all parties' transaction costs. The cost of collecting marginal duty and tax often outweigh the revenue collected.
- Customs' working hours – modern trade moves 24/7 around the globe, so customs clearance must be available at all times, to speed trade and increase economic efficiency.

Interestingly enough, these points are included in the APEC Trade Facilitation Action Plan.

#### **Capacity Building/Private-Public Cooperation**

Businesses understand that for governments to reform and institute changes at the border, resources are needed. The private sector is certainly committed to assisting in capacity building through cooperation and partnership with governments.

For instance, FedEx and many other companies worked together with Chinese Customs and US government agencies, to establish a model port project in Shanghai. The aim was to clear express shipments and to protect intellectual property rights at the border. Private businesses and government agencies worked with the Thai government to enhance security, while facilitating trade between Thailand and the United States. Furthermore, this year, the private sector and the US and Vietnamese governments

are working together to establish an electronic manifest system for express shipments.

It is through such partnerships and collaboration during reforms, that the goals of the Shanghai Accord or the Busan Business Agenda within the APEC context, work and which ultimately will allow the WTO trade facilitation goals to succeed.

#### **Conclusion**

From the private sector's view, trade facilitation is a practical and immensely beneficial agenda to enhance global trade and economic development. How it is achieved is not as critical as whether it will be achieved. Although a global discipline through the WTO would be ideal, alternative disciplines under Free Trade Agreements are also worthwhile. The APEC forum shows that even voluntary measures, that may not be enforceable as a WTO agreement, can have tremendous benefits to business and to economic development. Nevertheless, as governments venture into the realm of trade facilitation measures, it is critical that businesses are seen as partners and collaborators in the process. They must sit at the table with government agencies to synchronize both sides' resources and perspectives.

# Conclusion

## “Focusing on the New Reality”

*Alan Oxley, Australian APEC Study Centre, Monash University*

**T**he papers included in this publication open discussion on the big issues on the table in APEC. They demonstrate the breadth of the APEC agenda, ranging from trade liberalization and economic growth, to protecting human security and improving business regulation.

It is a common view among external commentators that APEC has lost steam; that its efforts to promote trade liberalization are no longer central to the big issues driving economic growth in the APEC region.

Many also ponder the impact of new regional arrangements. Will the proposed Free Trade Agreement (FTA) between ASEAN and China, Japan and Korea (ASEAN Plus Three), become the leading instrument for economic integration in East Asia? Will the East Asian Summit process supplant the APEC Leaders' Meeting, leading to APEC's eclipse?

So far there have been two responses to the impact of the ASEAN PlusThree FTA. One is to concede that it will be a problem and that, to remain valid, APEC members should negotiate an APEC FTA. The second is to

wait and see, resting on an assessment that negotiation of an effective FTA between those very different economies will be difficult and time-consuming. The same point can be made, but with more force, about an APEC FTA.

No one has gone so far as to pronounce that APEC's time has passed. A key reason might be, that officials handling APEC matters, in APEC economies, see things differently.

They service a large number of substantial inter-governmental mechanisms in APEC. There are regular meetings of Ministers from the trade and foreign ministries, finance ministries and treasuries, energy ministries, and those for industry, telecommunications, transport, customs and tourism. There are also occasional meetings of Ministers responsible for human resource development, infrastructure, mining and sustainable development.

In addition, there is an astonishing amount of sharing of information among officials in APEC economies, on actions by government that affect growth at the coalface. Some examples are: management of customs, paperless administration of trade regulations,

the administration of food standards, trade security and setting standards for energy efficiency. By this means, the information about models and approaches to regulation is shared widely throughout all APEC economies.

While frequency of meetings does not correlate with productive output in today's multilateral world, an important feature distinguishes APEC from most other institutions: probably half of the cost of APEC activities is paid for directly by members, not from a central fund. Furthermore, each year, one APEC member spends upwards of US\$200 million to host the annual APEC Leaders' Meeting.

Member contributions to central APEC funding are low compared to other international organizations. While this results in a woefully understaffed Secretariat (it has only about 20 full-time professional staff), and a lot of activity which is ad hoc and lacks focus, it also means that APEC addresses what members want, and they pay for it themselves.

The Leaders' Meeting has had a dynamic impact on the organization. The agenda changes rapidly according to the preoccupations of the Leaders, which are naturally with contemporary issues. This keeps APEC focused on issues of immediate concern, such as human security.

However, an underlying theme of the papers in this publication, is that while APEC members will continue to focus on human security issues because they are relevant, "the core of what binds them today is still what bound APEC's founding members in 1988 – the common interest in building economic growth by fostering open economies.

Trade liberalization is still important. The Bogor Goals of removing all barriers to trade and investment by 2020, have been important in guiding the public economic policy of APEC economies, and will remain important. APEC economies also need to ensure that preferential trade arrangements contribute to, and do not undermine, enhancement of their economic welfare.

Inexorably, however, APEC Ministers and officials have been adjusting their perspectives to the emerging reality about what determines economic growth. As have the members of ABAC (who reflect the views of business in the Pacific Rim), Finance Ministers and their officials, and scholars.

The emerging perspective is reflected in the Busan Action Agenda, which was adopted at the Leaders' Meeting in Korea. Clearly, it will feature strongly in the communiqué to be adopted at the Ha Noi Leaders' Meeting. It will show that the core drivers in the future for promoting economic integration and sustaining growth in APEC economies, now require us to also look past the border, the primary focus of trade liberalization, and focus on the drivers of growth in the domestic economy.

APEC's management of these issues has been disjointed. Finance Ministers have focused on improving governance of finance sectors and sustainability in finance policy. Trade and Foreign Ministers have juggled with policies to improve the functioning of the domestic economy and structural reform, although these are not their core responsibilities. The Economic Committee has reported to Trade and Foreign Ministers, when it should have been more closely connected to the processes involving the Finance Ministers.

It seems clear that improving economic growth is the ultimate purpose of APEC. It would seem logical, therefore, to set this now as APEC's leading economic goal, to set improved functioning of markets in the domestic economy as its leading economic strategy, and to re-gear APEC's structure and processes to implement this strategy.

APEC is uniquely equipped to reflect the common interest of Pacific Rim economies in building economic interdependence to support growth. The papers in this publication address many of the key drivers. While they do not cover all the issues that such a reorientation will entail, they reflect an emerging consensus about how APEC can serve that common interest.



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