

APEC

- 2.1 APEC has now been operating for over twenty years. It has achieved considerable success in removing, or at least reducing, tariff and quantitative restrictions on trade in the region. This role was summed up by the Department of Foreign Affairs and Trade (DFAT):

APEC is the pre-eminent regional forum for Australia's economic engagement with the Asia-Pacific region. It has a strong track record of building support for the multilateral trading system, regional economic integration and structural reform, and has been influential over the past two decades in reducing regional tariff and non-tariff barriers, improving the investment environment and contributing to capacity building among APEC developing economies.¹

- 2.2 One of the major effects has been to tie the group more closely together:

...unpublished research by APEC's Policy Support Unit suggests that APEC economies tend to trade and invest more intensively with one another than with non-members, underlining the complementarities between trade and investment and the benefits that flow from international cooperation.²

- 2.3 Unusually for a grouping of this type, APEC is not a negotiating forum. It seeks to reach agreement by consensus and has adopted the guiding concept of "open regionalism".

1 Department of Foreign Affairs and Trade, Submission 40, p. 9.

2 Department of Foreign Affairs and Trade, Submission 40, p. 9.

Open Regionalism

2.4 APEC has based its cooperative efforts on this concept of “open regionalism”. It is used to promote regional economic cooperation and integration “without discrimination against other economies”. It was designed to be distinct from regionalism based on “discriminatory free trade areas and customs unions”.³

2.5 The latter arrangements are:

... based on formal legally binding rules: partly because any market-distorting arrangements need to be shored up by regulations and partly because preferential arrangements for trade in goods are not permitted under the General Agreement on Tariffs and Trade/ World Trade Organization (GATT/WTO) in the absence of a formal agreement which meets (at least in broad terms) the provisions of Article XXIV.

In contrast, Asia Pacific governments have embraced an evolutionary and voluntary approach to promote mutually beneficial economic integration.⁴

2.6 In their book on Open Regionalism, Drysdale, Elek and Soesastro indicated that as APEC develops there will be a need to refine the open regionalism idea to take account of ongoing developments:

There is now another set of challenges as governments begin to implement the Manila Action Plan for APEC (MAPA). Up to this point, open regionalism has been used to distinguish between most favoured nation (MFN) and preferential liberalisation of border barriers to trade.

As APEC governments develop concrete proposals to facilitate trade and investment, more precise guiding principles will be needed to ensure that cooperative arrangements are consistent with the basic objective of reducing impediments to trade and investment without detriment to other economies.⁵

3 Drysdale P., Elek A., and Soesastro H., *Open regionalism: the nature of Asia Pacific integration*, in *Europe, East Asia and APEC A shared Global Agenda?*, Edited by Peter Drysdale and David Vines, Cambridge University Press, Cambridge, 1998, p.103.

4 Drysdale P., Elek A., and Soesastro H., *op. cit.*, p. 103.

5 Drysdale P., Elek A., and Soesastro H., *op. cit.*, p. 104.

- 2.7 They added that application of one of the unique APEC features, highlights the need to ensure that developments within APEC do not throw up new barriers for non-members:

To promote rapid progress, APEC participants have agreed that those who are ready to implement initiatives for closer cooperation can do so, with others to join later.

This makes it imperative to ensure that cooperative arrangements pioneered by some APEC economies are 'open clubs', which take full account of the interests of other economies and encourage them to join.

As APEC gathers momentum, participants will become increasingly aware of the need to ensure that cooperative arrangements among some participants are indeed capable of subsequent region-wide application. They will also need to ensure that new arrangements do not create new sources of discrimination, thereby fragmenting, rather than integrating regional markets.⁶

- 2.8 Its voluntary approach, despite the opinions of sceptics, has allowed APEC to achieve considerable success. Much of this is attributed to the lack of pressure on participating economies from overarching organisations:

APEC is not a negotiating forum. It is a voluntary process of cooperation because Asia Pacific governments are not willing to consider ceding significant sovereignty to a regional supra-national authority.

APEC's successes have been in areas where governments have perceived the benefit of cooperating, voluntarily, to achieve agreed practical objectives. Problems, together with perceptions of failure, have arisen when participants sought to engage in negotiations.⁷

- 2.9 In a recent paper, Dr Andrew Elek noted that:

In 1994, only five member economies were willing to define themselves as developed economies and commit to 2010 as the target date for free and open trade and investment; now 12 of

6 Drysdale P., Elek A., and Soesastro H., op. cit., p. 104.

7 Elek, Dr Andrew, *Towards a single market: a 21st century vision for APEC*, Paper presented to the APEC: the Next Decade APEC Study Centre International Conference, Chinese Taipei, 16 December 2009, p. 5.

them see themselves to be developed and to be assessed against that ambition.⁸

2.10 In giving evidence to the Sub-Committee, Dr Elek commented that APEC:

...is not simply a trade organisation. A lot of people think that the holy grail for APEC is some kind of free trade area of the Asia-Pacific. I do not agree with that. It is not desirable because our interests are increasingly global, not just regional.

...If you tried to include all 21 economies it would either fail or be a bit of a joke. But probably most importantly, it is not really relevant.

This idea of trading with a group of favourites and discriminating against the rest of the world is a very old idea. It is just not relevant to the way international commerce is conducted these days....⁹

Trade Facilitation

2.11 However, the question is now being asked “where does APEC go from here?” Chapter 3 of this report provides part of the answer; there is still a lot of work to be done in the process of trade facilitation; and not with APEC economies alone.

2.12 DFAT commented that this is a priority area and acknowledges the benefits that can be gained from substantial progress in this area:

Australia is keen for APEC to intensify work on regulatory reform, competition policy and regional economic integration through structural reforms at the border (for example, in customs procedures, standards and conformance, and business mobility); across-the-border (for example, by improving supply-chain connectivity); and behind-the-border (for example by reducing regulatory burdens and squeezing transaction costs).

Australia is working with Singapore, Hong Kong, China and other APEC members on a Framework on Supply Chain Connectivity to identify chokepoints that impede trade logistics in the Asia-Pacific region; assess measures currently in place to ameliorate these

8 Elek, Dr Andrew, *APEC: regional economic cooperation in a global setting*, Asia-Pacific Perspectives, 2010.

9 Dr Andrew Elek, Committee Hansard, 16 June 2010, p. 2.

chokepoints; and recommend further action to remove impediments to trade logistics.¹⁰

- 2.13 One result of that work was the announcement on 6 June 2010 that Australia had allocated \$2 million over two years to assist with programs “that promote investment and stronger supply chains in developing APEC economies”. The funding is designed to:

...contribute to APEC’s goal of regional economic integration. It will directly benefit developing economies in the region by improving their ability to attract and sustain foreign investment. It will also complement efforts to help developing economies increase their resilience to turbulence in financial systems.

The \$2 million will be allocated from the AusAID-administered Public Sector Linkages Program (PSLP), which provides grant funding to further APEC’s mandate of facilitating open and secure trade, investment, development and growth in developing APEC economies. Preference will be given to projects that target more than one developing APEC member economy.¹¹

- 2.14 DFAT recognised also that success in trade facilitation will depend heavily on the capacity of infrastructure to efficiently handle increased trade flows:

...Australia has been a strong advocate of progressing APEC’s work to address infrastructure challenges within the region. At the sixteenth APEC finance ministers’ meeting in November 2009, Australia tabled an expert public-private partnership (PPP) study on the benefits of greater uniformity in PPP procurement processes. This initiative builds on APEC’s previous work on PPP frameworks.¹²

- 2.15 One of the most successful initiatives on trade facilitation in APEC has been the introduction of the APEC Business Travel Card Scheme; designed to streamline the movement of business visitors between APEC countries. Its advantages have been summarised neatly by the Department of Immigration and Citizenship:

The APEC Business Travel Card cuts through the red tape of business travel. Through a single application form, the card allows

10 Department of Foreign Affairs and Trade, Submission 40, p. 9.

11 Joint media release: Simon Crean MP, Minister for Trade and Stephen Smith MP, Minister for Foreign Affairs, *Australia commits \$2 million to strengthen investment and supply chains in APEC region*, Canberra, 6 June 2010.

12 Department of Foreign Affairs and Trade, Submission 40, p. 9.

accredited business people to obtain multiple short-term business visitor entry to participating economies.

This saves cardholders time and effort involved in applying for individual visas or entry permits.¹³

- 2.16 So far, 18 APEC member economies have fully adopted the scheme. The US, Canada and Russia are transitional members, allowing fast-track immigration processing but not pre-clearance of visas.¹⁴
- 2.17 The card allows access to visitors who are: exploring business opportunities; attending meetings; or conducting trade and investment activities. It allows the visitor to stay for two months on each visit (three months in some member economies) and is valid for three years or until a new passport is issued. As a further assistance to business travellers, some airports provide special 'APEC' lines for fast-track immigration processing at international airports. In the US, holders can use air-crew lanes but must still present valid passports and visas if required by US law.¹⁵

Future Development of APEC

- 2.18 Dr Elek acknowledged the changes of the last few years in the international trade scene in a recent paper given to an APEC Study Centre International Conference. There he sketched out a path for APEC's future development:

APEC's core objective remains promoting mutually beneficial integration, but the relative importance of obstacles has shifted. Traditional border barriers to trade in some sensitive products remain costly, but affect a rapidly shrinking part of international commerce. Today, it is more efficient to concentrate on problems of communications and logistics, combined with the lack of efficiency, transparency and sometimes arbitrary implementation, of economic policies in different economies.

13 Department of Immigration and Citizenship, *Visas, Immigration and Refugees*, p. 1, <http://immi.gov.au/skilled/business/apec/>, accessed 5 August 2010.

14 Department of Immigration and Citizenship, *Visas, Immigration and Refugees*, p. 3, <http://immi.gov.au/skilled/business/apec/>, accessed 5 August 2010; and e-mail advice from DIAC on 27 August 2010.

15 Department of Immigration and Citizenship, *Visas, Immigration and Refugees*, pp. 1-2, <http://immi.gov.au/skilled/business/apec/>, accessed 5 August 2010.

The effective constraint on collective action to deal with these problems is not political will. It is limited capacity to design and implement the necessary policy reform. And capacity cannot be created by negotiation.

High-level political attention will be needed to catalyse the resources which will be needed. That, in turn, needs a unifying vision to deal with the across-the-border and behind-the-border obstacles to genuine economic integration, that is, to build a single market.¹⁶

2.19 He summarised the essential APEC strategy, as follows:

Looking ahead, APEC should play to its strengths; using the comparative advantage of voluntary cooperation to build consensus on ways to promote shared interests, including in economic integration. At the same time, it is essential to accept the limits of a voluntary process of cooperation.

Some issues will continue to need the negotiation of binding commitments, for example to set trade rules or to deal with global warming. ...

The APEC process should concentrate on economic integration in the region in a way which is consistent with the comparative advantage, and the limits, of voluntary cooperation. Moreover, Asia Pacific integration should not seek to divert economic activity away from any economy – it should set positive examples for the rest of the world to follow when they become aware of the advantage of doing so. That is the essence of open regionalism.¹⁷

2.20 In another recent paper he commented:

APEC now needs a new strategy and a new unifying vision, which take account of:

- the changed international environment for economic cooperation
- the nature of international commerce in the 21st century.¹⁸

16 Elek, Dr Andrew, *Towards a single market: a 21st century vision for APEC*, Paper presented to the APEC: the Next Decade APEC Study Centre International Conference, Chinese Taipei, 16 December 2009, p. 2.

17 Elek, Dr Andrew, *Towards a single market: a 21st century vision for APEC*, Paper presented to the APEC: the Next Decade APEC Study Centre International Conference, Chinese Taipei, 16 December 2009, p. 6.

18 Elek, Dr Andrew, *APEC: regional economic cooperation in a global setting*, Asia-Pacific Perspectives, 2010.

- 2.21 In his evidence to the Sub-Committee, Dr Elek expanded on this idea when he said:

APEC really has broader ambitions. The idea is to help all the Asia-Pacific economies to reach their potential for substantial growth, including us. We see more and more how much we depend on the region, but not just on the region; the region itself depends on the rest of the world.

The way to promote development is not by trying to force people to act against their will... Basically, the idea is to talk to each other, work out what does work and what does not work and encourage people to make better policies and ...to think about the effect on the rest of the region, not just on themselves.

This is best done by consensus building, working out how to design policies and how to implement policies. You cannot do that by negotiation; it is essentially a capacity-building exercise. I see APEC as more or less building the capacity ...to reach our potential.¹⁹

- 2.22 Dr Elek also addressed the relationship between the Group of 20 (G20)²⁰ and APEC and noted some similarities in their methods of operation:

To be useful in the global setting we need to think about global initiatives. The one, if you like, complementary cooperation forum to APEC, which is very important in my mind, is the G20. In a funny sort of way, almost by default, it has emerged very much in the style of APEC.

It is a self-appointed group. It consults and does not try to give directives but tries to get their officials to work out policy positions and to talk about what is the best way to tackle the next financial crisis – it will surely get back on to climate change sooner or later – and not in a directive sort of way but in a consensus-building sort of way. How APEC relates to G20 is very important.²¹

19 Dr Andrew Elek, Committee Hansard, 16 June 2010, p. 2.

20 G20 members are: Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, South Korea, Russia, South Africa, Saudi Arabia, Turkey, the United Kingdom, the United States, and the European Union.

21 Dr Andrew Elek, Committee Hansard, 16 June 2010, p. 4.

Dangers of Protectionism

2.23 The biggest challenge to APEC's work in recent years has come from the effects of the Global Financial Crisis (GFC). When the crisis took hold, some worried governments tended to think in protectionist terms – trying to safeguard their industries from the worst effects of the crisis.

2.24 Researchers have highlighted the risks inherent in this approach. For example, Kristen Bondietti, of the Australian APEC Study centre in Melbourne, wrote:

Resort to trade restrictive policy measures and regulatory intervention can be expected to increase. The tendency of governments to erect measures to cushion the impact on producers will intensify.

Creeping protectionism creates risks for trade, competitiveness and recovery. It could see the winding back of many of the historic trade reforms of the 1980s and 90s, which have underpinned high levels of growth in the Asia Pacific region.²²

2.25 The serious threat posed by protectionist sentiments was recognised and addressed by the G20. The G20 leaders, in their London Declaration following the Summit on 2 April 2009, agreed:

World trade growth has underpinned rising prosperity for half a century. But it is now falling for the first time in 25 years. Falling demand is exacerbated by growing protectionist pressures and a withdrawal of trade credit. Reinvigorating world trade and investment is essential for restoring global growth. We will not repeat the historic mistakes of protectionism of previous eras. To this end:

- we reaffirm the commitment made in Washington: to refrain from raising new barriers to investment or to trade in goods and services, imposing new export restrictions, or implementing World Trade Organisation (WTO) inconsistent measures to stimulate exports. In addition we will rectify promptly any such measures. We extend this pledge to the end of 2010;

22 Kristen Bondietti, *Policy Options to Promote Reform in Non Agricultural Market Access (NAMA) in an Era of Falling Demand, Rising Protectionism and Economic Uncertainty*, Summary of key points, The Australian APEC Study Centre, RMIT University, Melbourne, Training Program, 2-8 September 2009, pp. 1-2.

- we will minimise any negative impact on trade and investment of our domestic policy actions including fiscal policy and action in support of the financial sector. We will not retreat into financial protectionism, particularly measures that constrain worldwide capital flows, especially to developing countries;
- we will notify promptly the WTO of any such measures and we call on the WTO, together with other international bodies, within their respective mandates, to monitor and report publicly on our adherence to these undertakings on a quarterly basis;
- we will take, at the same time, whatever steps we can to promote and facilitate trade and investment; and
- we will ensure availability of at least \$250 billion over the next two years to support trade finance through our export credit and investment agencies and through the MDBs. We also ask our regulators to make use of available flexibility in capital requirements for trade finance.²³

2.26 At the Pittsburgh Summit in September 2009, the G20 Leaders reiterated their stand against protectionism:

Continuing the revival in world trade and investment is essential to restoring global growth. It is imperative we stand together to fight against protectionism. ... We will keep markets open and free and reaffirm the commitments made in Washington and London: to refrain from raising barriers or imposing new barriers to investment or to trade in goods and services, imposing new export restrictions or implementing World Trade Organization (WTO) inconsistent measures to stimulate exports and commit to rectify such measures as they arise.

We will minimize any negative impact on trade and investment of our domestic policy actions, including fiscal policy and action to support the financial sector.

We will not retreat into financial protectionism, particularly measures that constrain worldwide capital flows, especially to developing countries. We will notify promptly the WTO of any relevant trade measures.²⁴

23 Group of 20, *The Global Plan for Recovery and Reform*, London Declaration, 2 April 2009, paragraph 22.

24 Group of 20, *Leaders' Statement*, The Pittsburgh Summit, 24-25 September 2009, paragraph 48.

- 2.27 Despite this seemingly uncompromising stand, the WTO, also in September 2009, noted:

... some slippage towards more trade restriction on the part of many G20 members.

This compares unfavourably with the situation prevailing prior to the crisis when the balance of trade policy actions worldwide lay firmly for several years on the side of trade liberalisation.²⁵

- 2.28 APEC has an important role to play in stemming this growing reliance on protectionism. The DFAT submission to this inquiry commented:

In the current environment, APEC is well placed to contribute to supporting, and delivering on, the G20 agenda, which is aimed at achieving strong, sustainable and balanced growth.

APEC can mobilise resources and expertise on both sides of the Pacific to: (i) advance financial market reform and trade liberalisation and (ii) strengthen the resilience of member economies to external shocks through its work on investment liberalisation and structural adjustment.²⁶

- 2.29 Dr Elek noted the difficulties faced in eliminating entrenched protectionist measures in “sensitive products”, and the consequent desirability of preventing the addition of new products to the “sensitive” lists. He commented that even in “so-called” Free Trade Agreements, products were exempted from application of the general terms of the agreement and protected by various measures:

The same sensitive products, which are proving hard to liberalise in the Doha Development Agenda of the WTO, or among APEC economies, are also routinely exempted from “free trade” deals. Any marginal liberalisation of border barriers to these products tends to be negated by product-specific rules of origin and by retaining the right to impose less transparent forms of protection, such as anti-dumping actions.²⁷

- 2.30 He noted also the success of APEC in keeping information technology products free of protectionism:

25 Department of Foreign Affairs and Trade, Submission 40, p. 6.

26 Department of Foreign Affairs and Trade, Submission 40, p. 9.

27 Dr Andrew Elek, *Immunising Future Trade Against Protectionists: Preventing the Emergence of More Sensitive Sectors*, Asia Pacific Economic Papers, No. 372, 2008, Australia-Japan Research Centre, ANU, Canberra, p 1.

It will take a long time, in any forum, to reduce the number of products that are already sensitive and, hence, heavily protected by border barriers or other less transparent forms of contingent protection... Therefore, it is desirable to prevent the emergence of new sensitive products.

This paper proposes collective action by APEC governments to immunise new products against trade policy distortions. It was possible to do so for information technology (IT) products in the 1990s. Following leadership from APEC governments, there is a WTO-wide agreement that such products should remain freely traded.

That agreement has already helped a growing share of products to remain duty free....It should be possible to build on the IT precedent to cover more, or even all, newly invented products.²⁸

Membership of APEC

- 2.31 An area that needs reassessment is the membership of the APEC group. With the expiry of the embargo on new members this year, there is an opportunity to reassess the exclusion of India – surely a strange omission in a group that seeks to represent the Asia-Pacific region.
- 2.32 The addition of India would provide a convenient forum for the leaders of the US, Japan, China, Russia and India to meet regularly and discuss, face-to-face, issues that arise between them.
- 2.33 This would be a useful way of addressing some of the difficulties that occur between the five nations from time to time. The Leaders' Retreats would provide an opportunity for frank discussions of differences in outlook, away from the eyes of the media. It could also be an important step in getting these huge economies to work together to achieve an acceptable outcome for the Doha Round.
- 2.34 The Sub-Committee asked the Director of the Australian APEC Study Centre, Mr Ken Waller, about likely candidates when the membership embargo expires:

28 Dr Andrew Elek, *Immunising Future Trade Against Protectionists: Preventing the Emergence of More Sensitive Sectors*, Asia Pacific Economic Papers, No. 372, 2008, Australia-Japan Research Centre, ANU, Canberra, p 1.

When we looked at this at the beginning of Australia's hosting year, 2007, the big issue was whether India should be invited in. That proved to be a difficult point. You need a consensus of view across all the member economies to expand it, and some were not ready to invite India in. When the moratorium on membership ends..., I think that the issue will be not only whether we should invite India in but also: should Columbia come in, or even Brazil? The arguments are finely balanced.

One is that APEC is finding its feet; it takes time for institutions to grow and become really effective. I have argued that to increase its effectiveness it should support unilateral reform within APEC economies. It has taken time, so it is pushing hard to achieve that. When you broaden the membership to some new economies, will they be instantly supportive of doing all of that or will they be a bit reluctant to come along as far as APEC has now come?

My sense is that... Prime Minister Singh will be very keen to continue opening up the Indian economy. I think that is a good sign. My personal view is that it would be good to see India in this relationship.²⁹

- 2.35 Mr Waller added that Brazil is also a country that must be seriously considered for admittance:

As for Brazil, we have some very effective members now in APEC in terms of Peru, Mexico and Chile – and of course the United States and Canada.

If that group felt strongly that Brazil would make a very serious impact and a positive one then I would go with that view from Latin America. I think probably it would. But I think we should take advice from those member economies of APEC.³⁰

- 2.36 In summary, Mr Waller concluded:

My sense is that the issue for Australia is: where do we see our emerging relationships with India? We could continue on the bilateral front. I think APEC is on the front foot now with some important reform initiatives that are going forward. In many ways, I think India would benefit, if I could put it that way, from being part of that group.

29 Mr Ken Waller, Australian APEC Study Centre, Committee Hansard, 21 May 2009, p. 5.

30 Mr Ken Waller, Australian APEC Study Centre, Committee Hansard, 21 May 2009, pp. 5-6.

I would judge this on those grounds – would India and Brazil sign up for what we are trying to do? You would take them on their word. Russia came on board. You see changes going on in Russia which are beginning to open up the economy, and they are positive. We have to, I think, expand our horizons a little bit.³¹

- 2.37 The Sub-Committee considers that the addition of India to the membership of APEC would be of substantial benefit to the future progress of that group. It may also be beneficial in encouraging India to work with the rest of the APEC member economies towards a satisfactory outcome to the Doha Round in the WTO. The Sub-Committee encourages the Australian Government to strongly support the admission of India to APEC membership at the first possible opportunity.

Recommendation 1

Work towards the admission of India to membership of APEC as soon as possible.

Recommendation 2

That Australia continues to strongly support the work in APEC on the identification and elimination of choke points in regional supply chains and the development of modern and efficient communications networks.

Recommendation 3

That Australia continues to set an example to other APEC member economies by: (i) maintaining its momentum towards trade liberalisation; and (ii) encouraging the APEC membership to push strongly for a positive and forward-looking outcome in the Doha Round.

31 Mr Ken Waller, Australian APEC Study Centre, Committee Hansard, 21 May 2009, p. 6.