CURRENT ISSUES BRIEF

No. 26 1994

APEC AND AUSTRALIA: THE BOGOR SUMMIT AND BEYOND
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November 15 1994

Parliamentary Research Service

Current Issues Brief No 26 1994

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THE BOGOR SUMMIT AND BEYOND
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Summary

APEC was inaugurated at Australia’s initiative in 1989 with the aim of promoting further economic growth in the Asia-Pacific region and providing a new basis for communication and dialogue among the region’s major economies. Although less than six years old, APEC has sponsored a number of important trade facilitation efforts and it holds its second leaders meeting in Bogor, Indonesia on 15 November. APEC is now pursuing a formal commitment by its members to seek free trade in the APEC region by a specified target date.

APEC was developed to help bolster the remarkable pattern of economic change in East Asia which has seen very high growth rates in many countries, an economic boom in China and rapidly expanding intra-regional investment and trade relations. APEC has attracted support from 1989 because although the growth in the East Asian economies has occurred without a framework for economic cooperation across the region, there were concerns among members that protectionist sentiment in both Europe and North America might threaten the post World War Two patterns of international trade development which have enabled the East Asian economies to grow and prosper.

APEC now brings together eighteen economies in East Asia, Australasia and the Americas. APEC has developed a series of projects to improve communication and remove impediments to trade. APEC has also stimulated thinking on the future for development and growth in the region by commissioning several reports, including two by the APEC Eminent Persons Group. In November 1993 APEC raised its profile substantially when President Clinton invited APEC heads of government to meet informally during the Seattle APEC meetings. Having rapidly gathered momentum, APEC is now seeking to make a further contribution to Asia-Pacific economic growth by developing a consensus that free trade among members should be achieved by a designated target date (2020).

APEC’s meetings in Indonesia in November 1994 (which include the second leaders "summit", at Bogor) underscore its value as a venue for a series of bilateral discussions in addition to the ministerial meetings and the informal "summit". The APEC meetings are also important to the host country Indonesia and to President Suharto, who has supported strongly the effort to develop a commitment for free trade.

In its 1994 meetings APEC faces several major challenges.

APEC is now seeking to develop a commitment for free trade among its members. This concept has widespread support but implementation of free trade will pose many APEC members with profound challenges in economic policy and structural change. APEC must contend with some internal
differences of emphasis on the desirable rate of trade liberalisation and on the issue of whether this should be pursued on the basis of "open regionalism" (by which the benefits would extend also to non-members) or whether some discrimination and conditionality should be involved. APEC must also contend with some continuing sentiment (particularly in Malaysia) that a regional grouping focussed more particularly on East Asian countries would be preferable (the East Asian Economic Caucus), a proposal which has so far received only limited support. APEC’s future membership and organisational structure are further important issues for the group.

Australia as a founder-member places high value on APEC’s relevance and potential. The Australian government sees major opportunities for Australian exporters if regional trade barriers can be reduced. The government also has seen APEC as making a major contribution to regional relationships by providing a multilateral forum which brings together the United States with its major East Asian trading partners and can therefore help improve the climate and content of specific bilateral relations, especially with Japan and China. Australia has been a strong supporter of the development of free trade among APEC members and has enthusiastically endorsed efforts to achieve adoption of this goal.

The achievement of a formal commitment to free trade among APEC members at the Bogor summit will mark a further major step in APEC’s rapid rise to regional and international significance. However this will need to be followed by intensive and detailed discussions and negotiations to bring this ambitious proposal to precise definition and implementation.
Introduction

The ministerial and leaders meetings of the eighteen member Asia Pacific Economic Cooperation group (APEC) represent both an attempt to bolster the environment for economic growth in the Asia-Pacific and to consolidate APEC’s role as the leading regional economic cooperation forum. APEC has developed rapidly since its inauguration in 1989. It has brought together the major dynamic economies of the Asia-Pacific to support a program of cooperation to remove impediments to trade. APEC now faces the challenge of whether it can extend its role to pursue a formal commitment to seek free trade among its members with a specific target date.

The 1994 APEC meetings are highly significant for the host country Indonesia. Since the mid 1980s, Indonesia has undergone a substantial process of economic liberalisation which has brought its economy into greater involvement internationally and regionally. The APEC meetings offer an opportunity for President Suharto to underscore Indonesia’s own rapid growth by playing a high profile role in helping to advance APEC’s economic cooperation efforts.

The APEC meetings also come at a time when there is continuing concern that the progress made in international trade with the conclusion of the Uruguay Round of GATT negotiations should be continued and consolidated. The adverse results of the mid term Congressional election for the Clinton Administration have produced some concern in the Asia-Pacific region about the willingness of the US Congress to pass the legislation necessary to implement the GATT agreements and about the Clinton Administration’s capacity to provide decisive leadership on international economic issues generally.

Australia, as the initiator of APEC, has a strong stake in the 1994 meetings. Australia sees APEC as a focus both for achieving concrete progress in removing barriers to trade and for encouraging cooperation between the United States and its major economic partners in the region, especially Japan and China, at a time when the US has experienced bilateral tensions with both. A successfully developing APEC also gives Australia a direct role in regional dialogue with our most important trading partners.

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1 A previous paper by the author discussed APEC up to the 1993 Seattle summit: see "APEC's Seattle Meetings: Issues for Australia", Current Issues Brief, No 1, 1993, November 1993. Some background material has been drawn from that paper in the introductory paragraphs below.
The Asia-Pacific: Economic growth and cooperation

At a time when the world economy has been in recession, the Asia-Pacific region’s economies have continued to grow rapidly. For example between 1990 and 1993 the ASEAN economies grew by almost 7 percent annually, well ahead of OECD growth rates. And a recent World Bank report stated that in purchasing power terms, East Asia now accounts for about 25 percent of global output - and that the region’s share of world exports (at 21 percent) has grown thirty fold in a quarter of a century.

Four major factors have underpinned this outstanding growth performance. These factors have also encouraged an increasing degree of economic integration and interdependence as well.

- **A number of Asia-Pacific countries, while retaining a strong state role, have in recent years adopted structural reforms** which have boosted the role of the private sector, deregulated areas of the economy formerly subject to state regulation and encouraged greater emphasis on foreign investment and export-oriented industrialisation. A number of markedly different countries have gained benefits from these policies including China, Indonesia and Vietnam.

- **Japan has been moving its economic focus increasingly towards Asia.** The share of total Japanese foreign investment going to East Asia has been growing strongly, while in proportional terms investment in Europe and North America is declining. The high value of the yen has driven offshore an increasing range of Japanese enterprises, including some of the Research and Development arms of major electronics companies. East Asia has now passed the US as Japan’s largest export market.

- **The dynamism of China’s economic growth has had a big effect on the whole region.** Since the late 1970s China has been growing at an average annual rate of 9 percent. Its economy has been doubling in size every seven years. This remarkable growth has been fuelled by continuing internal economic reforms, and rising foreign trade and investment. China is already a powerful force for regional economic growth and is set to become even more so.

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• The Asia-Pacific economies’ performance has also been boosted by a major increase in trade within the Asia-Pacific region, which has to a degree insulated the region from the world recession. This pattern of intra-regional trade has benefited from increased specialisation, a process of transfer of labour intensive manufacturing from more developed economies like Japan and Taiwan to other regional countries and, recently, by the boom in China. This trend has also been boosted by the fact that many major business groups in the Asia-Pacific are increasingly adopting regional business strategies instead of developing their plans on a national basis.

It is important to note that the remarkable pattern of economic growth in the Asia-Pacific economies in the past decade took place without a framework of organised cooperation across the whole region. Indeed some of the most notable economic relationships have developed without any supporting political framework, as in the case of China and Taiwan. However, the growth of the Asia-Pacific economies has depended crucially on the post World War Two international trading regime, which has allowed access for their exports into the markets of the industrialised and wealthy states, especially the United States.

The international environment for growth in the Asia-Pacific region was brought into question from the late 1980s. A series of factors stemming partly from the impact of the end of the Cold War, highlighted the need for cooperation to safeguard the prospects for continued growth and trade.

• The very success of some of the major economies in East Asia in exports of industrial products have produced some tension between major trading partners. The United States has experienced substantial trade deficits with both Japan and more recently China. The significance of the problems of the US were exacerbated by the budget deficits experienced during the Reagan Administration. These developments have threatened to undermine support in the US for liberal international trade arrangements.

• At the end of the 1980s, the passing of the era of the Cold War raised further concerns about the viability of the post World War Two international trading order. The US was concerned about the need to curtail some of its defence spending and to concentrate increasingly on domestic policy priorities. In Europe, moves in the European Union towards the creation of a Single European Market, coupled with the problems of German reunification, heightened concerns about the EU’s protectionist policies.

These developments gave new urgency to the concept of economic cooperation in the Asia-Pacific region to help sustain the recent pattern of rapid growth in an open international trading environment. It was in this context that Australia proposed the inauguration of APEC.
APEC’s developing role

APEC grew out of a long process of discussion about the feasibility of cooperation among the Asia-Pacific economies. While the concept of such cooperation was debated from at least the 1960s, the diversity of the region’s economies, political systems and cultures appeared to provide little or no basis for a common outlook. In 1980 an important initial step was taken when the Pacific Economic Cooperation Conference (PECC) was established; PECC operated as a non-government institution and brought together business people, academics and officials in their private capacities. In January 1989, at the initiative of Prime Minister Hawke, APEC was inaugurated and the first meeting was held in Canberra in November of that year. In 1991 at APEC’s third meeting in Seoul, the Republic of Korea was able to negotiate the entry of China, Hong Kong and Taiwan, in 1993 Mexico and Papua-New Guinea joined and at the Seattle meetings in 1993 Chile was accepted, joining in November 1994 and bringing the membership to its present level of eighteen (for a list see Annex B).

APEC has been seeking to establish a character and role different from those of other regional and international groupings concerned with economic and trade cooperation. Unlike the European Union it has not been conceived as a preferential free trade area and has no ambitions to establish elaborate supranational institutions. Unlike ASEAN, APEC is seeking to bring together both "Third World" and industrialised states of widely varying size in both Asia and the Americas. APEC is also distinct from the General Agreement on Tariffs and Trade (GATT) and its successor the World Trade Organisation (WTO) in that it does not have the charter to pursue formal trade negotiations on a global basis.

What APEC was established to do is to develop approaches towards the promotion of economic and trade cooperation which will enhance associations among its members but in ways which do not discriminate against non-APEC members; its regional cooperation is intended to be "open" to all other states interested in trade and growth. One major avenue for APEC to achieve these goals is the pursuit of "trade facilitation". There are many ways in which non-tariff barriers inhibit trade and APEC’s working groups have been exploring ways of alleviating and eliminating them.5 (For details of APEC’s structure including the Working Groups see Annex D)

- **Non-Tariff measures** have often inhibited trade in the region. APEC Ministers decided in 1992 to exchange information on these and members have agreed that after the Uruguay Round they will work to develop guiding principles which would exert pressure on members to alleviate such measures.

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5 "APEC: Its Implications for Business", Address by Senator the Hon Gareth Evans QC, Minister for Foreign Affairs, to the DFAT Business Liaison Seminar, Melbourne, Wednesday, 10 November 1993.
• **Standards and Conformance** differences provide substantial non-tariff barriers to trade by either preventing the sale of goods and services or raising their costs. Greater similarity in standard-setting could greatly facilitate trade. APEC has been surveying regional practices and APEC Ministers plan further cooperation in this area. Australia’s Foreign Minister Senator Evans has observed that, "We are working towards the day when a mark of quality, testing certificate or professional qualification from an APEC member is recognised and accepted throughout the APEC region".6

• **Customs procedures** can have a big impact on trade flows and can constitute another non-tariff barrier. Australia has pioneered the use of electronic data transfers to speed customs clearance in trade in steel across the Tasman with New Zealand. APEC is exploring the wider use of these techniques and is also improving dialogue on these issues, eg through issuing a guidebook for Customs authorities in the region.

• **Investment** flows are vital to the APEC members’ economies but are often hampered by complex regulations. APEC is working to make regulations more transparent and to increase understanding of impediments to investment in the region. The United States has prepared a guidebook to investment regimes in the region and APEC members (including Australia) have been surveying their business communities to increase knowledge about impediments to investment. APEC has also pursued development of a regional instrument on investment and an agreement has been announced on this (see below).

These measures are directly relevant to the interests of business in the region, can help deepen the bases for communication and understanding among members and are consistent with the concept of "open regionalism" by developing policies which facilitate trade without discriminating against non-APEC members.

**The Seattle meetings and the Eminent Persons Group**

APEC’s role is still being explored and reviewed by the participating governments and major contributions have been made in this process by the leaders meeting in Seattle and by the work of the Eminent Persons Group.

The profile and pace of activity of APEC was boosted substantially by the meetings in Seattle in November 1993. As well as a ministerial meeting President Clinton invited the heads of government of APEC members to hold informal discussions on 20 November: this was the first such gathering of Asia-Pacific leaders. The leaders adopted a Vision Statement which:

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6  Ibid, 5.
established an APEC Pacific Business Forum composed of two business leaders from each APEC economy;

identified the harmonisation of product standards as a priority for APEC;

agreed that Finance Ministers should meet in 1994 to coordinate on broad economic issues;

agreed to establish an APEC educational program "to develop regional cooperation in higher education, study regional economic issues, improve worker skills, facilitate cultural and intellectual exchanges, enhance labour mobility and foster understanding of the diversity of the region";

established an APEC Business Volunteers Program;

and decided to strengthen APEC's dialogue on small and medium sized enterprises (SMEs).

APEC's profile has also been raised by the two reports commissioned from the APEC "Eminent Persons Group" which was created by the APEC Fourth Ministerial Meeting in Bangkok in September 1992. The EPG's second report, "Achieving the APEC Vision" (August 1994), sets out a number of specific proposals for APEC, which should:

- pursue early adoption of a concord on Investment Principles;

- pursue a voluntary code to further improve the environment for international direct investment;

- pursue harmonisation of national product standards, cooperation on financial and macro-economic issues, and cooperation on environmental issues;

- create a task force to address the urgent problem of the proliferation of abusive anti-dumping practices;

- create an APEC Dispute Mediation Service;

- pursue technical cooperation in areas including public infrastructure.

The report's other major proposal was that at its meetings in Indonesia in November 1994 APEC should adopt a comprehensive program to "realise the vision of free and open trade in the region" with the liberalisation program to begin in the year 2000 and be completed by 2020. In recognition of the diversity of the region, the more economically advanced members should liberalise more quickly (by 2010) with the newly industrialised and developing members completing the process by the later target date.
This ambitious proposal has attracted major attention but the EPG report has also caused some controversy because of what some observers have seen as ambiguity in the way its recommendations were framed. The Report argued that

It is imperative to stress that APEC should achieve "free trade and investment in the region" in a manner that promotes trade and investment liberalisation in the world as a whole. ...APEC has been, and must remain, strongly opposed to the creation of an inward-looking trade bloc in the Asia-Pacific even as it must similarly be opposed to such trade blocs elsewhere.\(^7\)

However at other points, the Report devotes considerable attention to how APEC members can extend the benefits of liberalisation either on an unconditional basis or on mutually agreed conditional and reciprocal bases. This emphasis in the Report seemed not in accord with the principle of "open regionalism" and it has been reported to have been regarded very unfavourably by a number of East Asian members.\(^8\)

**The Jakarta/Bogor Meetings, November 1994**

The APEC meetings in Indonesia are significant in a number of ways. The central focus of the meetings is on the multilateral discussions on trade facilitation and cooperation. However the meetings of ministers and heads of government also provide the opportunity for a series of bilateral meetings which are also highly significant.

The Asia Pacific region is still in the relatively early phases of adjusting to the post Cold War environment and the opportunity for senior ministers and leaders to meet is itself notable and valuable. In addition to the multilateral talks the presence of leaders and senior ministers and officials in Indonesia enables a series of bilateral meetings to be held, as was the case in Seattle in 1993. It was part of the concept of APEC that it would provide a wider regional context for major countries in the Asia-Pacific to consider and pursue their bilateral relationships. There have already been signs that this pattern of contact among leaders - initiated by the meetings at Seattle in 1993 - has been valuable. Barry Wain, regional editor of the *Asian Wall Street Journal*, has argued (on 10 November 1994) that:

> According to both North American and Asian diplomats, the APEC process is also starting to soften the edges of potentially damaging disputes

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between members. For instance, early this year the U.S. caused concern throughout Asia when it simultaneously confronted Japan, China, Malaysia and Indonesia over trade practices, labour conditions and human rights. Factors in Washington’s more conciliatory approach recently include its willingness to listen to criticism by its Asian allies and its desire for a successful APEC gathering in Indonesia this month, the diplomats say.9

In the lead-up to the Bogor summit on 15 November, for example, it was evident that important talks would take place between Korean President Kim Young Sam and the Presidents of the US and China and Japan’s Prime Minister on the recently concluded agreements in relation to North Korea’s nuclear program.10 Australia has been able to utilise the meetings to discuss contentious issues in its relations with Thailand and to enable Prime Minister Keating to have talks with Prime Minister Mahathir of Malaysia. In addition to the specific discussions expected on economic cooperation and trade liberalisation, the APEC leaders informal discussions are in themselves a contribution to dialogue and confidence building.

The APEC ministerial and heads of government meetings are also clearly important for the host country and leader. President Suharto has been widely considered to regard the APEC meetings as a valuable opportunity to emphasise Indonesia’s growing regional weight in economic relations and diplomacy. The meetings seem likely to contribute to this goal although the heavily publicised demonstrations over the continuation of dissent in East Timor have undoubtedly diluted some of the favourable impressions which Indonesia’s government sought to convey.

APEC, in its discussions in Indonesia, now faces several major challenges.

**Economic cooperation and trade liberalisation**

APEC’s trade facilitation agenda is being pursued and further progress was reported at the time of writing as the first stages of the Indonesia meetings were underway. The Ministerial Meeting was able to agree on the adoption of a 12 point investment code and the ministers called on the APEC Trade and Investment Committee to "continue work on investment issues, with the active involvement of the business community". In commenting on the agreement on the code, Japan’s Minister for International Trade and Industry, Ryutaro Hashimoto, said that "This is the first specific result of APEC in the trade and

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industry area" and the endorsement of the non-binding set of principles was a "very important first step which enhances the credibility of APEC". 

The major focus of attention, however, remained with the much heralded effort to gain endorsement for free trade in the APEC region by a specified target date. This goal for APEC has been endorsed and by a report by the APEC Pacific Business Forum (who in fact advocated an earlier target date of 2010).

The pursuit by APEC members of free trade with a designated timetable has been seen as highly beneficial to the region overall and to Australia in particular. For example, agricultural imports face effective tax levels of 148.7 percent in Japan, while barriers in China and Korea are at rates of 43.9 percent and 37.5 percent respectively. Significant barriers also exist for minerals and energy and processed food exports to East Asia: if these were removed Australian exporters would benefit greatly. 

Prime Minister Keating has argued (in a speech in Sydney on 11 November 1994 just before his departure for the APEC meetings):

... initial Australian modelling work shows that, while APEC members do well out of the Uruguay Round, they would do even better if APEC was to embrace full free trade. The annual gain to APEC aggregate national income from the Round is around $112 billion by 2002 - when the Round effects have flowed through fully. But this rises to $366 billion by 2010 if APEC free trade is achieved by then.

Under APEC free trade Australia's real output would rise by an estimated 3.8 per cent and real national income by 1.2 per cent or $6.8 billion annually. This would more than double the projected real income gains for Australia from the Uruguay Round...

For Australian business, APEC trade liberalisation is good news, because Australia is already so far down the path towards free trade.

We have eliminated quotas and, by 2000, average trade weighted tariffs will have fallen to 2.9 per cent. Motor vehicles and textiles, clothing and footwear tariffs will be the only stand-outs.

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11 "After investment accord, Japan shifts focus to development aid", Jakarta, AFP, 12 November 1994.

Clearly, going further would be in our interests if other APEC economies also liberalised.\textsuperscript{13}

However, in the lead up to the Indonesia meetings there has been substantial evidence of differences of attitude within APEC about the free trade proposals. One major factor has clearly been that free trade by a designated target date is more attractive for some members than others. The major economies of East Asia have already enjoyed very high growth rates and have gained benefits from unilateral liberalisation measures (which have been extensive) and from the multilateral agreements reached by the GATT process. A number of East Asian economies continue to have industries which enjoy substantial levels of protection which would be precluded by an agreed pattern of free trade (for example, Malaysia has developed a domestic car industry which has received substantial levels of tariff protection). The attraction to a number of East Asian economies of the setting of a target date for free trade has therefore been questioned. The American analyst Professor Chalmers Johnson has argued that:

It is not as if the Asians are saying "we need free trade in this area" - they already have flourishing trade and they have become incredibly wealthy. I sympathise with the Asians who resist the American attempt to impose formalised structures, it is uncalled for and it is dangerous and it sounds like it will only create work for unemployed diplomats.\textsuperscript{14}

In the lead-up to the Indonesia meetings, both China and Malaysia indicated disagreement with any attempt to set prescriptive deadlines for the achievement of free trade. China moved to accept a possible target date (a development which may reflect progress in negotiations with the US over China's bid to enter the new World Trade Organisation), but Malaysia has been consistent in expressing concern that APEC should operate with flexibility in discussing and pursuing trade liberalisation. Malaysia's Minister for International Trade and Industry, interviewed shortly before the APEC meetings, said that "Having a timetable is one sure way of not having a consensus in APEC. The moment you put down dates and formats of that sort, I do not believe there will be a consensus". She also made it clear that Malaysia would not consider any declaration of APEC to be binding: "... anything that happens in APEC is non-binding, period. That's a basic principle of APEC".\textsuperscript{15}

The pursuit and achievement of a free trade agreement by APEC would also pose major challenges for some of its developed members. Japan has a

\textsuperscript{13} "Speech by the Hon P J Keating, Prime Minister, Foreign Correspondents Association", Sydney, 11 November 1994, p 6.

\textsuperscript{14} "Free trade nice work but won't work says scholar", \textit{Sydney Morning Herald}, 14 November 1994.

\textsuperscript{15} \textit{Asian Wall Street Journal}, 10 November 1994.
relatively low rate of tariff protection with rates averaging less than 5 percent. However, imports into Japan face a series of non-tariff barriers such as inaccessible distribution systems and domestic production cartels which have been difficult to challenge. Without substantial reform in these areas an APEC agreement on trade liberalisation is not in itself likely to produce a marked increase in foreign access to Japan’s markets.\textsuperscript{16}

There has also been evidence of divisions of opinion in the United States about the merits of the APEC Eminent Persons Group proposals. While the Clinton Administration has been giving APEC strong support since 1993 some academic and business groups have expressed scepticism about the desirability of US cooperation with an APEC-inspired free trade agreement over a relatively long period (ie up to 2020). US business interests, it has been argued, could be affected adversely if the US liberalised first and major economies such as China did not have to liberalise for a further decade. It has also been suggested that US accession to the proposals being considered by APEC could inhibit the ability of the US to use its economic strength and large market to pressure major East Asian economies into further liberalisation of market access.\textsuperscript{17}

In the wake of the Bogor summit, APEC will therefore face a major challenge in defining precisely the character of the free trade to be proposed and of maintaining support for the goal of free trade across its diverse membership. It is undoubtedly for this reason that key members (including Australia) have felt that the achievement of a declaration by the collected APEC leaders at Bogor in favour of free trade with a designated target date would add a much needed political commitment and momentum to the process of trade liberalisation.

**APEC and the East Asian Economic Caucus**

As APEC pursues discussions on further bases for cooperation and trade liberalisation it also faces the challenge of remaining the premier forum for such discussion in the Asia-Pacific region. APEC has had to contend with some ongoing sentiment in East and Southeast Asia that a grouping, based more particularly on East Asian economies, would serve those countries’ interests best.

A proposal for an East Asian Economic Group was advanced by Malaysia in December 1990, following the failure of the Brussels meeting of the Uruguay Round. The concept has continued to attract interest especially from Malaysia although it has still to be fully defined. Malaysian attitudes towards cooperation in the Asia-Pacific reflect concerns that the pace of institutional

\textsuperscript{16} Ben Hills, "Deregulation is key to Japan", *The Age*, 12 November 1994.

\textsuperscript{17} Pilita Clark, "America wary of Asian trade deal trap", *The Age*, 12 November 1994.
development should not be forced rapidly, that existing organisations and especially the Association of Southeast Asian Nations (ASEAN) should not be overshadowed and that dialogue and negotiations should not be dominated by the major powers, especially the US. Prime Minister Mahathir commented in September 1994 that "We don’t want APEC ever to become a structured community and we don’t want it to become a trade bloc. We do not want APEC to totally overshadow ASEAN nor do we want to see APEC being directed by more powerful members. Everyone should be equal".18

While Malaysia has seen an East Asian Economic Group as a potentially valuable counter weight in relation to the US on economic issues, the proposal has so far made relatively little headway. At ASEAN’s ministerial meeting in July 1993 it was agreed that an "East Asian Economic Caucus" would be established as a "Caucus within APEC". Subsequent Malaysia statements have continued to emphasise the potential value of an EAEC and to play down its relationship with APEC: Trade and Industry Minister Mrs Rafidah Aziz was reported to have said on 20 August 1993 that Malaysia’s understanding was that the EAEC "was not an APEC-based caucus and is not an appendix or component of APEC, it is just that the initial members who constitute the core happen to be in APEC. But it is not linked to APEC." At the most recent ASEAN Ministerial Meetings in Bangkok (July 1994) a ministerial lunch took place between nine East and Southeast governments; the EAEC was not on any formal agenda but it is understood that the nine ministers may meet again if necessary.19

The EAEC proposal has been viewed negatively by both the US and Australia (whom Prime Minister Mahathir does not envisage as members) but the key factor which has impeded the proposal has been Japan’s unwillingness to support it. While many officials and business circles in Japan are sympathetic to the EAEC concept the government has so far indicated a firm preference for APEC. This attitude has recently produced criticism from Dr Mahathir but Japanese government attitudes show no signs of change.20

While an EAEC on a formal basis has yet to emerge, pressures for such a grouping could increase if APEC was not able to maintain a satisfactory consensus among its members. Australia has been clearly in favour of APEC remaining the leading focus for Asia-Pacific cooperation both because it brings together the East Asia economies with the United States and actively encourages US engagement with the region, and because Australia is a founder member and active and equal participant in APEC.


APEC’s membership and structure

If APEC is to retain a coherent identity as a grouping that can represent effectively the interests of the major Asia-Pacific economies then the issue of membership will need to be handled with care.

Because of APEC’s prestige as the first successful cooperation group in the wider Asia-Pacific region, there has been substantial interest from potential new members. This has caused some concern among founding members that the group should retain a capacity for cohesion. Prime Minister Keating commented when greeting Chile’s President Frei in Sydney on 12 November that Australia had in fact opposed Chile’s application for APEC membership. "I said to the President (that it was) not because of any judgement on Chile but rather about the manageability of APEC. If APEC grows too greatly before it gets down to undertaking its substantial work, it may have its capacity to undertake that work diminished".21

APEC decided in 1993 to impose a moratorium on new members until 1996 but interest is continuing. Just before the Indonesian meetings, President Kim of the Republic of Korea said that he would support membership for North Korea. India, Vietnam and the Russian Federation are also potential members from the Asian region, while Peru and Colombia have expressed interest as well. The admission of Chile has made interest from other South American states understandable but a significantly larger membership from the Americas might dilute the character of the grouping as one originally intended especially to represent Asian economies and their major Pacific trading partners.

The rapid pace of development of the cooperation being developed by APEC has also raised questions about its organisational structure. APEC was not expected to have a large administration and the Secretariat based in Singapore has at present 13 seconded professional staff and 13 in support. At the time of the Indonesia meetings, APEC senior officials announced that the structure of the Secretariat would be reviewed in the light of its rapidly increasing workload; a task force had been established for this purpose. One issue being considered is whether APEC would continue to draw on seconded staff or whether it should recruit directly. It was still intended to keep the Secretariat a small specialised body.22

APEC and Australia

Australia’s emphasis on APEC reflects directly the growing significance of the Asia-Pacific in Australia’s economic relations.

21 "Keating welcomes Chile into APEC club", Sydney, AAP, 12 November 1994.
• The Asia-Pacific region is growing at a substantially faster rate than the OECD average. Over the next two to three years, East and Southeast Asia (excluding Japan) are expected to grow by at least 7 percent annually, with the Asia-Pacific growing at about 4 percent - which is twice the world average.

• The Asia-Pacific region has a burgeoning middle class. Of a total population of over 2 billion, it is estimated that the number of people with household incomes of over $10,000 will double from 40 million to 80 million over the period 1988 to 2000 - excluding Japan and China.

• East Asia now takes 60 percent of Australia's exports - up from 50 percent five years ago. Eight out of twelve of our top export markets are in East and Southeast Asia as are six out of our top twelve sources of imports. North East Asia is our largest regional market and has been for decades (because of minerals and energy exports) and in 1992 Southeast Asia overtook Europe as our second largest regional market.23

• Australia’s trade with Asia has increased at a trend rate of over 10 percent annually in the past decade.

• The growth in exports of Elaborately Transformed Manufactures (ETMs) in this period greatly outstripped exports overall - and the government sees great benefits in this.

Having initiated APEC in 1989 Australia now sees it as a crucial element in Australia’s strategies in the Asia-Pacific. Trade Minister Senator Bob McMullan commented on 25 August 1994 that APEC "has profound significance for Australia’s long term economic interests".

APEC is important to Australia for a number of reasons:

• While trade and economic relations in the Asia-Pacific have been growing rapidly, there is still a high level of protection afforded to trade in the region. This has impeded the progress of regional economic integration and prevented the region from reaching its full economic potential. A recent World Bank report concluded that global income in the year 2000 would be about $100,000 million higher than now expected if East Asian countries were to cut their current trade barriers to goods from the rest of the world by 50 percent.24 The potential gains from APEC-sponsored liberalisation in trade and investment arrangements are therefore massive.


APEC, by encouraging trade liberalisation on a regional basis, can also help encourage liberalisation at the global level. The success of the APEC leaders meeting in Seattle in November 1993 is considered to have had a positive influence on the outcome of the Uruguay Round at the end of the year. The Director General of GATT, Peter Sutherland, has stated that efforts by APEC to liberalise trade on a regional basis are quite compatible with the aims of GATT and its successor the WTO. He said in Canberra on 26 September 1994 that there was no conflict between free trade regionally and globally: "On the contrary it assures them of a healthy outward-looking growth, in line with the APEC motto of open regionalism."

Australia has also seen as highly valuable APEC's role in associating the United States in regional economic cooperation. Australia has supported an active US involvement in APEC as a way of broadening the context for the relationships between the US and Asia which continue to be vital for the economic and security interests of both parties. At a time when the US has had bilateral tensions with both Japan and China, Australia has seen it as very valuable to be able to encourage the US to place these particular relationships in the context of its wide ranging interests in the Asia-Pacific region. APEC provides such a broader context by emphasising the shared interest in economic growth and stability of all the countries of the region.

In recent statements Prime Minister Keating has stressed the important contribution he sees APEC making to Australia's economic future in relations with Asia and also to the security of the region overall. In a speech to the Asia-Australia Institute in Brisbane on 26 October 1994 he said:

[APEC] helps to lock in US economic and commercial interest in the region, which in turn helps ensure US strategic engagement. It provides a framework to help contain or manage competition between China, Japan and the United States. And it gives the smaller countries of the region a greater say in the nature and shape of the trading arrangements in the region...

So long as APEC's approach is GATT-consistent and - equally importantly - so long as it contributes to global liberalisation, it seems to me that, as the weight of economic development in the world shifts towards Asia and the Pacific, we have a responsibility to show that countries in this part of the world can take a decisive step towards a free trade goal...

For our part, what we hope to come out of Bogor is a commitment to free trade in the APEC region by a realistic date, in a GATT-consistent manner...

Free trade in the APEC region would bring Australia benefits several times those of the Uruguay Round. And the benefits in terms of increased competitiveness and integration with the region would be far greater.26

* * * * *

APEC is less than six years old and it is still clearly in a formative stage. It is trying to bring together a very diverse group of countries in the Asia-Pacific region. The character and role of APEC are still being actively debated and this is hardly surprising. There are still differing views among the members about key questions such as the best pace for APEC to develop, the future of its membership and how it should best pursue trade liberalisation.

APEC, nonetheless, has attracted a great deal of serious interest and attention from the states of the region. Its leaders meetings are a new and valuable forum for dialogue among most of the leading countries of the Asia-Pacific both through the multilateral discussions and the numerous formal and informal bilateral talks which the venue of APEC meetings is now providing.

APEC's emphasis on trade facilitation has attracted substantial support from its diverse members but the efforts now underway to upgrade APEC's role as an agent for trade liberalisation with a designated timetable is making greater demands on APEC and its members. Many APEC members now impose heavy restrictions on trade, as the ongoing intense debates about access to markets for industrial goods to Japan and agricultural products to the US illustrate vividly. The implementation of a commitment to free trade even in 25 years would clearly require profound structural changes in economies which are often both very large and complex to manage. APEC also faces the challenge of defining precisely whether the concept of free trade will be advanced in full accordance with the principle of "open regionalism" (ie without any discrimination against non-members) or whether APEC's liberalisation of trade will involve some conditionality in the sharing of benefits (which was advocated in parts of the Eminent Persons Group's second report), an approach which might be both complex and divisive.27

If the declaration of the leaders meeting at Bogor does make a decisive commitment towards free trade then APEC will have entered a new phase in its development. However this phase will need to be followed by further very


substantial work and negotiations. As Foreign Minister Evans noted during the APEC ministerial meetings on 13 November, "Even if we succeed in getting this political commitment [for free trade] next Tuesday, and we think we will, we’ve still got a very long and very difficult negotiating road ahead".28

APEC

Leaders' Meeting

Ministerial Meeting

Senior Officials Meeting

Committee on Trade & Investment

Economic Trends & Issues Group

BAC*

Secretariat

Working Groups
- Energy
- Fisheries
- Human Resources Development
- Investment, Industrial Science & Technology
- Marine Resources Conservation
- Tourism
- Telecommunications
- Trade Promotion
- Trade and Investment Data Review
- Transportation

* Budget and Administrative Committee
' Eminent Persons Group

Source: Dept of Foreign Affairs and Trade 1994
### APEC Member Statistics, 1992

<table>
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<tr>
<th>APEC Member</th>
<th>Population (millions)</th>
<th>GDP (USD billions)</th>
<th>% of Exports to APEC *</th>
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Figures are rounded to first decimal place

Sources:
- Financial Measure of exports reflects both trade in merchandise goods and in services on a balance of payments basis

*Chile will be welcomed as a member of APEC in November 1994.

Source: Dept of Foreign Affairs and Trade 1994
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Asia-Pacific Economic Cooperation (APEC)

Asia-Pacific Economic Cooperation (APEC) was formed in 1989 in response to the growing interdependence among Asia-Pacific economies. Begun as an informal dialogue group with limited participation, APEC has since become the primary regional vehicle for promoting open trade and practical economic cooperation. Today, APEC includes all the major economies of the region and the most dynamic, fastest growing economies in the world. APEC’s 17 current member economies had a combined Gross National Product of US$13 trillion in 1993, about half the world’s total annual output. Together, APEC members represent about 41 percent of the world’s total merchandise trade.

APEC Objectives

The current member economies represent the rich diversity of the region as well as differing levels of economic growth. That they are cooperating together to sustain regional and world growth reflects a growing sense of common goals despite their differences. In the 1991 Seoul APEC Declaration, APEC members agreed on specific objectives — to work toward more open trade, greater economic cooperation, investment expansion, and a stronger multilateral trading system. The declaration recognized "the important contribution of the private sector to the dynamism of APEC economies" and called for more active participation of the business/private sector in APEC. The ministers committed APEC "to enhance and promote the role of the private sector and the application of free market principles in maximizing the benefits of regional cooperation."

The 1994 APEC Ministerial Meeting is scheduled for November 11-12 in Jakarta. In addition to trade liberalization, Indonesia has identified and APEC has endorsed four priority areas for 1994: human resources development, small and medium-sized enterprises, infrastructure development, and business/private sector cooperation.

Commitment to Open Regionalism

APEC members are committed to "open regionalism," designed to encourage greater openness throughout the global economy as well as in the region. Progress within APEC toward regional trade and investment liberalization should supplement the multilateral trade system and will be to the benefit of all members of the global economy. Indeed, APEC became a strong voice of support for the successful conclusion of the Uruguay Round.

APEC Member Economies

Australia
Brunei Darussalam
Canada
Peoples Republic of China
Hong Kong
Indonesia
Japan
Republic of Korea
Malaysia
Mexico
New Zealand
Papua New Guinea
Republic of the Philippines
Singapore
Chinese Taipei
Thailand
United States

Members since 1989,
unless otherwise noted
Chile will become a member in November 1994

Source: Asia-Pacific Economic Cooperation Secretariat
APEC operates by consensus. In 1991, members committed themselves to conducting their activities and work programs on the basis of open dialogue with equal respect for the views of all participants. The APEC Chair, which rotates annually among all members, is responsible for hosting the annual Ministerial Meeting of foreign and economic ministers. At the 1989 Canberra Ministerial Meeting, it was agreed that it would be appropriate that every alternate Ministerial Meeting be held in an ASEAN economy. Senior Officials meet regularly between Ministerial Meetings to carry out the decisions of and make recommendations to the Ministers.

At the 1992 Bangkok Ministerial Meeting hosted by Thailand, APEC Ministers agreed to establish a permanent APEC Secretariat in Singapore and approved a budget to support the Secretariat and the work programs of APEC's policy-based groups and ten sectoral-based Working Groups. Senior Officials oversee and coordinate, with approval from the Ministers, the budgets and work programs of the ad hoc Committees and Working Groups. At the 1993 APEC Ministerial Meeting chaired by the United States in Seattle, Ministers agreed to establish a permanent Committee on Trade and Investment (CTI). A Budget and Administrative Committee (BAC) was also established to handle APEC's increasingly complex budget issues as work programs develop.

APEC Leaders Meetings
Hosted for the first time by U.S. President Clinton at Blake Island, near Seattle, on November 20, 1993, APEC leaders held informal discussions which emphasized the commitment of member economies to APEC. The leaders agreed that member economies should pursue eight initiatives in 1994. There was a consensus to hold another APEC Leaders Meeting in Indonesia in 1994. Indonesian President Soeharto plans to host the Leaders Meeting on November 15, 1994, at the presidential retreat in the town of Bogor, near Jakarta.

Eminent Persons Group
In 1992, APEC Ministers decided to set up a non-governmental Eminent Persons Group (EPG) to develop a
vision of trade in the region to the year 2000. The EPG made its report and recommendations at the 1993 Ministerial Meeting in Seattle. It assessed the current economic outlook for the APEC region, highlighted potential threats to economic growth, and offered suggestions on ways to accelerate and expand regional cooperation. Ministers directed the EPG to continue to expand on its trade vision for the region, with concrete recommendations for regional trade and investment liberalization. The EPG will deliver its second report to Ministers in November 1994.

**Committee on Trade and Investment**

In 1993, APEC Ministers adopted a Declaration on a Trade and Investment Framework to increase economic activity and facilitate the flow of goods and services among member economies. Based on the Declaration, Ministers formed the Committee on Trade and Investment (CTI), currently chaired by the Republic of Korea, to cooperate to liberalize and expand trade and nurture a more open environment for investment among member economies. CTI is undertaking initiatives to improve the flow of goods, services, and technology in the region.

**Ad Hoc Group on Economic Trends and Issues**

The Ad Hoc Group on Economic Trends and Issues (ETI) fosters dialogue on regional economic trends and issues to provide a broader context for cooperation in APEC. The group, currently chaired by Canada, undertakes research to quantify key economic indicators and clarify current issues and their future prospects. These indicators document the deepening interdependence of economies within the Asia-Pacific region.

**Budget and Administrative Committee**

The Budget and Administrative Committee (BAC) was established in 1993 to advise APEC senior officials on budgetary, administrative, and managerial issues. The BAC is empowered to assess the overall structure of the annual budget and review the operational budgets proposed by the ten Working Groups, the Committee on Trade and Investment, the Ad Hoc Group on Economic Trends and Issues, and the administrative budget proposed by the Secretariat. The Committee has the mandate to evaluate the overall performance of Working Groups and make recommendations to APEC senior officials regarding measures to improve efficiency. The BAC may examine Working Group and Committee projects expenditures and evaluate completed projects.

**Business/Private Sector Involvement**

A major APEC goal is to increase business sector involvement in APEC. Involvement by the business sector is important to ensure that APEC's work is relevant to real world problems. Business can provide the expertise and resources necessary for APEC to achieve its objectives and can become a key constituency for APEC both regionally and in individual member economies.
The Pacific Economic Cooperation Council (PECC), a regional group of governmental, academic, and business representatives, helped lay the foundation for economic cooperation in the region, and is currently the only private-sector-associated organization to enjoy “observer” status at APEC Ministerial and Senior Officials Meetings. (The other observers are the ASEAN Secretariat and the South Pacific Forum.)

At the 1993 Seattle Ministerial Meeting, the U.S. sponsored the first APEC customs trade symposium held in conjunction with the Ministerial Meeting. The fair allowed members’ customs authorities to exchange views on customs and to pass information on their regimes to the business sector. Exporters, shippers, carriers, and insurers also were able to explain their concerns to customs officials throughout the region, encouraging rationalization of customs regimes and improvement of the environment for trade.

**APEC Working Groups**

At each year’s Ministerial Meeting, members define and fund work programs for APEC’s two committees, one ad hoc group, and ten Working Groups. Working Groups promote practical cooperation in broad areas such as infrastructure rationalization, technology transfer, education and training, environmentally sound development and protection of scarce resources, and trade and investment facilitation. These activities are
coordinated through the ten Working Groups. Much of the continuing work of the groups will be to survey the development potential of and to spur growth in their sectors. Through these, APEC members have been building practical links among their official representatives, business sectors and academia.

As of mid-1994, the groups report the following:

- The **Trade Promotion Working Group** is developing proposals to exchange trade and industrial information and to promote economic and trade missions among economies of the region. The group encourages increased involvement of the business sector in activities of the Working Group. The group is also preparing for the first APEC trade fair, which will take place in Osaka, Japan, in October 1994. An APEC electronic information network to exchange trade, industrial and business information is under discussion in the group.

- The **Trade and Investment Data Review Working Group** has been developing consistent and reliable data in merchandise trade, trade in services, and investment. The process of gathering information on existing services trade and investment flows data is underway and work is being undertaken to achieve greater comparability of merchandise trade data.

- The **Investment and Industrial Science and Technology Working Group** is discussing the various options available for establishing an investment and technology information network. An inventory of technology parks and a manual on their development have been completed, and a handbook on the development of industrial parks is to be compiled. The group is seeking means to promote the exchange of information on industrial science and technology in an effort to upgrade technology capability in the region.

- The **Human Resources Development Working Group** is engaged in some 30 projects centering on designing and delivering appropriate knowledge and skills for private and public sector managers and workers. The group also focuses on the context in which these skills are provided: the nature of the regional labor market, the capabilities of education and training institutions and teachers and trainers, and the existence of useful training materials. Among major themes is the role of
managers in the development of small scale enterprises and in growth that incorporates both economic and environmental considerations.

- The Regional Energy Cooperation Working Group has developed a database on regional energy supply and demand which will facilitate the discussion of energy policy and the analysis of rapid structural change occurring in the region's energy sector. The Working Group has developed programs on the use of clean coal technology to improve both energy efficiency and conservation. Programs are underway to share information on vehicles fuelled by natural gas, solar power, and other energy technologies.

- The Marine Resource Conservation Working Group promotes initiatives among APEC economies to protect the marine environment and resources, and ensure continuing socio-economic benefits by maintaining the quality of the marine environment. Programs related to red tide/toxic algae and integrated coastal zone management have been developed. The Working Group’s activities also focus on the broader international agenda of marine environment issues, including follow-up programs of the UNCED (United Nations Conference on Environment and Development) process.

- The Telecommunications Working Group provides an important mechanism among APEC members for exchanging information, consulting on policy and regulatory developments and standards, and developing projects to facilitate shared experiences. A major activity has been the development and publication of a manual on “The State of Telecommunications Infrastructure and Regulatory...
Environment of APEC Economies.” As part of an extensive human resources development program, a human resources development manual, “How to Approach Training within a Telecommunications Organization” has been published. The Working Group is also exploring issues related to infrastructure and electronic commerce policy and undertaking a number of electronic data interchange (EDI) projects.

- The Transportation Working Group, working closely with the business sector, deals with both policy and management issues. The group is surveying regional transportation to provide information on various activities and avoid duplication of effort with other organizations. Members have prepared publications containing overviews of transportation systems and services, and a synopsis of transportation data.

- The Tourism Working Group focuses on tourism as one of the largest and fastest growing industries in the region. Current activities are based on three areas. The first concerns the promotion of tourism in a sensitive and sustainable manner with respect to the natural, cultural, and social environment. Major ecosystems of importance to tourism are being identified for planning and study. The second area of endeavor deals with human resource development to improve quality service. There is a project designed to heighten understanding among public sector personnel of the implications of their decisions upon tourism in their economies. Third, the Working Group is studying the standardization and rapid exchange of statistics and information on tourism.

- The Fisheries Working Group is investigating existing agreements on international cooperation in management and is identifying a useful role for APEC in fishing management. The Working Group also promotes training and technology transfer in small and medium-sized business engaged in fish harvesting and post-harvesting. Projects are in place to strengthen the transparency of health and quality rules related to fish and fisheries products, to improve market information on the commerce of seafood, and to promote development of aquaculture within the APEC region.
To support APEC’s activities, APEC established a Secretariat in Singapore in February 1993. The Executive Director of the Secretariat, who is seconded from the member economy in the APEC chair, serves for one year. The Deputy Executive Director is appointed by the economy designated to assume the chair the following year. Ambassador William Bodde, Jr., from the United States was the first Executive Director in 1993. He was succeeded by Ambassador Rusli Noor from Indonesia in 1994. Currently, the Deputy Executive Director is Ambassador Shojiro Imanishi from Japan. In addition to Ambassadors Rusli Noor and Imanishi, the staff includes professionals seconded from some of APEC’s member economies and support staff.