

The Parliament of the Commonwealth of Australia

AUSTRALIA AND APEC

A Review of Asia Pacific Economic Cooperation

**REPORT OF THE SENATE
FOREIGN AFFAIRS, DEFENCE AND TRADE
REFERENCES COMMITTEE**

July 2000

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TERMS OF REFERENCE

On 26 June 1997 the Senate referred the following matter to the Committee for inquiry and report by 1 July 1998:

Australia in relation to Asia Pacific Economic Cooperation (APEC) with particular reference to:

- (a) APEC's progress towards Australia's economic, trade and regional objectives and the domestic implications;
- (b) the benefits of 'open regionalisation' versus a free trade bloc;
- (c) the importance to APEC of subregional groupings including the Association of South East Asian Nations (ASEAN), North American Free Trade Area (NAFTA), Asia Europe Meeting (ASEM), East Asia Economic Caucus (EAEC) and Australia-New Zealand Closer Economic Relations Agreement (CER); and
- (d) future directions of APEC.

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ABBREVIATIONS AND ACRONYMS

AEEMA	Australian Electrical and Electronic Manufacturers Association
ABAC	APEC Business Advisory Council
ACCI	Australian Chamber of Commerce and Industry
ACTU	Australian Council of Trade Unions
AFTA	ASEAN Free Trade Area
ANU	Australian National University
ANZCERTA	Australia-New Zealand Closer Economic Relations Trade Agreement
APEC	Asia Pacific Economic Cooperation
APLAC	Asia Pacific Laboratory Accreditation Cooperation
APLMF	Asia Pacific Legal Metrology Forum
ASEAN	Association of South East Asian Nations
ASEM	Asia-Europe Meeting
ATC	Agricultural Technical Cooperation Experts Group
ATIA	Australian Telecommunications Industry Association
AusAID	Australian Agency for International Development
AUSPECC	Australian Pacific Economic Cooperation Committee
CAP	Collective Action Plan
CEPT	Common Effective Preferential Tariff
CER	Closer Economic Relations
CSIRO	Commonwealth Scientific and Industrial Research Organisation
CTI	Committee on Trade and Investment
DFAT	Australian Department of Foreign Affairs and Trade

DPIE	Australian Department of Primary Industries and Energy (now known as Department of Agriculture, Fisheries and Forestry)
EAEC	East Asian Economic Caucus
ECOTECH	Economic and Technical Cooperation
EPG	Eminent Persons Group
ESC	Ecotech Sub-Committee
EVSL	Early Voluntary Sectoral Liberalisation
FDI	Foreign direct investment
FEEEP	Food, Environment, Energy, Economic growth and Population
FTAA	Free Trade Area of the Americas
GATT	General Agreement on Tariffs and Trade
GATS	General Agreement on Trade in Services
GDP	Gross domestic product
HRD	Human resources development
HRDWG	Human Resource Development Working Group
IAP	Individual Action Plan
ICFTU	International Confederation of Free Trade Unions
IEG	Investment Experts Group
ILO	International Labour Organisation
IMF	International Monetary Fund
IPR	Intellectual property rights
IS&T	Industrial Science & Technology
ITA	Information Technology Agreement
IVANS	International Value-Added Network Service
MAPA	Manila Action Plan for APEC
MFN	Most favoured nation

MRA	Mutual recognition arrangement
MTIA	Australia’s Manufacturing, Engineering and Construction Industry Association
NAFTA	North American Free Trade Agreement
NATA	National Association of Testing Authorities Australia
NBIP	Non-Building Investment Principles
NGO	Non-government organisations
NTB	Non-tariff barrier
NTM	Non-tariff measure
OAA	Osaka Action Agenda
ODA	Official development assistance
OECD	Organisation for Economic Cooperation and Development
PBEC	Pacific Basin Economic Council
PBF	Pacific Business Forum
PECC	Pacific Economic Cooperation Council
PEG	Partners for Equitable Growth
PFP	Partners for Progress
SCCP	Sub-Committee on Customs Procedures
SCSC	Sub-Committee on Standards and Conformance
SMEs	Small and medium-sized enterprises
SOM	Senior Officials Meeting
SRTA	Sub-regional trading arrangement
TILF	Trade and investment liberalisation and facilitation
TRIMS	Trade related investment measures
TRIPS	[Agreement on] Trade-Related Intellectual Property Rights

UNCTAD	United Nations Conference for Trade and Development
UNEDIFACT	United Nations Electronic Data Interchange for Administration, Commerce and Transport
WTO	World Trade Organization

RECOMMENDATIONS

Recommendation—Chapter 3, page 59

The Committee recommends that the Australian Government work to have APEC adopt a position of:

- a) accepting new members only after they have demonstrated their support for APEC policies and goals by voluntarily complying with APEC obligations (including submission and annual updating of Individual Action Plans) for two years;
- b) granting observer status to potential new members which meet their APEC obligations;
- c) allowing greater participation in APEC's work program by potential new members; and
- d) providing assistance to potential new members to adopt APEC policies, goals and obligations.

Recommendation—Chapter 5, page 111

The Committee recommends that the Australian Government, while giving primacy to APEC's trade and investment liberation and facilitation agenda, also support the social agenda that will assist all areas of the populations of APEC's member economies to benefit from the realisation of APEC's long-term goals.

The Committee recommends that the Australian Government support formal status for non-business NGOs within the APEC structure.

Recommendation—Chapter 7, page 143

The Committee recommends that a publication on trade facilitation and economic and technical cooperation be produced as a companion to the publication *Trade Liberalisation: Opportunities for Australia*.

The Committee further recommends that this publication cover not only the achievements in the area of trade facilitation but also the difficulties in identifying and removing the non-tariff barriers.

Recommendation—Chapter 7, page 155

The Committee recommends that the Australian Government actively encourage business, institutions and associations, such as National Association of Testing Authorities, to continue their efforts to identify specific areas where Australia can best contribute to facilitating trade and investment in the APEC region and to support them in their efforts to carry forward their ideas and initiatives.

Recommendation—Chapter 8, page 179

The Committee recommends that the Australian Government initiate and support moves in APEC to give greater attention to development cooperation programs.

Recommendation—Chapter 9, page 219

The Committee recommends that every endeavour should be made to build on Australia’s strong reputation in the region and to further develop its standing as ‘a natural partner’ in the Asia Pacific basin.

Recommendation—Chapter 10, page 233

The Committee endorses the APEC Study Centre’s recommendation that ‘the Australian Parliament give priority to promoting research and international exchange activities in the academic sector to improve understanding of APEC issues’.

Recommendation—Chapter 10, pages 233–34

The Committee recommends that Government review the funding arrangement for AUSPECC to ensure its viability as a dynamic research organisation with an extensive network reaching into both the academic and business community and to maintain and further enhance its status as a leading research body in the region.

CHAPTER 1

INTRODUCTION

Establishment of the inquiry

1.1 On 26 June 1997, the Senate referred the matter of Australia in relation to Asia Pacific Economic Cooperation (APEC) to the Committee for inquiry and report by 1 July 1998. The Senate subsequently, on several occasions, extended the reporting date to 16 August 2000.

Conduct of the inquiry

1.2 The Committee advertised the inquiry in the national press on 2 July 1997, calling for written submissions to be lodged with the Committee by 14 August 1997. The Committee also wrote to relevant Commonwealth Government Ministers, State Premiers and Territory Chief Ministers, the heads of mission of APEC economies and other interested nations and economic groupings resident in Canberra, and a range of academics, business and other organisations with an interest in APEC, to draw their attention to the inquiry and invite them to make written submissions. A total of 59 submissions was received. A list of submissions is contained in Appendix 1.

1.3 After initial consideration of the submissions, the Committee began conducting public hearings on 29 September 1997 in Canberra and held further hearings in Canberra in 1997 and in Canberra, Sydney, Melbourne and Adelaide in 1998. A final hearing with the Department of Foreign Affairs and Trade was held on 18 February 1999. Details of the hearings and the witnesses who appeared at them are contained in Appendix 2.

1.4 A review of the evidence towards the end of 1997 resulted in an approach to a number of additional organisations and individuals who had not up to that time contributed to the inquiry. Many of these provided written information and gave evidence to the Committee during the 1998 public hearings.

1.5 On 4 February 1998, during the course of the Melbourne public hearings, the Committee visited the Australian APEC Study Centre, a part of Monash University located in the city. A CD-ROM produced by the Centre to inform students and teachers about APEC, which had been launched in late 1997, was demonstrated to the Committee. Members of the Committee also took the opportunity to talk informally to staff at the Centre about their work and APEC.

Scope of the inquiry

1.6 As the focus of APEC has been mainly on trade and investment liberalisation and facilitation and economic and technical cooperation within the Asia Pacific

region, the Committee concentrated on those issues. However, economic and trade issues cannot be quarantined from a range of non-economic issues, especially the environment, which is often affected by economic activity. Although the environment does not have a separate working group to coordinate consideration of environmental matters within APEC, various environmental issues have been considered in a number of working groups. Moreover, environment ministers of member economies have met to discuss environmental issues within the framework of APEC. The Committee therefore considered relevant environmental matters during the course of the inquiry.

1.7 Social issues, such as the social effects of trade liberalisation, occupational health and safety, labour rights and human rights initially received scant attention within APEC, even though NGOs and other organisations sought to have these issues included in the APEC processes. However, the growing concern being expressed around the world about the effects of trade liberalisation and globalisation on people and communities has more recently raised the profile of these matters in APEC. Although these issues had not achieved any prominence in APEC at the start of the inquiry, the Committee, nevertheless, decided that these issues were relevant and should be considered during the course of the inquiry.

1.8 Although some people have advocated the inclusion of security issues within APEC, arguing that security and economic matters are often linked, APEC has firmly rejected all attempts to broaden its mandate to include security issues. Having noted APEC's response to security issues and the existence of a regional body, the ASEAN Regional Forum, which was established specifically to consider regional security matters, the Committee did not address security issues in the inquiry.

Asian economic crisis

1.9 The Asian economic crisis started in 1997 and severely affected the region in the latter part of that year and in 1998. All countries in North East Asia and South East Asia suffered from the crisis in different ways and to varying degrees. Many countries in other parts of the world were not immune from the flow-on effects of the crisis. Despite having sound economic fundamentals and strong financial institutions, Australia, too, succumbed to assaults on its currency, owing in large part to the country's trade exposure to Asian economies.

1.10 By early 2000, many of the countries in East Asia had rebounded from the ravages of the crisis, although the reverberations from it will continue to be felt within the economies of the region for some time. The Committee's terms of reference did not extend to an examination of the causes of the crisis, the way in which it developed or the mechanisms used to try to resolve it. While the crisis was discussed with a number of witnesses during the inquiry, the Committee's main interest lay in the likely effects of the crisis on APEC's progress towards its goals.

Acknowledgements

1.11 The Committee wishes to express its appreciation to everyone who contributed to the inquiry by making submissions, providing other information or appearing before the Committee in public hearings. In particular, the Committee is grateful to the Department of Foreign Affairs and Trade for its cooperation and assistance throughout the inquiry.

CHAPTER 2

ASIA PACIFIC ECONOMIC COOPERATION: FROM IDEA TO 2020 VISION

The concept of Asia Pacific cooperation

2.1 The idea of an Asia Pacific community that would encourage economic development in the region had been taking shape for many years prior to 1989. The concept emerged in the mid-1960s and slowly gained acceptance, mainly in the academic and business world, throughout the 1970s. By the late 1980s, it had taken hold and was waiting to be put into action.

2.2 In this introductory chapter, the Committee looks at the evolution of the notion of Asia Pacific economic cooperation and its gradual transformation from a broad, ill-defined concept into an active and ambitious organisation striving to promote the interests of economies in the Asia Pacific region.

2.3 In 1967, the Japanese Foreign Minister, Mr Takeo Miki, put forward an idea for a Pacific free trade area. The interest generated by this proposal led to the inauguration of the Pacific Trade and Development (PAFTAD) Conference which comprised academic economists and government officials in their private capacity. Although they rejected the notion of a free trade zone, they nonetheless could see the need for 'institutional innovation and policy initiatives directed towards the broad objectives of extending and securing Asian-Pacific economic cooperation'.¹ The PAFTAD conference series kept the debate on a Pacific economic community alive and continued to involve a wider group of policy-oriented economists in developing the theme of Pacific economic cooperation.

2.4 Also in 1967, a group of Japanese and Australian business leaders founded the Pacific Basin Economic Council (PBEC). A non-governmental organisation of senior business executives, PBEC was the first multilateral group established in the region 'at a time when there were no formal structures in place to coordinate and promote economic cooperation between economies in the Pacific region'. The Council sought to foster cooperation and to facilitate social progress throughout the Pacific.² Since that time, PBEC has consistently and effectively worked throughout the Asia Pacific area to promote closer cooperation among governments of the region so they can

1 P. Drysdale and H. Patrick, 'An Asian-Pacific Regional Economic Organisation', extract from paper prepared for the Committee on Foreign Relations, United States Senate, reprinted in *Pacific Economic Cooperation*, J.Crawford, ed., Heinemann Educational Books (Asia) Ltd., Petaling Jaya, 1981, pp. 63–82.

2 H. Soesastro, 'Institutional Aspects of Pacific Economic Cooperation', *Pacific Economic Cooperation: the Next Phase*, H. Soesastro and Han Sung-joo (eds), Centre for Strategic and International Studies, Jakarta, 1983, p. 19.

better manage, through the creation of open markets, the regulation and control of trade and investment.³

2.5 In 1973, the Australian Senate Standing Committee on Foreign Affairs and Defence, in its report on Japan, commended the activities of PBEC but wanted established ‘a more formal association between governments—but not exclusively so—with a broader scope of activities and one which embraces the developed and less developed countries of the Pacific’.⁴

2.6 Sir John Crawford and Dr Saburo Okita presented a report in 1976 to the Governments of Australia and Japan. In their report, based on research undertaken by the Australia, Japan, and Western Pacific Economic Relations Project, they recommended that:

Japan and Australia should co-operate with developing nations in the region to promote economic development, consistent with their long term aspirations, and to work for the upgrading and diversification of the economic structures of neighbouring economies in the Western Pacific Region including the establishment of an efficient network of intra-industry specialisation and trade throughout the region.⁵

2.7 The call for inter-governmental cooperation among Pacific countries on economic matters grew louder and more persistent as the 1980s approached. Peter Drysdale and Hugh Patrick, in a paper prepared for the Committee on Foreign Relations for the United States Senate, detailed the strengthening of Japan’s industrial power, the significant trade and industrial growth achieved by the developing economies of North East and South East Asia and the trend toward slower growth in Western Europe.

2.8 In noting the emergence of Pacific economic interdependence and the shift of world economic power towards Asia and the Pacific, Drysdale and Patrick suggested that the United States should consider a new focus in their economic policy and a new framework for dealing with Pacific economies.⁶

2.9 In January 1980, the Japanese Prime Minister, Mr Masayoshi Ohira, and the Australian Prime Minister, Mr Malcolm Fraser, agreed to the convening of a non-governmental seminar to examine the idea of a Pacific community. Representatives from the business community and government officials, acting in a private capacity,

3 Pacific Basin Economic Council, *Business Issues for APEC*, October 1995. PBEC has a membership of more than 1,200 corporate members in 20 economies throughout the Pacific region. G.L.Tooker, opening speech, 30th Annual IGM, 19 May 1997, <http://www.pbec.org/opening.htm> (5 August 1997).

4 Senate Standing Committee on Foreign Affairs and Defence, *Report on Japan*, Parliamentary Paper No. 2, 1973.

5 J. Crawford and Saburo Okita, Australia, Japan and the Western Pacific Economic Relations, *A Report to the Governments of Australia and Japan*, AGPS, Canberra, 1976, p. 5.

6 P. Drysdale and H. Patrick, 1981, op.cit., pp. 64–65, 71.

attended from the five ASEAN countries (Indonesia, Malaysia, the Philippines, Singapore and Thailand) and Australia, Canada, Japan, New Zealand, South Korea and the United States.⁷

2.10 The conference noted that the vigorous economic growth in the region together with the trend towards greater economic interdependence and the increasing significance of the region in global terms supported the idea of a Pacific community. It feared, however, that this emerging sense of community could be undermined in the 1980s by the growing tendency toward protectionist pressures in many countries; increased competition in international trade; a trend towards regionalism in other parts of the world; and problems with access to resources. Participants agreed that the concept of Pacific Basin cooperation held sufficient promise of substantial and mutual advantages to the countries of the Pacific region that efforts should be made to 'translate this concept into practical realities'.⁸

2.11 The Pacific Economic Cooperation Council (PECC), an institution bringing together in a tripartite partnership academics, businessmen and governmental officials in their private capacities, grew out of this conference. Since its inception, PECC has assumed a major role in fostering regional awareness and in cultivating an appreciation of the region's economic interdependence.

2.12 During the 1980s, the multilateral trading system came under sustained pressure:

- there had been an increase in the use of non-tariff measures and domestic trade distorting practices;
- doubts were mounting about the prospects of continued global trade liberalisation; and
- there were serious concerns about the drift toward protectionist sentiments and trading blocs.

2.13 Tensions were rising between the United States and Japan over bilateral trade and payments imbalances and the region needed 'to meet the challenge of managing the emergence of China with its partially reformed centrally planned system, and uncertainties related to the possibility of a "fortress Europe" after 1992'.⁹

2.14 The idea of a Pacific cooperation forum, which had been maturing for decades, was ready for serious consideration. Countries in the region began to realise

7 Preface, *Pacific Economic Co-operation*, J. Crawford, ed., Heinemann Educational Books (Asia) Ltd., Petaling Jaya, 1981.

8 Dr Snoh Unakul, *Pacific Economic Co-operation*, J. Crawford, ed., Heinemann Educational Books (Asia) Ltd., Petaling Jaya, 1981, p. 18.

9 Background Paper by Australia, 'Asia Pacific Economic Cooperation Global Trade Liberalisation', APEC Ministerial-level Meeting, Canberra 6-7 November 1989, Documentation, Department of Foreign Affairs and Trade, Canberra, 1989.

that they had common interests that could be better served through greater consultation and cooperation. Developed and developing economies within the region recognised that the formulation and development of a more formal framework of international economic policy with an outward-looking focus would improve their opportunities for growth that would reap benefits for all in the region. They also began to appreciate that together they could raise a stronger voice in global forums, such as the General Agreement on Tariffs and Trade (GATT), to achieve their shared objectives.

2.15 In 1988, the then United States Secretary of State, Mr George Shultz, advocated the establishment of an inter-governmental forum for enhanced cooperation in the areas of education, communications and energy. In December of that year, United States Senator Bradley proposed a meeting of eight Pacific nations for joint action to promote common economic benefits, such as the success of the Uruguay Round negotiations. But it was the initiative taken by the Australian Prime Minister, Mr Bob Hawke, which was the main impetus for APEC's formation.

The idea of Asia Pacific cooperation takes form

2.16 At this time, the Australian Government had decided that the pursuit of Australia's international commercial interests was 'now a major foreign policy objective'.¹⁰ It recognised that the prosperity of the country would be best preserved and enhanced through the greater enmeshment of 'a diversified, productive, efficient competitive Australia' in the Asia Pacific region.¹¹

2.17 In an address to the Korean Business Association on 31 January 1989, Mr Hawke observed that the growth of all the dynamically performing nations of the region depended, in a large measure, on their capacity to take advantage of a relatively open and non-discriminatory international trading system. But he warned of serious cracks appearing in the global trading system that would influence the future health of the region and the world, such as:

- the bilateral trade pressures associated with the significant trade imbalances between a number of regional countries and the United States;
- the trend towards the formation of bilateral or regional trading arrangements which could undermine a multilateral trading system; and
- fundamental tensions within the GATT framework of multilateral trade.

2.18 Mr Hawke proposed a meeting of regional countries that would explore the possibility of creating a more formal inter-governmental forum for regional cooperation. In doing so, he stressed that his support for such an institution must not be seen as an attempt to establish a Pacific trading bloc but rather as a means to

10 The Hon R. J. Hawke, MP, Debates, House of Representatives, 2 March 1989, p. 340.

11 *ibid.*

reinforce the GATT system. The Australian Government did not intend the proposed conference to be a 'talk-shop'; it was to provide an opportunity for constructive discussions that would identify common interests and help develop strategies based on shared assessment.¹²

2.19 An intense period of diplomatic activity followed. Mr Richard Woolcott, as Australia's special envoy, conducted extensive consultations in his visits to the various capitals in the region to lobby support for an inter-governmental forum for the Asia Pacific region. One of his more sensitive and successful tasks was to reassure ASEAN members that the establishment of a wider regional organisation would not undermine the effectiveness or weaken the cohesion of their association. This exercise of 'niche diplomacy' culminated in an agreement by twelve countries in the Asia Pacific region to meet in Canberra.

2.20 Within Australia this proposal for an economic regional forum had political bipartisan support. The then Opposition acknowledged that the strengthening of Australian ties with the open economies of the Pacific Basin was of great importance to Australia's future and it publicly endorsed Mr Hawke's initiative.¹³

Canberra, 1989—APEC is born

2.21 On 6 and 7 November 1989, 26 Ministers from twelve regional economies namely: Australia, Brunei Darussalam, Canada, Indonesia, Japan, the Republic of Korea, Malaysia, New Zealand, the Philippines, Singapore, Thailand and the United States gathered in Canberra to discuss how to advance Asia Pacific economic cooperation. This was the first time that countries from the Pacific Basin had met as a regional group to discuss their shared economic future. By participating in the meeting, these countries, despite the diversity in language, culture, creed, history and economic development, demonstrated a willingness to come together in pursuit of common objectives and to take steps to promote the interests of their region.

2.22 The meeting recognised that a strong and open multilateral trading system was essential to the economic growth and development in the Asia-Pacific region. Ministers acknowledged that the GATT Uruguay Round offered the principal and most immediate and practical opportunity for them to reinforce and further liberalise the global trading system. Finally, Ministers agreed that they should maintain close consultation within the region to help bring about a positive outcome to the Round.

2.23 As part of the consensus-building process, Ministers accepted that the fundamental principles underpinning Asia Pacific economic cooperation should:

- recognise the diversity of the region, including the differing social and economic systems and current levels of development;

12 The Hon R. J. Hawke, MP, Speech, Luncheon of Korean Business Associates, 31 January 1989.

13 Debates, House of Representatives, 2 March 1989, p. 346.

- involve a commitment to open dialogue and consensus, with equal respect for the views of all partners;
- strive to strengthen the open multilateral trading system—it should not involve the formation of a trading bloc; and
- complement and draw upon organisations in the region, including formal inter-governmental bodies such as ASEAN and less formal consultative bodies such as the Pacific Economic Cooperation Council (PECC).¹⁴

2.24 Ministers appreciated that, if cooperation were to produce tangible benefits, they needed to move beyond general agreement on broad principles. They identified four areas where specific programs could be implemented—economic studies; trade liberalisation; investment, technology transfer and human resource development; and sectoral cooperation. Work in these areas would allow a more systematic assessment of common interests. Their intention was to put in place viable short to medium-term work programs that would be reviewed at the next Ministerial-level meeting.¹⁵

2.25 Ministers agreed that it was too early to decide on any particular structure either for a Ministerial-level forum or its support mechanism but that further consultative meetings should be held and work should proceed on matters of common concern. They welcomed Singapore's offer to host a second ministerial-level consultative meeting in mid-1990.

1990—Reaffirmation of APEC's general principles and objectives

2.26 At the second Ministers' Meeting, held in Singapore in July 1990, Ministers reiterated the general principles adopted in Canberra.

2.27 In their clearest statement of objectives, they announced that their primary goal for the year was to ensure a successful conclusion to the Uruguay Round. They maintained that, following the completion of this Round, an on-going central theme of APEC would be the promotion of a more open trading system. While acknowledging the importance of reducing trade barriers in goods and services in the region, Ministers agreed that any such liberalisation should be consistent with GATT principles.

2.28 In reviewing the progress of the work projects, Ministers formally endorsed them as concrete areas for closer cooperation and expressed satisfaction with their progress. Each work project was managed by a group of APEC members, or a single member, called a shepherd. A number of shepherds' meetings and work group meetings had already been held in various APEC countries. The seven projects were:

14 Summary by Chairman, Senator the Hon Gareth Evans, APEC Ministerial-level Meeting, Canberra, 6–7 November 1989, Documentation, Department of Foreign Affairs and Trade, Canberra, 1989.

15 Summary by Chairman, Senator the Hon Gareth Evans, APEC Ministerial-level Meeting, Canberra, 6–7 November 1989, Documentation, Department of Foreign Affairs and Trade, Canberra, 1989.

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- Review of Trade and Investment Data
 - Trade Promotion: Programmes and Mechanisms for Cooperation
 - Expansion of Investment and Technology Transfer in the Asia Pacific Region
 - Asia Pacific Multilateral Resource Development Initiative
 - Region Energy Cooperation
 - Marine Resource Conservation: Problem of Marine Pollution in the APEC Region
 - Telecommunications.

2.29 Finally, Ministers accepted that APEC should be made up of economies with substantial economic linkages in the Asia Pacific region but decided to keep the question of additional members under review. They agreed that it was desirable for the three economies of the People's Republic of China, Taiwan and Hong Kong to participate in future meetings.

1991—APEC: ‘an international personality’

2.30 From APEC's inception, most participants shared the basic understanding that it would be an informal consensus-building forum, sensitive to the cultural, political and economic diversity among its members. They appreciated that APEC needed to cultivate a spirit of cooperation: that people in the region had to become accustomed to the idea of a Pacific community before major advances in cooperation could be made. Since 1989, APEC had been proceeding step by slow but steady step to build Asia Pacific economic cooperation.

2.31 The Ministers' Meeting in Seoul in November 1991 represented a major stride forward. The People's Republic of China, Hong Kong and Chinese Taipei, through the brokerage of Korea, had reached an understanding enabling them to participate in APEC. This was the first international meeting at which Taiwanese representatives using Ministerial titles had sat at the same table as Ministers from China. The admission of the three Chinese economies, increased APEC's economic significance substantially. APEC now accounted for half of the world's GDP and 40 per cent of world trade.

2.32 At this meeting, Ministers endorsed the recommendation of the Senior Officials to establish three additional work projects covering fisheries, transportation and tourism and directed them to pursue vigorously their development. They reiterated forcefully their resolve to see a successful conclusion of the Uruguay Round pledging to instruct their representatives to the Round ‘to return to the negotiating table with

renewed vigour, and to work with each other and their trading partners outside the region to produce a bold and forward-looking result'.¹⁶

2.33 APEC Ministers, who had for two years been deliberating on the principles that should underpin their organisation and the direction it should take, issued a strong declaration of objectives. The objectives as set out in the Seoul Declaration were:

- a) to sustain the growth and development of the region for the common good of its people and, in this way, to contribute to the growth and development of the world economy;
- b) to enhance the positive gains, both for the region and the world economy, resulting from increasing economic interdependence, including by encouraging the flow of goods, services, capital and technology;
- c) to develop and strengthen the open multilateral trading system in the interest of Asia-Pacific and all other economies; and
- d) to reduce barriers to trade in goods and services and investment among participants in a manner consistent with GATT principles, where applicable, and without detriment to other economies.

2.34 Moreover, Ministers reaffirmed their commitment to open dialogue and consensus-building, with equal respect for the views of all participants.¹⁷ This meeting defined APEC's purpose and 'endowed it with a clear international personality'.¹⁸

1992—in search of a vision

2.35 In early 1992, the Australian Prime Minister, Mr Bob Hawke, observed: 'APEC is now a healthy, practically-orientated body whose substantial work program is building a wide-ranging network of official co-operation on these important matters and a growing consensus on the necessity for a small permanent secretariat.'¹⁹

2.36 This confidence in APEC's development was also evident at the Ministers' Meeting in Bangkok in September 1992. As the work projects continued to make progress, Ministers were able to consider in greater detail the practical implementation of the various projects. For example, they directed their Senior Officials to implement proposals to establish, subject to a feasibility study, an electronic tariff data base for APEC members to facilitate regional trade through better information flows.

16 APEC, *Selected Documents, 1989–1994*, p. 65.

17 APEC, Seoul APEC Declaration, *Selected Documents, 1989–1994*, pp. 62–3.

18 R. Woolcott, Address to the Sydney Institute, 29 November 1991, *Backgrounder*, vol. 2, no. 21, 6 December 1991, pp. 2–7.

19 The Hon R. J. Hawke MP, 'APEC or regional agreements—the real implication', *Australian Quarterly*, vol. 64, no. 4, Summer 1992, pp. 339–49.

2.37 The Ministers also restated their determination to pursue the objectives of APEC as detailed in the Seoul Declaration issued the previous year. In regard to the Uruguay Round, they renewed APEC's 'unwavering commitment' to achieving a successful conclusion of the Round in order to strengthen the international trading system.

2.38 Ministers agreed that it was timely and appropriate to set up a small secretariat as an effective support mechanism to facilitate and coordinate APEC activities. The secretariat would provide logistical and technical services as well as administer APEC's financial affairs under the direction of the APEC Senior Officials. A fund was to be established to cover APEC administrative and operational costs. APEC members were to contribute to this fund on a proportional basis to be determined by Ministers. The opening of the permanent secretariat in Singapore in February 1993 marked a significant step toward the institutionalisation of APEC and signalled a very definite commitment by its members to ensure its effectiveness as an organisation.²⁰

2.39 In addition, Ministers agreed that a small Eminent Persons Group (EPG) should be established to articulate a vision for trade in the Asia Pacific region to the year 2000. This group would also identify constraints and issues that APEC should consider and would report initially to the next ministerial-level meeting in 1993.

2.40 Aware of the benefits to be gained from private sector involvement in APEC, Ministers requested Senior Officials to determine how to include the private sector more effectively in the activities of the work projects. The establishment of the permanent secretariat would facilitate communication and help coordination between APEC and the business community. Indeed, establishing closer ties between business and APEC groups would build on a relationship that had already produced results—for example, the detailed discussions on the possible advantages of a region-wide investment code by PECC's Trade Policy Forum had helped to place investment matters firmly on APEC's agenda. PECC welcomed APEC's approach to involving business in APEC and suggested that the sharing of information and practical knowledge about trade and investment allows for 'private sector inputs to regional cooperation at a substantive, rather than rhetorical, level'.²¹

2.41 The establishment of the EPG was also likely to attract greater input from the private sector. The majority of members of the EPG had been associated closely with

20 According to Ambassador Timothy Hannah, Executive Director of APEC Secretariat (1999), the Secretariat is the core support mechanism for the APEC process. It has grown and now in 1999 has a staff of 23 seconded from Foreign and Trade ministries from 18 member economies and the same number of Singaporean staff. It provides coordination, technical, advisory support to the Chair and the 250 or so meetings of different APEC working groups and other fora held annually; it maintains a large database of information on APEC activities, assists member economies in formulating APEC's economic and technical cooperation projects (currently about 258) and their finances. See Ambassador Timothy Hannah, 'The Role of APEC in the Asia-Pacific Region', lecture at Foreign Affairs College, 21 June 1999, Beijing, <http://www1.apecsec.org.sg/whatsnew/speeches/speech11.html> (30 July 1999)

21 Australian Pacific Economic Cooperation Committee, *Sixth Report to the Australian Government*, 1992.

the development of PECC and they could draw on this experience and their network in the business community to develop a series of pragmatic steps to achieve trade liberalisation objectives. PECC was one of the three observer organisations at APEC meetings and the only non-governmental body to have that status.²²

1993—the Leaders’ Summit and political horsepower

2.42 The EPG presented their report to APEC Ministers in October 1993. They urged APEC members to accelerate and expand cooperation to counter the forces that threatened the region’s continued vitality. The EPG identified three main dangers to the region’s economic growth:

- the erosion of the multilateral global trading system;
- the trend toward inward-looking regionalism; and
- the risk of fragmentation in the region.

To enhance economic activity in the region, the EPG recommended that APEC:

- set a goal of free trade in the Asia Pacific to help realise the full economic potential of the region;
- pursue an active program of regional trade liberalisation;
- reach an agreement in 1996 on a target date and timetable for the achievement of free trade in the region; and
- commence immediately an extensive series of APEC trade and investment facilitation programs, such as the adoption of an Asia Pacific Investment Code, an effective dispute settlement mechanism and mutual recognition of product standards that would be reviewed at the annual Ministerial meetings.

2.43 In placing APEC in the broader economic system, the EPG recognised that APEC members had a vital interest in the well being and openness of the global economy. They recommended that APEC’s goal of regional free trade should be pursued to the greatest possible extent through multilateral liberalisation and that APEC should work toward achieving the successful conclusion of the Uruguay Round by 1993. Mr William Bodde, APEC’s first executive director, wrote that the task of EPG ‘was to point out the stars that APEC could use to navigate into the twenty-first century’. He remarked, however, that in plotting the way forward the EPG had been a little too daring for some of the Ministers.²³

2.44 From 17 to 19 November 1993, APEC Ministers met in Seattle. Since 1989, they had been calling for a successful conclusion to the Uruguay Round. Year after

22 See para 1.10 for more information on the Pacific Economic Cooperation Council.

23 W. Bodde Jr., *View from the 19th Floor*, Institute of South East Asian Studies, Singapore, p. 37.

year, Ministers had asserted their determination to develop APEC's global role as an outward-looking forum working through consultation and by consensus to reinforce the multilateral trading system. A stern note of resolve stamped their declaration on the Uruguay Round in which they stated that the time for pledges and commitments had long past and they called for urgent action to complete successfully the Uruguay Round. They declared:

...as the most economically powerful and dynamic region in the world representing nearly 40% of the world's population and 40% of world trade, we collectively are determined to assure that the Round succeeds by helping to forge the necessary consensus in Geneva.

They challenged participants in the Uruguay Round to improve their market access and announced that APEC members were prepared to take the lead by offering to eliminate, reduce or harmonise tariff and non-tariff barriers in particular sectors.

2.45 The Seattle meeting moved closer to establishing a formal framework for trade and investment in the region with their approval of the creation of the Committee on Trade and Investment (CTI) and its far reaching work programme. The meeting also agreed to admit Mexico and Papua New Guinea as members in 1993 and Chile the following year. It took the position, however, to defer consideration of additional members for three years.²⁴

2.46 At this time, the Ministerial-level meeting was the highest level policy-making body of APEC. In April 1992, the Australian Prime Minister, Mr Paul Keating, sought to change this arrangement. He wrote to President Suharto of Indonesia about the possibility of holding periodic Asia-Pacific heads of government meetings based on APEC membership. President Suharto and later the American President, Mr George Bush, quietly endorsed the proposal.²⁵ Mr Keating believed that such high-level gatherings would inject some political horsepower into APEC.²⁶ He was convinced that unless APEC could draw on the executive authority of national leaders it would 'remain a modest and essentially peripheral organisation'.²⁷ Six months later, he explained to the Japanese Prime Minister, Mr Miyazawa, that heads of government meetings would add political weight and status to the APEC process.²⁸

2.47 It was the newly-elected American President, Mr Bill Clinton, however, who acted upon Mr Keating's proposal when he invited APEC leaders to attend an informal get together which was intended to promote a free exchange of views on regional and world economic development. The meeting was to be held at Blake

24 APEC, *Selected Documents*, pp. 87, 93.

25 The Hon P. J. Keating MP, House of Representatives Debates, 7 May 1992, p. 2631.

26 The Hon P. J. Keating MP, Address to the Chinese Chamber of Commerce, Perth, 15 February 1995.

27 The Hon P. J. Keating MP, Lecture 'Australia, Asia and the new regionalism', Singapore, 17 January 1996.

28 The Hon P. J. Keating MP, House of Representatives Debates, 13 October 1992, p. 2002.

Island immediately following the Ministers' Meeting in Seattle. The Malaysian Prime Minister, Dr Mahathir Mohamad, declined to attend.

2.48 At Blake Island, the Leaders, who met without officials and without a formal agenda, took a number of initiatives which endorsed the principles and objectives set down by their Ministers. This meeting not only complemented the Ministers' Meeting but, as predicted by Mr Keating, it gave APEC greater international credibility and authority. At the meeting the Leaders pledged:

- to bring the Uruguay Round to a successful conclusion by the deadline of 15 December;
- to deepen and broaden the outcome of the Uruguay Round by strengthening trade and investment liberalisation in the region and facilitating regional cooperation;
- to encourage the further development of business networks throughout the region; and
- to nurture APEC's spirit of community.

2.49 As a more practical and concrete step toward forging closer links with business, APEC Leaders agreed to the establishment of a Pacific Business Forum (PBF). This forum would draw on the experience and advice of business people in the region to determine ways in which APEC could facilitate regional trade and investment and promote the further development of business networks.²⁹ It held its first meeting in Singapore in June 1994 and became the 'major business conduit into APEC'.³⁰ Although the members came from diverse economies, they shared the same philosophy, 'of doing business better, faster and more effectively'.³¹

2.50 The united front conveyed in the Ministers' report and the Leaders' joint statement, masked underlying tensions in APEC. The prolonged and unresolved Uruguay Round of multilateral trade negotiations created uncertainties in the region. The formation of regional arrangements including the European Community and the North American Free Trade Agreement warned of a drift toward preferential trading blocs centred on Europe, North America and East Asia.³² The Malaysian Prime Minister, Dr Mahathir, in particular, was troubled by the possibility of APEC transforming into a trading bloc. He maintained that the Leaders' Meeting at Blake

29 APEC, *Pacific Business Forum Report*, 15 October 1994.

30 Senate Debates, 23 June 1994, p. 1955.

31 Members of the Pacific Business Forum to President Soeharto, Chairman, Asia Pacific Economic Cooperation, 15 October 1994, APEC, Report of the Pacific Business Forum, *A Blueprint for APEC*, October 1994. The Australian representatives were: Philip Brass, Managing Director, Pacific Dunlop Ltd. and Imelda Roche, Managing Director/President, International, Nutri-Metics International Holdings Pty Ltd. Group.

32 Australian Pacific Economic Cooperation Committee, *Sixth Report to the Australian Government*, 1992.

Island would be counter-productive and that it had been convened only to create trade blocs and to take on Europe.³³

2.51 Indeed, in 1990, Dr Mahathir had proposed the formation of an East Asian trade group to counter the single market concept of the European Community and the North American Free Trade Area. He envisioned a formal grouping of East Asian countries that would facilitate consultation and consensus prior to negotiating with Europe or America or in multilateral fora such as GATT. He maintained:

We in East Asia must not form a trading bloc of our own. But we know that alone and singly we cannot stop the slide towards controlled and regulated international commerce...To stop the slide and to preserve free trade the countries of East Asia, which contain some of the most dynamic economies in the world today, must at least speak with one voice.³⁴

2.52 Australia and the United States strongly opposed the formation of an East Asian Economic Group or Caucus because of concerns that such an association might undercut the effectiveness of APEC. The likelihood of being excluded from such a regional economic grouping also worried Australia.³⁵

2.53 One of the central underlying fears of some APEC members—that the less developed economies would be overshadowed by the more dominant members—also came to the surface at this time. From APEC's inception, participants had agreed that APEC should be an informal consultative forum that would nurture the concept of an Asia Pacific community. For some, it seemed that APEC was now drawing away from its fundamental commitment to consensus-building. The Malaysian Minister for Trade and Industry maintained that 'APEC is slowly turning out to be what it wasn't supposed to be, meaning that APEC was constituted as a loose consultative forum'.³⁶ The leadership role taken by Mr Clinton in calling APEC leaders together at Blake Island heightened the anxieties of some of the less developed economies. Dr Mahathir insisted that; 'A true Pacific community cannot be built on the basis of hegemony and imperial command.'³⁷ Despite underlying anxieties, the Leaders' Meeting proceeded to quicken the pace of progress in APEC.

33 Article by Eric Ellis, *Australian Financial Review*, 19 November 1993.

34 Quote taken from Tan Kong Yam, Toh Mun Heng and Linda Low, 'ASEAN and Pacific Economic Co-operation', *ASEAN Economic Bulletin*, vol. 8, no. 3, March 1992, p. 326.

35 For more information on Dr Mahathir's proposal and EAEC see Chapter 9, 'Subregional Groupings—stepping Stones or Stumbling Blocks?', paras 8.77–84.

36 Quoted in Hadi Soesastro, 'ASEAN and APEC: do concentric circles work?', *The Pacific Review*, vol. 8, no. 3, 1995, pp. 483.

37 Mahathir Bin Mohamad, excerpts from keynote address at the 27th International General Meeting of the Pacific Basin Economic Council, Kuala Lumpur, 1994, <http://www.moshix2.net/APER/countries/malaysia/mohamad.htm> (5 August 1997).

1994—the 2020 Vision: the Bogor Declaration

2.54 The EPG presented its second report in August 1994, which recommended that APEC implement a trade liberalisation program which should be completed by 2020. The Group again urged APEC to pursue a trade facilitation and technical cooperation program and to create a dispute mediation service.

2.55 The newly-formed Pacific Business Forum (PBF) brought forward a number of recommendations designed to promote free trade. It recognised the importance of maintaining forward momentum and urged APEC to prove its worth by making substantive and practical progress towards a predictable trade and investment environment in the Asia Pacific region. It emphasised:

businesses will not, and cannot, wait for governments. Businesses will go where bureaucracy is minimal and procedures straightforward and transparent.³⁸

It emphasised that APEC must be pragmatic and achieve concrete results. Ambitiously, it recommended that:

- APEC economies should achieve free trade and investment liberalisation by 2002 for developed economies and no later than 2010 for all APEC members;
- APEC Leaders should as soon as possible adopt a policy of standstill on the introduction of new trade and investment barriers and incorporate the principles of a non-binding Asia Pacific Investment Code into domestic laws; and
- APEC economies should implement the Uruguay Round commitments, accelerate the fulfilment of these commitments and undertake further market opening measures beyond those of the Uruguay Round.

2.56 To facilitate business, it suggested, *inter alia*, that transparency in administrative systems, rules and regulations should be a priority; adoption of a common APEC customs code should be an important goal; and government practices and product standards that affect cross-border trade and investment should be harmonised.³⁹ The PBF also suggested that APEC continue to give priority to human resources development and to take measures to improve the government-business sector partnership.

2.57 Both the PBF and the EPG, with their close networks into the business community, were pushing for the implementation of practical, achievable measures that would bring about free and open trade and investment in the region and beyond.

2.58 At their meeting in Jakarta in November 1994, Ministers reaffirmed the important role of the private sector in APEC and noted that the reports of the EPG and

38 APEC, *Pacific Business Forum Report*, 15 October 1994, pp. i–ii.

39 APEC, *Pacific Business Forum Report*, 15 October 1994.

PBF would serve as valuable reference documents for future deliberations. They restated their commitment to achieve full implementation of the results of the Uruguay Round, which had finally concluded, and to continue to provide leadership for the early ratification of the agreement establishing the World Trade Organization (WTO), GATT's successor, so that it would come into operation as of 1 January 1995.⁴⁰ They also endorsed a set of non-binding investment principles.⁴¹

2.59 The Economic Leaders met in Bogor on 15 November 1994. In their Declaration of Common Resolve, they issued a forthright mission statement which spoke of an organisation with a clear understanding of its objectives; confident of its ability to work toward those goals and determined to realise them.

2.60 The Leaders noted the conclusion of the Uruguay Round and APEC's contribution to its success. They now agreed to carry out the Uruguay Round commitments fully and without delay and called on all participants in the Round to do the same. To place trade reform firmly on track, they decided to hasten the implementation of these commitments and to undertake work aimed at deepening and broadening the outcome of the Uruguay Round negotiations. Further, they agreed that they would try not to use measures that would result in increasing levels of protection. They called for the inauguration of the WTO and pledged to support it. Once again, they reaffirmed their commitment to achieving free and open trade and investment by further reducing barriers to trade and investment and by promoting the free flow of goods, services and capital among the region's economies.

2.61 In a bold move, the Leaders agreed to reach their objective of free and open trade in the Asia Pacific region by no later than the year 2020. The rate of implementation was to take account of the differing levels of economic development among the APEC members. The industrialised economies were to achieve free and open trade and investment no later than 2010 while developing economies were set a deadline of no later than 2020. Furthermore, the Leaders expressed their determination to pursue these goals in a way that would encourage and strengthen trade and investment in the world as a whole.

2.62 The Leaders also decided to complement and support the process of trade liberalisation by expanding and accelerating APEC's trade and investment facilitation programs. In particular, they asked Ministers and Officials to submit proposals on APEC arrangements on customs, standards, investment principles and administrative obstacles to market access. They invited their members to show leadership by agreeing that economies ready to initiate and implement a cooperative arrangement could proceed to do so, while those not yet prepared to participate might join at a later

40 APEC Secretariat, *Selected APEC Documents 1989–1994*, January–February 1995, pp. 107–8. The final act of the Uruguay Round and the Marrakesh Agreement Establishing the World Trading Organization were signed at the Marrakesh Ministerial Meeting in April 1994.

41 APEC Secretariat, *Selected APEC Documents 1989–1994*, January–February 1995, p. 117. For more information on the Non-Binding Investment Principles see Chapter 5, 'Trade and Investment Facilitation—the Costs of Doing Business', paras 5.68–75.

date. With less conviction, they agreed to examine the possibility of a voluntary consultative dispute mediation service.

2.63 To encourage APEC members to move decidedly toward the stated objectives of free and open trade by 2010/2020, the Leaders commissioned their Ministers and Officials to start immediately to prepare detailed plans for the implementation of these goals. Leaders directed that ‘the proposals are to be submitted soon to the APEC economic leaders for their consideration and subsequent decisions’. Proposals were to address all impediments to achieving their goal. They asked Ministers and Officials to consider seriously the recommendations contained in the reports of the EPG and PBF.

2.64 APEC had rolled up its sleeves. In this declaration, known as the Bogor Declaration, Leaders had fixed their focus on the goal of free trade; they had clearly defined their purpose; and set down a timetable for meeting their goals. They had moved from ‘a vision to a practical blueprint for action’.⁴² The Leaders concluded:

...we are determined to demonstrate APEC’s leadership in fostering further global trade and investment liberalisation...We will start our concerted liberalisation process from the very date of this statement.⁴³

2.65 The Bogor Declaration had set an ambitious agenda that challenged all APEC members to reduce trade barriers. Ministers in devising an action plan were also to address the less visible impediments to trade and investment such as the lack of international product standards and different customs procedures. APEC leaders wanted to see the elimination of procedures that waste time and resources and which generate uncertainties in business.

2.66 Participants in APEC realised that much detailed work on the trade liberalisation agenda remained to be done before they could settle on an agreed plan of action. The Bogor Declaration left unanswered questions as to whether free trade would apply to all products and to services and whether it meant zero or merely negligible tariffs. Some members balked at the hard and fast deadlines and the meaning of ‘open regionalism’ still awaited clarification. There was uncertainty about whether the action plans would impose any obligations.⁴⁴ The Malaysian Trade and Industry Minister, Rafidah Aziz, noted that ‘Anything that happens in APEC is non-binding’.⁴⁵ Clearly, there would be problems in building a durable consensus especially on these difficult matters.

42 See Warren Christopher, US Statement at the Seventh APEC Ministerial, 16 November 1995.

43 *Selected APEC Documents, 1989–1994*.

44 For example see, Article ‘Leaders dodge the details in APEC trade declaration, *Australian*, 21 November 1994; Article by Malcolm Booker, *Canberra Times*, 22 November 1994.

45 Article by Lindsay Murdoch, *Age*, 10 November 1994.

1995—Drawing up the template: the Osaka Action Agenda

2.67 The challenge now confronting APEC members was to translate commitment into action. The Bogor Declaration had taken APEC from a forum for consultation and cooperation to one charged with the task of overseeing the implementation of programs with clearly defined goals and set timetables. The next step was to draw up a comprehensive action plan that would see APEC economies realise the Bogor goals.

2.68 The Australian Government acknowledged that the fundamental challenge confronting APEC was for each member to develop an action agenda that would demonstrate its commitment to eliminating trade and investment barriers.⁴⁶ It understood that, while APEC members would move toward the Bogor goals, they would not necessarily take the same path. Each member had its own starting point and its particular capability for reform. It would set its own pace and priorities and, within the broader APEC framework, map out, in an Individual Action Plan, its own strategy for meeting the Bogor commitments of free trade and investment. The Australian Government intended its plan to address not only tariff reduction, but areas such as investment, non-tariff barriers, export subsidies and services.

2.69 In August 1995, the EPG presented its third, and what was to be its last, report to APEC. Again, it was a document rich in ideas and suggestions but its central proposal urged APEC to move promptly and decisively toward the implementation of measures that would see the Bogor Declaration realised.

2.70 In a similar vein, the PBF, in its 1995, report stated that the stage had been set for action. It stressed that APEC leaders must reach consensus in Osaka on how to proceed to 2010/2020 and that the implementation of their decisions must begin immediately thereafter.⁴⁷ It also recommended the establishment of a permanent business advisory forum to forge a successful partnership between APEC and the business community. The two main advisory bodies to APEC were insistent that APEC must give substance to the Bogor Declaration.

2.71 In November 1995, Press Secretary of the Japanese Ministry of Foreign Affairs, Mr Hiroshi Hashimoto, echoed the same sentiment. He announced that ‘APEC is now moving on from a stage of “visions” and “concepts” to that of “actual implementation of measures.” The APEC Osaka Meeting marks the start of the first Year of Action.’⁴⁸

2.72 But as the time for the Osaka meeting drew closer, a number of prickly issues came to the fore. The matter of comprehensiveness—of whether some sectors, such as agriculture, should be excluded from the Bogor liberalisation objective—was of

46 Australia’s APEC ambition: background paper, Senator Bob McMullan, Press Release, 27 June 1995.

47 APEC, Pacific Business Forum Report, 1995.

48 The Ministry of Foreign Affairs, Japan, APEC 1995 Osaka, Official Information, *Japan’s Views on APEC*, 15 November 1995.

particular concern to Australia. The Minister for Trade, Senator Bob McMullan, made plain Australia's position when he insisted that, 'it is vitally important that the action agenda we are currently developing to implement the APEC leaders' commitment to free trade and investment endorse the principle that there be no exceptions to the free trade and investment undertaking'.⁴⁹ Some APEC members, notably China, Japan, South Korea and Taiwan, were looking to dilute the general principle of comprehensiveness sought by Australia and the United States by excluding agriculture from the action agenda.⁵⁰ The second issue to be clarified was whether APEC liberalisation would be on a discriminatory and preferential basis or whether it would be on a non-discriminatory and open basis.

2.73 Indeed, Mr Hashimoto told journalists in Osaka that the principles of comprehensiveness, comparability and non-discrimination were the most difficult issues confronting APEC and he hoped they would be settled before the Ministerial Meeting.⁵¹ On the question of whether the action agenda would be binding on member economies, he offered the view that, while the action agenda, legally speaking, was not binding, it was binding politically.⁵²

2.74 During APEC's formative years, its primary focus had always been on trade and economics. Some people, however, now saw it as an ideal vehicle to advance other causes. In October 1995, the issue of the inclusion of social clauses on the APEC agenda and the establishment of an APEC body to address labour conditions, environmental safeguards and the social consequences of APEC agreements was raised. The then Australian Minister for Trade, Senator McMullan, reminded the Senate that APEC worked on the basis of shared commitment and coordinated voluntary actions by its members. Nevertheless, he stated that issues such as labour standards and environment were being considered by a number of committees in various working groups in APEC.⁵³

2.75 The main focus of APEC activities throughout 1995 had centred on the formulation of an action agenda based on intensive and wide-ranging deliberations. In preparing this draft action agenda, APEC Senior Officials incorporated contributions from all relevant APEC fora and took account of the voluntary commitments made by each member economy. At the Seventh Ministerial Meeting, held in Osaka on 16 and 17 November 1995, Ministers discussed the draft action agenda prepared by the

49 Senator the Hon R. F. McMullan, Senate Debates, 28 August 1995, p. 428.

50 Florence Chong, article, *Australian*, 15 November 1995; Robert Garron and Cameron Stewart, article, *Australian*, 15 November 1995; Michael Richardson, article, *Australian*, 16 November 1995.

51 The Ministry of Foreign Affairs, Japan, APEC 1995 Osaka Official Information, 'Japan's Views on APEC, 15 November 1995.

52 *ibid.*

53 Senator the Hon R. F. McMullan, Senate Debates, 25 October 1995, p. 2498.

Senior Officials and agreed to place it before the Economic Leaders for their consideration and adoption.⁵⁴

2.76 On 19 November 1995, APEC Leaders met at Osaka and reaffirmed their target dates of 2010 for developed economies to remove trade impediments and 2020 for developing economies. Each Leader submitted a ‘down payment’ toward 2010/2020 in the form of an outline of an initial Individual Action Plan which sketched the measures that his economy would be taking, and has taken, to contribute to a free and open trade and investment system. The Leaders stated that these voluntary actions demonstrated their ‘firm commitment toward realising the goals identified at Bogor...’⁵⁵ They hoped that this initiative together with complementary APEC measures, such as the early implementation of WTO agreements, would encourage non-APEC members to follow suit and help forward global trade and investment liberalisation.

2.77 In turning to the draft action agenda, Leaders maintained that this was the template for future APEC work toward their shared goals. They adopted the draft as the Osaka Action Agenda. It mapped out the overall strategy for realising the Bogor Declaration. The Action Agenda went beyond tariff reduction to encompass a broad area of technical cooperation and the transfer of technology. Part One of the Agenda covered the areas of trade and investment liberalisation and trade and investment facilitation; Part Two dealt with economic and technical cooperation. These three areas—trade and investment liberalisation; trade and investment facilitation, and economic and technical cooperation—formed the three pillars of APEC activities; they were to be complementary and equally significant.

2.78 The Osaka Agenda instructed each APEC economy, when drawing up its own Individual Action Plan, to observe the objectives and guidelines set down for each of fifteen specific areas. These areas embraced a broad and diverse range of issues which covered: 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 outcomes; and information gathering and analysis.

2.79 The Agenda set down the principles that were to apply to the entire process of trade liberalisation and trade facilitation in the region. The principles were:

- *comprehensiveness*—the liberalisation process to address all impediments to the long-term goal of free and open trade and investment;
- *WTO consistency*—measures undertaken in the context of the APEC Action Agenda to be WTO-consistent;

54 APEC, Seventh Ministerial Meeting, 16–17 November 1995, Osaka, Japan.

55 APEC, *Selected Documents, 1995*, pp. 3, 125.

- *comparability*—APEC economies to try to ensure the overall comparability of their trade and investment liberalisation and facilitation, taking into account the general level of liberalisation and facilitation already achieved by each APEC economy;
- *non-discrimination*—APEC economies to apply or try to apply the principle of non-discrimination between and among them in the process of liberalisation and facilitation of trade and investment;
- *transparency*—APEC economies to ensure transparency of laws, regulations and administrative procedures that affect the flow of goods, services and capital among APEC economies;
- *standstill*—APEC economies to try to avoid measures that increase levels of protection;
- *simultaneous start, continuous process and differentiated timetables*—APEC economies to begin simultaneously and without delay the process of liberalisation, facilitation and cooperation, contributing continuously to achieving the long-term goal of free and open trade and investment;
- *flexibility*—APEC economies, in accommodating the varying levels of economic development among APEC members, to show flexibility in dealing with issues arising from such circumstances;
- *cooperation*—APEC economies to actively pursue economic and technical cooperation.⁵⁶

2.80 A schedule and format, contained in the Agenda, directed Ministers and Officials to start immediately to prepare their own concrete and substantive action plans to be submitted in 1996. Overall implementation of the plans was to begin on 1 January 1997; they were to be reviewed annually; and could be revised and improved in response to changing circumstances. The formulation of the Individual Action Plans (IAPs) was to be the first step in a long-term and on-going process leading to the achievement of the Bogor objective of free trade and investment. It marked the beginning of a determined effort by APEC members to embark on a definite course toward their common objectives.

2.81 APEC also agreed on collective action in areas where solutions and results could be best produced by a group. The Collective Action Plan (CAP) identified the measures that APEC economies would take as a whole to remove impediments to trade and investment. The APEC Committee on Trade and Investment (CTI), established in 1994, was to coordinate the preparation of these plans. CAPs were intended to advance activity in the first fourteen areas listed in the Agenda and to

56 Based on the Osaka Action Agenda, APEC, *Selected Documents 1995*, pp. 5–6.

provide the means to monitor and report on progress. Overall, CAPs were designed to facilitate business and reduce the cost of conducting business in the region.⁵⁷

2.82 The objectives and principles in the Action Agenda were clear; the template for the action plans complete. Individual APEC members now had the task of drawing up their own plans. With determination, the Leaders asserted:

We have, with Osaka, entered the action phase in translating this vision and these goals into reality. Today we adopt the Osaka Action Agenda, the embodiment of our political will, to carry through our commitment at Bogor. We will implement the Action Agenda with unwavering resolve.⁵⁸

2.83 Leaders agreed to establish an APEC Business Advisory Council (ABAC) to provide advice on business views and priorities for APEC activities. This Advisory Council would replace the Pacific Business Forum and was to be APEC's peak business advisory body—'a channel for business to present its views to leaders on what APEC should be doing to promote trade and investment in the APEC region'.⁵⁹ More specifically ABAC was to provide advice on the implementation of the Osaka Action Agenda.

2.84 The then Australian Prime Minister, Mr Paul Keating, stated that the plan of action and the Leaders' Declaration met all of Australia's aims particularly in having the comprehensive coverage of all sectors and issues placed firmly on the APEC agenda. He explained that this 'is a real win for Australian farmers because it enables them to plan confidently for the opening of the vast market around us and brings closer our vision of Australia as a global supplier of food'.⁶⁰ The then Leader of the Opposition, Mr John Howard, made plain that the goals of APEC were shared by both sides of the Commonwealth Parliament.⁶¹

1996—the Manila Action Plan: APEC means business

2.85 All 18 members met the deadline in submitting their draft Individual Action Plans to the APEC Senior Officials Meeting in Cebu in May 1996. The plans were to undergo further review and fine-tuning before being presented to the APEC Ministers and Leaders meetings in Manila and Subic. The then Australian Minister for Trade, Mr Tim Fischer, explained that in giving further consideration to the Australian draft,

57 APEC, Annex One, APEC Collective Actions, Action Report for 1996, <http://www.apecsec.org.sg/02anxone.html> (3 July 1997).

58 APEC Economic Leaders' Declaration of Common Resolve, Osaka, Japan, 19 November 1995.

59 Australian representatives were Michael J. Crouch, AM, Chairman and CEO, Zip Industries (Aust) Pty Ltd; Malcolm Kinnaird, AO, Executive Chairman, Kinhill Engineers Pty Ltd; and Imelda Roche, Co-Chairman, Nutri-Metrics International Holdings, Pty Ltd.

60 The Hon P. J. Keating MP, Debates, House of Representatives, 22 November 1995, p. 3497; APEC: Statement by the Prime Minister, House of Representatives, 22 November 1995, Press Release, 22 November 1995.

61 The Hon J. W. Howard MP, House of Representatives Debates, 22 November 1995, p. 3500.

his department would give priority to areas of most importance to Australian business including the liberalisation of minerals, agriculture, and services trade; the reduction of high tariffs on industrial products; and progress on harmonisation or mutual recognition of standards. He stated that Australia's plan was fully consistent with the general principles of the Osaka Action Agenda, including comprehensiveness, WTO consistency, comparability and transparency.⁶²

2.86 The CTI, which would come to be acknowledged as 'the engine of trade liberalisation in APEC', gave priority during 1996 to the development of Collective Action Plans (CAPs).⁶³ It met five times in 1996 and reported that 'although APEC members have adopted a careful and measured approach to the initial year of the CAP process, the content of CAP formats reveals an encouraging level of APEC "tangible outputs" in the short term'.

2.87 As the time for the APEC Leaders' meeting approached, doubts were expressed about the depth of commitment for the Bogor Declaration. Mr Fred Bergsten, the former chairman of the APEC Eminent Persons Group, looked back on the Osaka meeting as 'largely procedural' and cautioned that a second year of inaction would seriously undermine APEC's credibility.⁶⁴ He believed that the IAPs and the CAPs were unlikely to demonstrate that APEC was moving ahead. Nevertheless, he could see useful progress being made towards harmonising and modernising customs practices throughout the region and the adoption of a 'business visa' to speed commercial travel.

2.88 In their report submitted to the Economic Leaders on 26 October 1996, ABAC emphasised that, if the Blake Island vision and the Bogor goals were to be realised, APEC's trade and investment liberalisation and facilitation agenda must be accompanied by concerted economic and technical cooperation.⁶⁵ The emphasis was on achievable initiatives. The chairman of ABAC, Mr Roberto Romulo, stressed that APEC had reached a critical stage, 'where everyone must get down to business and be more practical'.⁶⁶

62 The Hon Tim Fischer MP, Press Release, 9 May 1996. The final version of the Australian Individual Action Plan incorporated the existing tariff reduction programs to the year 2000 in the textiles, clothing and footwear and passenger motor vehicles sectors. It also included a commitment to review zero to five per cent tariffs by 2000 or earlier subject to an assessment of progress in the liberalisation commitments by others in APEC and the WTO. It addressed reform in the micro-economic services sectors such as the introduction of full and open competition from 1 July 1997 in the telecommunications sector and the progressive liberalisation of access to the Australian aviation market.

63 Chair's Summary Record of Discussion, APEC Committee on Trade and Investment, First Meeting for 1998, Penang 19–20 February 1998.

64 *Financial Review*, 1 November 1996, p. 25; see also *Financial Review*, 12 November 1996, p. 15.

65 APEC Business Advisory Council, *APEC Means Business: Building Prosperity for our Community*, Report to the APEC Economic Leaders, 25 October 1996.

66 Paul N. Villegas, Business World Online Edition, APEC Special Report, November 1996, <http://bworld.com.ph/APEC/Latest/report/specialaction.html> (12 August 1997).

2.89 Ministers, at their meeting in Manila on 22 and 23 November 1996, adopted the Manila Action Plan for APEC (MAPA) for endorsement by the APEC Economic Leaders. This plan integrated the IAPs, CAPs and Progress Reports on Joint Activities of APEC members and the various APEC fora. They welcomed the submission by member economies of their Individual Action Plans, which they agreed generally conformed to the principles and guidelines contained in the Osaka Action Agenda.

2.90 On 25 November, APEC Economic Leaders met in Subic, the Philippines. In their Declaration, they pledged to implement the initiatives contained in their Individual Action Plans from 1 January 1997. They acknowledged that the MAPA contained only the first step of an 'evolutionary process of progressive and comprehensive trade and investment liberalization toward achieving our Bogor goals by 2010/2020, in accordance with the Osaka Agenda'.⁶⁷ The Leaders expressed their determination to sustain the dynamism of their plans through an on-going process of review and consultations. They remained committed to build on the MAPA and to improve their action plans. As a means to push further ahead with the agenda, the Leaders instructed their Ministers to identify sectors where early voluntary liberalization would have a positive impact on trade, investment and economic growth in the individual APEC economies as well as in the region, and to formulate recommendations on how this could be achieved.⁶⁸

2.91 The Leaders praised the results of APEC's CAP work, which they believed would facilitate the conduct of business in and between APEC economies by increasing competitiveness and reducing transaction costs. They announced that they had agreed to harmonise tariff nomenclature by the end of 1996 and customs clearance procedures by 1998. Further, they had directed their Ministers to intensify their efforts in 1997 on the simplification of customs clearance procedures, effective implementation of intellectual property rights commitments, harmonisation of customs valuation, facilitation of comprehensive trade in services, and enhancing the environment for investments.⁶⁹ Ministers welcomed the decision of Australia, Korea and the Philippines to proceed with a trial of an APEC Travel Card in 1997. Business leaders hoped that by filling in one form a business traveller would be pre-cleared for travel to all APEC economies participating in the scheme.

2.92 The Malaysian Prime Minister, Dr Mahathir, concerned about the way in which the market liberalisation measures were being pursued by APEC, again questioned APEC's ambitious free trade schedule. He maintained that it 'would be unrealistic and grossly unfair to coerce particularly the less advanced member

67 APEC Economic Leaders Declaration, Subic, the Philippines, 25 November 1996.

68 *ibid.*

69 *ibid.*

economies to undertake liberalization measures at a pace and manner beyond their capacity.’⁷⁰ He stated:

The greatest challenge facing APEC business leaders, and some governments too, is to have enough patience to nurture the region’s immense potential for co-operation and for development’.⁷¹

2.93 The Australian Prime Minister, Mr John Howard, accepted that not every economy would move at the same pace in the same area. But, while conceding that APEC did not require mathematically precise reciprocity, he argued that for APEC to work there would have to be ‘continual movement across all sectors’.⁷²

2.94 The President of the Republic of the Philippines, Fidel V. Ramos wanted people to remember that APEC’s way is ‘open regionalism, which is non-exclusive and non-collusive’. He added, ‘Our method of cooperation allows each member economy to march at its own pace—moving gradually toward greater economic cooperation and mutual benefit.’⁷³ Timothy Ong, an EPG member, had earlier described this situation:

There are many trains in APEC, fast and slow, primitive and advanced. Some are enthusiastic, some are cautious.

He suggested that, although the trains are coming from different places and moving at different speeds, they are all heading for the same destination.⁷⁴

2.95 For some, the IAPs matched the ambitions of the Bogor Declaration. In brief, PECC noted that the individual APEC economies are ‘all well on track towards the Bogor goal and the tariff reductions are mostly faster and deeper than their Uruguay Round commitments’. In the area of non-tariff barriers, PECC reported that a start had been made but progress was less evident. On the other hand, for some the gap between APEC rhetoric and deeds was noticeable. Mr C. Fred Bergsten was critical of the IAPs. He maintained that the results were disappointing and added:

The United States and Japan, the two largest economies in APEC (and the world) faced nationwide elections and have thus resisted significant new liberalization. Indonesia, whose leadership was pivotal in forging the Bogor Declaration in 1994, adopted illiberal policies in several key sectors. A few of the smaller countries have taken constructive first steps. But the IAPs

70 Mahathir Bin Mohamad, Speech at the closing of the APEC Business Forum Manila, the Philippines, 23 November 1996, <http://bworld.com.ph/APEC/Latest/speeches/mahathirl.html> (12 August 1997); *Age* (Melbourne), 25 November 1996, p. A6.

71 *Australian*, 25 November 1996, p. 5.

72 The Hon J. W. Howard MP, House of Representatives Debates, 3 December 1996, p. 7513.

73 Fidel V. Ramos, Keynote Address, ‘Pacific in Transition’, 30th annual IGM, 19 May 1997, <http://www.pbcc.org/his.htm> (5 August 1997).

74 Taken from *Asian Business*, vol. 32, no. 1, January 1996, p. 25.

seem unlikely to provide convincing evidence that APEC is moving ahead and could instead trigger widespread scepticism about the seriousness of the exercise.⁷⁵

2.96 Indeed the test for APEC would be:

- whether the mechanism of consultation, review and revision would deliver tangible outcomes;
- whether such a mechanism could effectively prod each member economy to progressively deepen and widen commitments, and to proceed from identifying specific immediate term actions to outlining the medium and longer term actions more specifically; and
- whether economic and technical cooperation programs would produce tangible results.⁷⁶

2.97 The MAPA revealed that APEC had a distance to travel before the Bogor goals could be met. APEC had mapped out the route and all members were showing a preparedness to stay on course, though some were wary and resented the sense of being hurried. Clearly the process of monitoring progress and reviewing plans remains an important means of maintaining the momentum toward 2010/2020.

1997—Vancouver: attempts to achieve Early Voluntary Sectoral Liberalisation (EVSL)

2.98 APEC now had the task of overseeing MAPA's implementation and improvement. In ABAC's opinion, the Ministers' and Leaders' meetings in Vancouver, would 'set the pace for APEC's advance from vision to action'.⁷⁷ During the year, APEC members had been buoyed by their successful contribution in bringing the Information Technology Agreement (ITA) to fruition. APEC had nurtured the agreement during its early stages before it was taken up and endorsed by the WTO. In May 1997, the United States Trade Representative, Charlene Barshefsky, maintained that there had been a sea-change in APEC over the last year. She stated:

After our success in bringing the ITA on line, there is now a recognition of APEC's ability to set an agenda for trade expansion initiatives using a

75 C. Fred Bergsten, *APEC in 1996 and Beyond: The Subic Summit*, Institute for International Economics, Working Paper 96-12, 1996.

76 APEC Secretariat, 'Manila Action Plan for APEC: Introduction', *Selected Documents*, March, 1997, p.11.

77 ABAC, 1997 ABAC Report to Economic Leaders, *APEC Means Business: ABAC's Call to Action*, <http://www.apecsec.org.sg/ABAC/abac97/abac97.html> (November 1997).

sectoral market-opening strategy. These initiatives are the ‘building blocks’ in opening up global markets on reciprocal terms.⁷⁸

2.99 In the meantime, however, the economic situation in some Asian economies had begun to deteriorate and attention turned to how the APEC Ministers and Leaders would deal with the unfolding financial crisis.

2.100 This climate of economic uncertainty gave an edge to the Vancouver meetings. Ministers recognised the effect that the currency and financial market instability was having on the economies of the region. In the face of growing economic turbulence, however, they did not veer from their stated conviction that continued trade and investment liberalisation and facilitation remained fundamental to economic growth and equitable development in the Asia Pacific region.

2.101 In turning to the APEC agenda, and in response to the directive given by leaders 12 months earlier, Ministers at the ministerial meeting in Vancouver named 15 sectors where they expected early voluntary liberalization to have a positive influence on trade, investment and economic growth in APEC economies and throughout the region. In refining this list further, the Ministers called for the development of appropriate agreements or arrangements for market-opening and facilitation and economic and technical cooperation measures, based on existing proposals in the following nine sectors:

- environmental goods and services;
- energy sector;
- fish and fish products;
- toys;
- forest products;
- gems and jewellery;
- medical equipment and instruments;
- chemicals; and
- telecommunications mutual recognition arrangement.⁷⁹

Ministers wanted preliminary work on these sectors, such as determining the scope of coverage, flexible phasing, measures covered and implementation schedule, to be concluded in the first half of 1998 with a view to implementation in 1999.

78 USIA, Charlene Barshefsky, ‘APEC Charts New Course in Opening Global Markets, Statement issued by the Office of the US Trade Representative, 10 May 1997, <http://www.usia.gov/regional/EastAsia/apec/ustr597.htm> (21 November 1997).

79 Ninth APEC Ministerial Meeting Joint Statement, 21–22 November 1997.

2.102 The Leaders, who gathered immediately after the Ministers' meeting, also devoted substantial attention to the financial troubles in Asia. They felt that the international dimensions of the regional currency crisis required 'a global response, with regional initiatives to complement and support these efforts'. They concluded:

We believe it is critically important that we move quickly to enhance the capacity of the international system to prevent or, if necessary, to respond to financial crises of this kind. On a global level, the role of the IMF remains central. Therefore, we welcome and strongly endorse the framework agreed to in Manila as a constructive step to enhance cooperation to promote financial stability...

We recognize that as the region's most comprehensive economic forum, APEC is particularly well suited to play a pivotal role in fostering the kind of dialogue and cooperation on a range of policies and develop initiatives to support and supplement these efforts.⁸⁰

2.103 At the time of the Vancouver meetings, there were concerns that the financial turmoil would delay APEC's trade and investment liberalisation agenda. Leaders, however, did not step back from their commitment to achieve the Bogor goals and rejected outright any idea of softening their approach to free and open trade. They declared:

We remain convinced that open markets bring significant benefits and we will continue to pursue trade and investment liberalization that fosters further growth.

2.104 As a measure of their determination to force the pace of liberalisation, Leaders endorsed the recommendation of their Ministers for EVSL. They directed that action be taken toward early liberalisation in the 15 designated sectors, with the nominated nine to be advanced throughout 1998 and to commence implementation in 1999.

2.105 The then Australian Minister for Trade, Mr Tim Fischer, announced that the APEC agreement to accelerate liberalisation in 15 trade sectors was 'the most significant positive trade outcome of the year'. He added:

This marked the coming of age of APEC from an organisation focused on intentions, to one focused on outcomes. It is now absolutely vital that liberalisation timetables set for these 15 sectors are progressed with vigour and determination.⁸¹

80 APEC 1997 Leaders' declaration, 25 November 1997.

81 '1997 trade playing field flatter, but more levelling work needed', Tim Fischer, Minister for Trade and Deputy Prime Minister, press release, 28 December 1997.

2.106 The EVSL proposal was not, however, without its critics. The Australian Productivity Commission subsequently published a report on the issue which concluded that:

It remains a real question, therefore, whether EVSL initiatives are likely to guarantee real income gains to a majority of APEC members.⁸²

2.107 The EVSL proposals were also criticised by independent commentators and the Shadow Minister for Trade, Senator Peter Cook.⁸³

2.108 In turning to the IAPs, Leaders recognised the efforts made by members to strengthen their commitments. A report by ABAC, however, highlighted the need for further work. It pointed out that, while half of APEC's members announced tariff reductions beyond their Uruguay Round commitments, real progress on lowering non-tariff barriers was difficult to discern. ABAC called for a higher level of transparency in the IAPs and for greater clarity by giving more detailed specifications of the intended path to the Bogor goals.⁸⁴

2.109 Although, to some extent, the emphasis given to the new area of EVSL shifted attention away from the IAPs, it also raised expectations that APEC would deliver more immediate and tangible results. The commitment to early sectoral liberalisation was clear, loud and very specific.

2.110 In regard to membership, APEC Leaders agreed to admit Peru, Russia and Vietnam as new members of APEC. They were to become full members at the APEC Ministerial Meeting in November 1998 in Kuala Lumpur. This would increase APEC's membership to 21 and would account for 55 per cent of total world income and 46 per cent of global trade.⁸⁵ The Opposition was critical of the admission of these new members, particularly Russia, on the grounds that they would make APEC a more unwieldy and less cohesive forum.

2.111 Given the currency crisis and the unpromising economic climate in some Asian countries, APEC appeared to be holding steady on its course toward achieving the Bogor goals. The new initiative on EVSL had given APEC members a sharper focus and a tighter schedule to meet the challenge of achieving free and open trade in the region. It now stood prominently as a milestone on the way to the Bogor goals.

82 P. Dee, A. Hardin and M. Schuele, *APEC Early Voluntary Sectoral Liberalisation*, 1998, Productivity Commission Staff Research Paper, AusInfo, Canberra.

83 See Senator the Hon P. Cook, *APEC: Meeting the Challenge of the New Millennium*, Policy Discussion Paper, June 1999. See also three papers presented to the APEC Study Centre Consortium Conference, held in Auckland from 31 May–2 June 1999; P. Lloyd, 'EVSL and Sector-Based Negotiations'; A. Rae, S. Chatterjee, and S. Shakur, 'The Sectoral Approach to Trade Liberalisation: Should we try to do better?'; Y. Woo 'APEC After 10 Years: What's Left of Open Regionalism?'

84 ABAC, *1997 APEC Means Business: ABAC's Call to Action*, ABAC Report to Economic Leaders, 1997.

85 Ambassador Timothy Hannah, Executive Director of APEC Secretariat, Lecture at Foreign Affairs College, Beijing, 21 June 1999.

2.112 When asked to give a designation to the year ahead for APEC, the United States APEC Coordinator, Ambassador John Wolf, replied that 1998 would be, ‘The year of opportunity—the opportunity that we are back on the road and moving forward’.⁸⁶

1998—year of opportunity postponed

2.113 In May 1998, Finance Ministers met in Kananakis, Canada, where their discussions focused on the then economic situation and policies needed to restore financial stability and growth to the region and also on the development and strengthening of financial markets. They identified three priority areas in which they would intensify their efforts—capital market development, capital account liberalisation and strengthening international financial systems.

2.114 At this time, Ambassador Dato’ Noor Adlan, Executive Director of the APEC Secretariat, conceded that APEC as a multilateral organisation had not been in the forefront of the international response to the economic crisis. But he argued that ‘APEC has never sought or been given a role in financial-crisis management and it should not try to duplicate the work of other institutions better constituted to play this role’. Put simply, he stated ‘For APEC to seek to duplicate the IMF or World Bank’s role would be wasteful at best and might have resulted in competitive “forum shopping” at worst’.⁸⁷

2.115 APEC Trade Ministers met a month later in Kuching. Again, the financial and economic turbulence in the East Asian region demanded attention. They acknowledged:

While individual APEC economies affected by the financial turmoil must undertake domestic policy initiatives to effect economic recovery, other APEC member economies could, where possible, assist in the process of economic recovery. APEC may not be the mechanism for direct intervention, but it is important that APEC supports initiatives to manage the financial crisis—both in terms of causes and impacts.

2.116 In turning to the EVSL initiative, Trade Ministers instructed their Senior Officials to continue work to finalise the sectoral arrangements on the fast-track sectors and to further develop the remaining six sectors.⁸⁸ But a mood of hesitancy had crept into the meeting indicating that some APEC economies were reassessing their commitment to EVSL. The Ministers noted that ‘In order to enable finalisation of

86 USIA, transcript, Ambassador John Wolf, Worldnet on Vancouver APEC Results, 10 December 1997.

87 Ambassador Dato’ Noor Adlan, Executive Director of the APEC Secretariat, Editorial, *Far Eastern Economic Review*, 28 May 1998, reprinted <http://www.apecsec.org.sg/whatsnew/announce/feer3.html> (6 August 1998); See also *The Road to Kuala Lumpur*, The Asia-Pacific Foundation of Canada, 1998, which asserts that APEC is not ‘a crisis management organisation’.

88 APEC, Meeting of Ministers Responsible for Trade, Kuching, Sarawak, 22–23 June 1998.

the sectoral arrangements...flexibility would be required to deal with product-specific concerns raised by individual economies in each sector'.⁸⁹ At their meeting in September, Senior Officials agreed with their Ministers and added 'such flexibility would generally be in the form of longer implementation periods and, in principle, developing economies should be allowed greater flexibility'.⁹⁰

2.117 Before the Ministerial meetings in Kuala Lumpur, ABAC urged APEC Leaders to reaffirm their commitment to continued trade and investment liberalisation. It wanted APEC members to finalise a credible program of early voluntary sectoral liberalisation at their November meeting.⁹¹

2.118 Some APEC members held fast to the plan for EVSL. United States Ambassador to APEC, Mr John S. Wolfe, stressed that 'An important trade goal for the APEC region this year is successful conclusion of the APEC early voluntary sectoral liberalisation initiative'. He maintained that renewed growth and not bailouts was the key to recovery and that such renewal was built on open markets.⁹²

2.119 Despite encouragement from organisations such as ABAC for APEC to keep pushing ahead with its EVSL process, Japan gave notice that it would not adhere fully to this process. Before the Kuala Lumpur Ministerial meetings, it announced that it was not in a position to take any further measures in the tariff and non-tariff areas of the fish and forestry sectors beyond undertakings given in the Uruguay Round. The United States urged Japan to be a complete participant in the EVSL exercise.⁹³ Despite pressure from other members to support unequivocally the EVSL initiative, Japan held its ground by reasserting its basic stance that the EVSL process should be implemented in accordance with the principles of voluntarism.⁹⁴ It indicated, nonetheless, that it was willing to include these sectors in WTO discussions.

2.120 An accommodation along these lines was reached at the Ministerial Meeting in November. Ministers noted the participation of 16 economies (Mexico and Chile were non-participants) in the EVSL process. The 16 participating economies agreed to improve and build on this process by:

89 APEC, Meeting of Ministers Responsible for Trade, Kuching, Sarawak, 22–23 June 1998.

90 Summary conclusions of the Third Officials Meeting (SOM) for the Tenth Ministerial Meeting, 13–15 September 1998, Kuantan, Malaysia.

91 APEC Secretariat Press Release 36/98, 6 November 1998, APEC Business Advisory Council, <http://www1.apecsec.org.sg/whatsnew/press/rel103698.html> (1 June 1999).

92 John S. Wolfe, 'Meeting the Crisis: What should Governments Do?', Presentation to PBEC Conference, Los Angeles, 19 October 1998, <http://www.usia.gov/regional/East Asia/apec/wolf1019.htm> (12 April 1998).

93 Ambassador Wolf, *Worldnet on Upcoming APEC meeting*, 4 November 1998 and Richard Fisher, US Trade Representative, 12 November, Press Conference in Bangkok.

94 On-the-Record Briefing, 15 November 1998, Ms Mikie Kiyoi, Spokesperson for Minister for Foreign Affairs, <http://www.mofa.go.jp/policy/economy/apec/1998/brief15.html> (1 December 1999).

- broadening the participation in the tariff element beyond APEC—in this regard, the WTO process would be initiated immediately with a view towards improving their participation and to conclude agreement in the WTO in 1999; and
- working constructively to achieve critical mass in the WTO necessary for concluding agreement in all 9 sectors.

2.121 The then Australian Trade Minister, Mr Tim Fischer, described the compromise to transfer the nine sectors to the WTO as ‘a second best option’ but insisted that APEC was still moving forward. The Thai Foreign Minister, Surin Pitsuwan, conceded that the problem was over-expectation because the crisis had undermined the capacity of economies to deliver. He stated ‘Maybe the early voluntary sectoral liberalisation was a bit too big of a bite to chew, but at least they made the attempt.’⁹⁵ Helman Sohmen, PBEC Chairman, was less conciliatory in his interpretation. He described the referral of the nine sectors nominated for EVSL to the WTO as ‘a fig leaf to save embarrassment all round’.⁹⁶

2.122 This setback to accelerate the sectoral liberalisation initiative in APEC was offset to a degree by the consensus reached by APEC economies on dealing with the financial crisis.

2.123 The financial situation in Asia showed no signs of improving as the second half of the year approached. By November 1998, economic growth had slowed to the 1.5 per cent range down from 3.5 per cent in 1997 and the crisis had entered its sixth quarter in the economies that were hit at the outset.⁹⁷ Having evolved in a climate of economic growth and optimism, APEC now faced a new challenge of adjusting to a period of economic turbulence and uncertainty.

2.124 Mr Roberto Romulo, the Chairman of PECC, urged APEC members to find timely solutions to the economic difficulties in Asia by identifying the appropriate regional response. He asserted: ‘APEC must squarely face the challenge of developing a coherent regional response to the regional crisis.’⁹⁸ He argued:

APEC is the ideal vehicle to drive a bold, new regional response to the crisis, because it already implicitly recognises the importance of coherence

95 Asia Week, 27 November 1998.

96 Helmut Sohmen, PBEC Chairman, PBEC’s Role in APEC, 30 November 1998, <http://www.pbec.org/speeches/1998/helmutapec.htm> (15 December 1999).

97 See remarks made by Roberto R. Romulo, Chair, PECC, Opening speech at PECC Meeting, 6–8 September 1998, Taipei and APEC Press Release on the 1988 APEC Economic Outlook, 15 November 1998.

98 See remarks made by Roberto R. Romulo, Chair, PECC, Opening speech at PECC Meeting, 6–8 September 1998, Taipei.

in its framework through its three pillars of trade and investment liberalisation and facilitation, and economic and technical cooperation.⁹⁹

2.125 PECC called on APEC leaders to adopt immediate measures ‘to bolster investor confidence and restore capital flows to the crisis-plagued economies in Asia’. It wanted APEC leaders to issue a statement reaffirming their commitment to market-driven economic integration through free and open trade and investment in the region.¹⁰⁰

2.126 At the APEC Ministerial Meeting on 14–15 November 1998, Ministers agreed that the major challenge confronting APEC was to advance policies and collaborative efforts directed at early recovery and sustainable growth in the region. In their statement they:

- stressed the critical role of open markets in underpinning economic recovery;
- supported the work programme of APEC finance ministers in strengthening the international and domestic financial systems;
- concurred that capacity building initiatives were integral in enhancing the resilience of domestic economies and their ability to withstand future economic turbulence; and
- reaffirmed their commitment to achieve APEC’s trade and investment liberalisation goals.¹⁰¹

2.127 The APEC Leaders also recognised the need to deal promptly with the financial crisis. They were alert to the economic difficulties facing a number of their members and acknowledged that they must alleviate the adverse social effects of the crisis and restore financial stability and economic growth. They realised that as members of APEC they must be able to attract growth-enhancing stable capital flows into the region and strengthen the international financial architecture so as to prevent future financial instability.

2.128 Having identified the need for decisive action, the Leaders announced a number of initiatives they hoped would help create a sound and stable financial environment that would revitalise the regional economy, rekindle confidence in the region, promote sustainable economic growth, and attract investment.

2.129 They called for the establishment of a taskforce to develop practical proposals that would strengthen the international financial system. It would, among other things, examine the scope for strengthened prudential regulation of financial institutions in

99 Press Releases, ‘PECC calls for an APEC-led Asia Pacific community to the Asian economic crisis.’; A Coherent Response to the Economic Crisis, PECC Statement to the APEC Trade Ministerial Meeting, 22–23 June 1998, Kuching, <http://www.PECC.net/pr980623-2.html> (5 November 1998).

100 Press Releases, ‘Immediate APEC action on crisis urged’, PECC News, 9 September 1998.

101 Tenth APEC Ministerial Meeting, Joint Statement, Kuala Lumpur, 14–15 November 1998.

industrialised economies and also look at the matter of appropriate transparency and disclosure standards for private sector financial institutions involved in international capital flows.

2.130 In recognising the importance of developing ‘strong, resilient and well-regulated domestic financial markets within the framework of a stable financial system’, they called for the adoption of internationally recognised principles for improving supervision of the banking and securities markets. They highlighted the importance of improving economic transparency and predicability at the national and international level and welcomed the Finance Ministers’ initiative to examine ways to strengthen corporate governance in the region.

2.131 In looking to bolster the failing economies, the Leaders welcomed the Australian initiative on Economic Governance Capacity Building. Before the Leaders’ Meeting, the Australian Prime Minister had actively promoted the need for APEC economies to strengthen economic and financial sector management and to take action to improve the international financial system. The Australian Government argued that strengthened economic governance would be a key factor in rebuilding domestic and international confidence in East Asian economies. It argued further that APEC was an ideal vehicle to promote cooperation in economic governance and that APEC members were well placed to work cooperatively to implement practical ways to strengthen their financial institutions.¹⁰²

2.132 To assist APEC economies improve economic governance in the region, the Australian Prime Minister announced a \$50 million, three-year package. Mr Howard intended this Economic and Financial Management Initiative to help APEC members take practical measures to strengthen their economic and financial management. In particular, he felt that strong supervisory and prudential institutions were needed to help restore sustainable growth. He pointed out that Australia’s aid would focus on priority areas such as the training of central bank officials and technical assistance for prudential supervision programmes.¹⁰³

2.133 In turning to the social cost of the crisis, Leaders directed their Ministers ‘to work with the World Bank, the ADB, the Inter-American Development Bank and where appropriate, public and private institutions to formulate strategies of concrete actions aimed at strengthening social safety nets’.

102 The Australian Government had commissioned an economic governance survey that covered Indonesia, Malaysia, South Korea, the Philippines, Thailand and Vietnam. It was tabled at the November APEC meetings and according to the Prime Minister, would serve as a valuable reference tool to be used to develop responses to the financial crisis and to improve coordination and targeting of these responses’, Australian Economic and Financial Management Initiative, Background, <http://www.aisaid.gov.au/apec/background.html>.

103 Australian Economic and Financial Management Initiative, Background, <http://www.aisaid.gov.au/apec/background.html>.

2.134 On the difficult matter of EVSL, the Leaders, without any explanation on the agreement reached in the Ministerial meeting, simply welcomed progress on the package.

2.135 Although the financial crisis and the need to compromise on the EVSL initiative dominated the concerns of the Leaders, they, nonetheless, kept in sight the full range of APEC activities and their ultimate goal of free and open trade and investment in the region. Three new members, Peru, Russia and Vietnam officially joined the current 18 Members at this Leaders' Meeting. Leaders praised the work being done to facilitate the flow of goods, resources, capital and technology amongst APEC economies and pledged to improve this facilitation process to promote efficiency and cost reduction. They welcomed the progress made in the key areas of human resources development and harnessing technologies of the future and instructed Ministers to give 'further focus to strengthening coordination in Ecotech activities and intensify work in the priority areas'. Leaders endorsed the '1988 APEC Agenda for Science and Technology Industry Cooperation into the 21st Century' and the '1998 Kuala Lumpur Action Programme on Skills Development in APEC'. They also commended their Ministers for formulating the 'APEC Blueprint for Action on Electronic Commerce'.

2.136 APEC was now entering its tenth year of cooperation and Leaders felt it was time for a review of APEC's activities, structure and mechanisms. They instructed their Ministers 'to complete the review of the APEC process by 1999 and for implementation of measures in 2000'.

2.137 Public assessment of the Kuala Lumpur APEC meetings varied from dismal failure to moderate success. Helmut Sohmen, PBEC chairman, felt that 'the list of definitive measures coming out of the leaders' summit was rather short'. He went on to state:

Despite the hype and the positive political spin that surrounds the APEC process, little of real substance has been achieved in the ten years of summiteering, except for the setting of targets in the fairly distant future.

Even on those issues where agreement has been reached in principle, specific follow-up measures and actual implementation are frequently not proceeding as planned.¹⁰⁴

2.138 This criticism of APEC as a political 'talk-fest' has dogged the organisation for many years. APEC emerged from Kuala Lumpur with a damaged image, its credibility under question and its progress toward free and open trade unsteady—indeed with its very leadership role under a cloud. APEC had stumbled on EVSL exposing a gulf between words and actions; it had failed to meet expectations in dealing with the financial crisis; and, as 1999 progressed, there were mumblings about

104 Helmut Sohmen, PBEC Chairman, 'PBEC's Role in APEC', 30 November 1998, <http://www.pbec.org/speeches/1998/helmutapec.htm> (15 December 1999).

a resurgence of protectionism. Nonetheless, while the spotlight focused on the cracks opening up in the liberalisation pillar of APEC, the pillars of trade and investment facilitation and Ecotech continued to grow in strength.

2.139 Clearly, APEC had not been able to manage expectations or mould perceptions: it had got ahead of itself—ambition had overtaken ability. Ambassador Timothy Hannah, Deputy Director, APEC Secretariat, asked people to regard APEC as ‘in an implementation phase’ progressing through the necessary stages of establishing principles, setting goals, drawing up a blueprint for the implementation of those goals, and finally tackling the difficult implementation stage.

2.140 As a first step toward building a more realistic appreciation of APEC, the New Zealand Prime Minister, Jenny Shipley, advised ‘we would be wise to temper our ambition with patience. APEC is an investment in our future and like many investments it will take time to reach its full potential’.¹⁰⁵

1999—addressing practicalities

2.141 In 1999, this year of review, APEC clearly sought to take stock—to assess its progress, review its objectives and determine its course for the next century. New Zealand, as chair of APEC 99, set the tone for the coming year in promoting three themes each with very real practical application. The first theme ‘expanding the opportunities for business’ addressed the very pressing need for APEC to demonstrate its effectiveness in removing obstacles to free trade and investment. The second theme, ‘strengthening markets’, was a concrete response to the recent economic crisis and of direct relevance to the difficult economic situation being faced by some member economies.¹⁰⁶ The third theme, ‘broadening support for APEC’ clearly was concerned with communicating the benefits of APEC to the broader community and with engendering a more realistic expectation of APEC’s role.

2.142 Early signals in 1999 also indicated that some APEC members, particularly the United States, would emphasise APEC’s role as a ‘very good launching pad’ for the new round of WTO negotiations. Having handed on the task of EVSL to the WTO, it was expected that APEC would assume a major role in shaping the WTO’s

105 Right Hon Jenny Shipley, Address ‘Post APEC Auckland Business Lunch’, 27 November 1998, <http://www.executive.govt.nz/minister/shipley/jss271198.htm>.

106 Organisations such as PECC showed very early in 1999 their intention to encourage APEC to look to the more effective functioning of markets in the region with an emphasis on improving transparency and disclosure and with upgrading the financial regulatory structures and harmonising accounting standards and supervision practices. ABAC was one organisation calling for the strengthening of legal, regulatory and accounting framework within which the local markets operated. See Dean O’Hare, Chairman and CEO, The Chubb Corporation, ‘International Economy in Crisis: Options for Sustaining and Stimulating Recovery, PBEC Speeches, 11 February 1999, <http://pbec.org/passportent/ptls/speeches.wpi?pageID=992303114848EN>; Chairman’s Statement at the Close of the PECC Standing Committee Meeting, 15–16 April 1999, Canberra; Joint Ministerial Statement, Sixth APEC Finance Ministers Meeting, Langkawi, Malaysia, 15–16 May 1999, http://www.apecsec.org.sg/whatsnew/press/re126_99.html (6 March 1999).

future agenda.¹⁰⁷ In June 1999, the Shadow Minister for Trade, Senator Peter Cook, called on the Australian Government to use APEC to spearhead a new round of WTO negotiations. Senator Cook also called on the Government to work towards having APEC's Bogor Declaration goals endorsed by the WTO.¹⁰⁸ Neither of these recommendations was adopted by the Government.

2.143 The APEC Ministers carried the three themes into their meeting in Auckland in September 1999. In particular, they accorded high priority to the need for more effective communication and engagement with communities. They emphasised the importance of specific outreach activities to build greater understanding of APEC's goals and to ensure participation by APEC communities in economic activities was as wide as possible.¹⁰⁹

2.144 The Leaders in Auckland returned to APEC basics. They returned to the fundamental principles of consensus-building and cooperation, respect for diversity in the social and economic systems, especially current levels of development, and support for the multilateral trading system.

2.145 Leaders urged each member to shoulder its own responsibility for moving APEC along. They stressed that 'individual actions by economies are the principal means by which APEC's goal will be attained'. But they also urged those better placed to help developing economies to participate successfully in the global economy, through enhancing human and institutional capacities and progressively opening markets. With far more modest ambitions for achieving free trade, APEC members accepted responsibility for resisting protectionism and pledged not to impose new or more restrictive trade measures during the millennium round of the WTO trade negotiations.

2.146 Rather than spearhead trade liberalisation, APEC would provide a solid platform on which the WTO could build. The Leaders agreed that:

This year APEC has a unique opportunity to give impetus to deliberations in the World Trade Organisation (WTO). We will give the strongest possible support at Seattle to the launch of a new Round of multilateral negotiations within the WTO...

2.147 The Asian financial situation by this time was showing promising signs of a revival and APEC Leaders spoke of improved competitiveness through ongoing

107 Statement of PECC Chairman Roberto R. Romulo at the meeting of APEC Ministers responsible for Trade, Auckland, June 1999; USIA transcript: Deputy USTR Fisher, Worldnet Program on APEC, 16 June 1999; USIA Washington File—Fisher very pleased with APEC Trade Ministers' Meeting, 30 June 1999; USIA Washington File—12 July 1999, Clinton, Australian Prime Minister Howard, Confer on trade, APEC, 12 July 1999.

108 Senator the Hon P. Cook, *APEC: Meeting the Challenge of the New Millennium*, Policy Discussion Paper, June 1999.

109 APEC, Eleventh APEC Ministerial Meeting, Auckland, New Zealand, 9–10 September 1999, p. 3 <http://www1.apecsec.org.sg/virtualib/minismtg/mtgmin99.html> (20 September 1999).

reform as the road to recovery and sustainable growth. Their intention was to expand opportunities for business and employment growth and to build strong and open markets. Using now a familiar message, they stated, 'Open, transparent and well-governed markets, both domestic and international, are the essential foundation of prosperity and enable enterprises to innovate and create wealth'. To demonstrate their commitment to free and open trade, they endorsed the APEC Principles to Enhance Competition and Regulatory Reform.

2.148 In picking up the theme of Broadening Support for APEC, the Leaders decided to focus on trade facilitation and the 'substantial benefits' already delivered to promote APEC's image as an effective and creditable forum.

2.149 The value of APEC, however, as a regional forum, whose influence and understanding had spread beyond the boundaries of economics and trade became evident in Auckland. Over the years, through dialogue and cooperation, APEC had built up a reservoir of goodwill and understanding between members and established a wide and deepening network of diplomatic relations. In Auckland, this climate of cooperation helped to ease tensions between various members and allowed APEC Leaders to discuss difficult political and security issues such as the serious breakdown in law and order in East Timor. Rather than unravel the friendly relationships, APEC members were able to use this web of official and unofficial contacts to meet behind the scenes and to find common ground on the problem of East Timor. The Japanese Prime Minister, Mr Keizo Obuchi, observed, 'APEC...is a forum to discuss economic cooperation and not to discuss politics. However, I sense that the spirit of cooperation now seems to be starting to expand in a natural way to the issues of East Timor and others, matters of immediate concern to all leaders gathered here'.¹¹⁰ It also provided China and the US with the opportunity to repair their damaged relationship.

2.150 APEC can look back on ten years of consolidation. Initially 12 economies gathered tentatively and cautiously to exchange views and to discuss economic cooperation in the region. Since that time this informal group has grown into an important regional forum of 21 members who share a solid and bold commitment to achieve free and open trade by 2010/2020. In working toward economic cooperation these members have established strong links and developed a better understanding and appreciation of the diversity among their members. Although tensions still exist between members, APEC has nurtured a sense community in the region and has laid down a substantial sub structure of economic cooperation.

2.151 In turning to the future, APEC still faces many challenges, but it can do so with optimism. The Leaders in Auckland spoke with anticipation and hope for the future that lay ahead for this young but gradually maturing organisation when they declared:

110 Press conference by Prime Minister Keizo Obuchi, 13 September 1999, http://www.mofa.go.jp/policy/economy/apec/1999/pm_press.html (27 September 1999).

We embark on APEC's second decade confident that an enduring spirit of openness, partnership and community is being built. The challenge we collectively face is to maintain our momentum and deliver on our commitment. We accept the challenge.¹¹¹

111 'The Auckland Challenge: Comments on the Leaders Declaration', Rt Hon Jenny Shipley, Prime Minister of New Zealand and Chair of APEC New Zealand 99, 13 September 1999, <http://www.apec.govt.nz/fmedia/decmmedia.htm> (27 September 1999).

CHAPTER 3

STRUCTURE AND MEMBERSHIP OF APEC

Introduction

3.1 APEC is a fairly informal organisation with a small secretariat based in Singapore. It operates at several levels: Leaders, Ministers, Senior Officials, committees and working groups. The chairmanship of APEC rotates annually among members with an ASEAN member of APEC chairing APEC in alternate years. The member economy chairing the organisation hosts the Ministerial and Leaders' meetings. An organisational chart of APEC is shown in Figure 3.1.

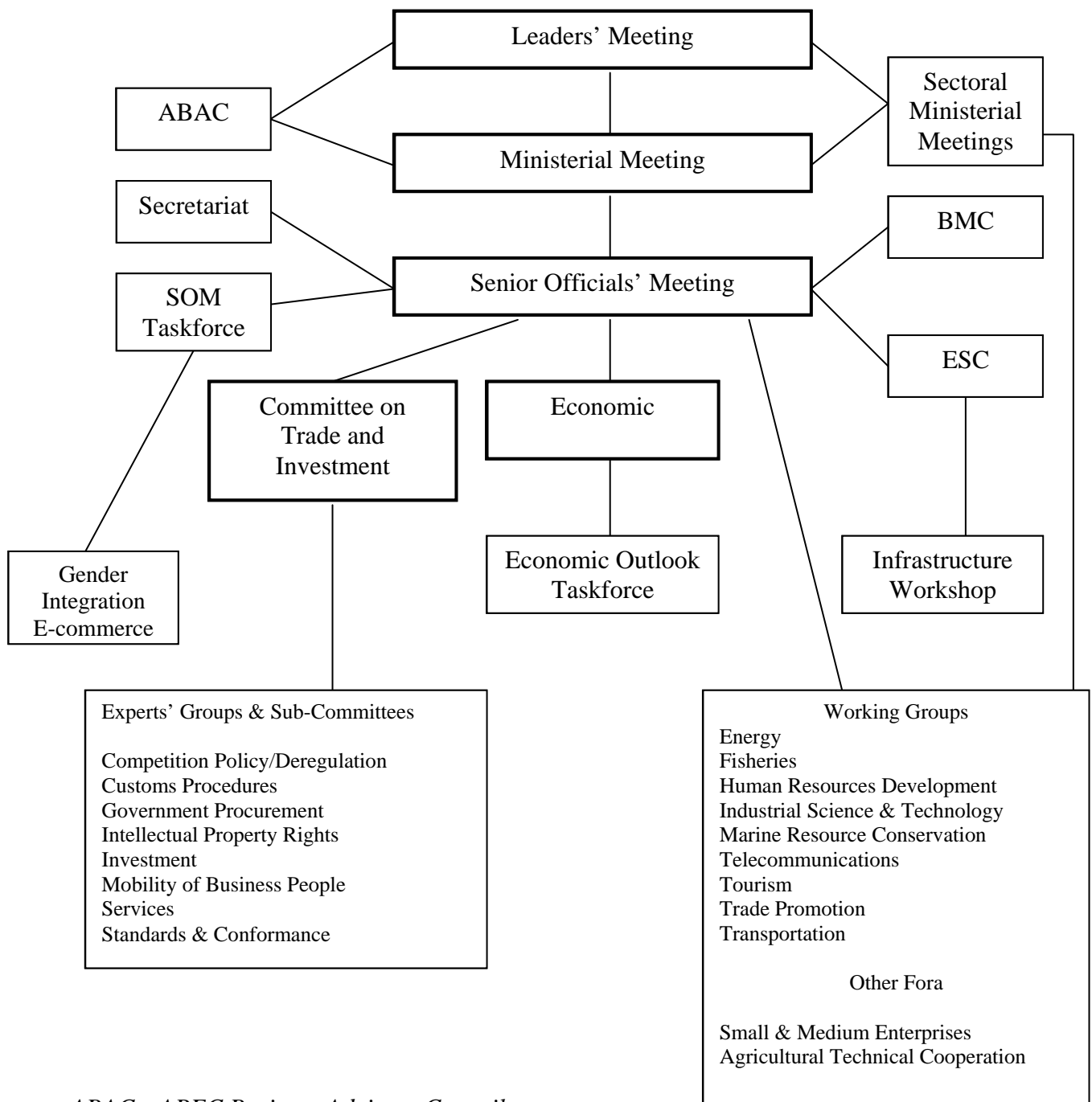
Leaders' meetings

3.2 At the apex of the organisation is the Leaders' meeting, which has been held annually since 1993, when President Clinton hosted the inaugural meeting at Blake Island, near Seattle, USA. At these meetings, the Leaders focus on APEC's goals, strategies for achieving them and other key economic issues affecting the Asia Pacific region.

3.3 With the annual rotation of Chairs, each Chair has striven to put his or her imprint on the direction taken by APEC at the Leaders' meeting. This has not only given considerable impetus to maintaining momentum for APEC's reform agenda but also has enabled the consideration of new ideas and approaches. It has, however, as detailed elsewhere in this report, resulted in some initiatives being downgraded or discarded once the Chair moves on to the next incumbent.

3.4 The importance of the Leaders' meetings cannot be overstated as without the Leaders' input in the development of the organisation, much less would have been achieved. Their personal approval of APEC's direction and program has given credibility to the ambitious goals embraced by APEC over a series of annual meetings. As APEC members have agreed voluntarily to APEC's long-term goals, implementation of measures to achieve them depends on the goodwill of member economies in fulfilling their responsibilities to APEC. The presentation annually of updated Individual Action Plans is keeping the focus on the progress being made by all members towards APEC's long-term goals. Although peer pressure among the Leaders may not always succeed in keeping all economies on the track of trade and investment reform, it should do much to assist the process. For these reasons, the personal involvement of the Leaders through attendance at the annual Leaders' meeting is an important element in keeping momentum for reform going within APEC.

APEC



ABAC = APEC Business Advisory Council
BMC = Budget and Management Committee
ESC = Ecotech Sub-committee
SOM = Senior Officials Meeting

3.5 The more informal nature of Leaders' meetings enables Leaders to discuss sensitive issues in a more relaxed atmosphere without the expectation of specific outcomes often associated with bilateral summits. This allows individual Leaders greater flexibility in their negotiating positions than would be possible in bilateral meetings or in multilateral negotiations towards legally-binding outcomes. APEC Leaders would be more likely to achieve consensus on issues on which organisations like the WTO would have great difficulty in reaching agreement.

3.6 The Leaders' meeting also gives Leaders of all APEC countries, irrespective of size or economic development, an opportunity to meet and discuss regional economic matters with key economic Leaders. This opportunity is not available in any other multilateral economic forum. Consequently, this facility is attractive to non-members within the region, and has been the inspiration for some membership aspirations on the part of non-members.

3.7 Apart from the 'formal' business of Leaders' meetings, the presence of so many Leaders in one place enables informal business to be conducted in the margins of the meeting. For example, negotiations towards the establishment of a United Nations force to restore peace in East Timor after the ravages of pro-Indonesian militias were facilitated by the presence of regional Leaders.

3.8 In recent years, however, APEC's importance as a regional institution has declined. Since the failure of the EVSL reforms in 1998, it is difficult to see any programs which APEC has embarked upon that warrant holding an annual Leaders' meeting. If APEC does not regain the significant role it played in the early to mid 1990s, it is conceivable that its annual leaders' meetings will cease.

Ministerial meetings

3.9 Ministerial meetings of APEC members, which are generally attended by foreign and trade Ministers, have been held annually since the first meeting in Canberra in 1989. This annual meeting 'approves APEC's work program and budget, makes decisions on policy questions such as APEC's institutional structure and membership, and sets out directions for the year ahead'.¹ The meeting is held shortly before the Leaders' meeting each year.

3.10 Meetings of other portfolio Ministers have also been held, including Ministers responsible for education, energy, environment and sustainable development, finance, human resources development, regional science and technology cooperation, small and medium-sized enterprises, telecommunications and information industry, trade, and transportation.

1 DFAT, *Asia Pacific Economic Cooperation Briefing Notes*, September 1975, p. 3.

Senior Officials' meetings

3.11 As APEC does not have permanent missions assigned to a headquarters site, meetings of Senior Officials of APEC members, generally at head or deputy-head of government department level, are held regularly 'to implement ministerial decisions and prepare recommendations for future meetings. The Senior Officials also provide guidance to subsidiary committees/groups'.² A Deputy Secretary in DFAT holds the appointment of Ambassador to APEC, who is the Australian Senior Official.

Committees

3.12 The work programs approved by Ministers at their annual meeting are carried out by three committees, sub-committees, an ad hoc policy-level group, ten working groups and other APEC fora.

Committee on Trade and Investment

3.13 The Committee is guided by a framework agreement, which was endorsed at the 1993 Ministerial Meeting. The Committee:

aims to create an APEC perspective on trade and investment issues and to pursue liberalization and facilitation initiatives. The committee is responsible to senior officials for coordinating and implementing the liberalization and facilitation components of the Osaka Action Agenda, including work on Tariffs, Non-tariff Measures, Services, Deregulation, Dispute Mediation, Uruguay Round implementation, Investment, Customs Procedures, Standards and Conformance, Mobility of Business People, Intellectual Property Rights, Competition Policy, Government Procurement and Rules of Origin.³

3.14 The Committee was also responsible for development of EVSL initiatives and for a 'strengthening markets' work program in 2000.

3.15 Responsible to the Committee are various sub-committees and expert groups, namely:

- a) Standards and Conformance Sub-Committee;
- b) Sub-Committee on Customs Procedures;
- c) Investment Experts Group;
- d) Government Procurement Experts Group;

2 DFAT, *Asia Pacific Economic Cooperation Briefing Notes*, September 1975, p. 3.

3 APEC Internet site: <http://www.apecsec.org.sg/97brochure/97organize.html> (28 February 2000).

- e) Intellectual Property Experts Group; and
- f) Group on Services.

Economic Committee

3.16 At the 1994 Ministerial Meeting, the Ad Hoc Group on Economic Trends and Issues was replaced by the Economic Committee. The Committee ‘serves as a forum for exchanging economic data and views about economic developments within the region. It also provides analysis of economic trends and issues for APEC Ministers, and supports other APEC projects’.⁴ The Committee’s work program in 1999 included:

the impact of the 1997 financial crisis on growth, trade and investment; assessment of trade liberalization and facilitation; economic outlook; and knowledge-based industries. The 1999 *Economic Outlook* reviewed economic developments and prospects in the APEC region in the wake of the Asian Financial crisis, and discussed some key issues arising from it.⁵

Budget and Administrative Committee

3.17 The Committee advises ‘Senior Officials on operational and administrative budget issues, financial management, and project management relating to the APEC Work Program’.⁶

Ecotech Sub-Committee (ESC)

3.18 This sub-committee was established in 1998 to:

assist the SOM in co-ordinating and managing APEC’s ECOTECH agenda and identifying value-added initiatives for co-operative action. The ESC advances effective implementation of that objective by consulting with, and integrating the efforts of, various APEC fora through a results-oriented approach that benefits all members.⁷

3.19 The sub-committee will ‘oversee the establishment of an ECOTECH Clearing House that will enhance information flows between the identification of ECOTECH needs and the capacity to provide appropriate expertise to meet these needs’. Among other things, it will ‘monitor the implementation of the *Guidance on Strengthening Management of APEC ECOTECH Activities* and the *ECOTECH Weightings Matrix*

4 DFAT, *Asia Pacific Economic Cooperation Briefing Notes*, September 1975, p. 4.

5 APEC Internet site: <http://www.apecsec.org.sg/97brochure/97organize.html> (28 February 2000).

6 DFAT, *Asia Pacific Economic Cooperation Briefing Notes*, September 1975, p. 4.

7 APEC Internet site: <http://www.apecsec.org.sg/97brochure/97organize.html> (28 February 2000).

by APEC fora to ensure that ECOTECH projects submitted for funding meet key objectives and have focussed outcomes.⁸

3.20 In 1999, Ministers decided to reconstitute the Infrastructure Workshop as an ad hoc forum under the ESC.

Policy Level Group on Small and Medium Enterprises

3.21 This Group was established in 1995 and oversees activities for SMEs across all APEC fora, as there is a consensus in APEC that free trade and economic globalisation have implications, challenges and opportunities for SMEs.

Working groups

3.22 Ten working groups have been established to carry out a ‘range of practical cooperation activities (preparation of guidebooks, information networks, training courses, technology transfer, implementation of electronic data interchange, information exchange and policy discussions)’.⁹ The working groups report to the Senior Officials’ Meetings and Ministerial Meetings.

Energy Working Group

3.23 This Group:

works to promote cooperation on energy issues in the APEC region ... [It] aims to maximise the energy sector's contribution to economic growth and energy security in the region. It is broadening its work program to encompass more fully regional energy and environmental policy issues, and to achieve greater involvement of the region's business sector in its activities. The group's work is organised under four “theme”: supply and demand; energy and the environment; energy efficiency and conservation; research, development, technology transfer.¹⁰

Fisheries Working Group

3.24 The aims of this Group are to ‘develop region-wide approaches towards fisheries conservation, development and marketing’. It is doing this by determining the optimum use of, and ‘trade, in fisheries resources based on sustainable fisheries management practices’. It is also promoting awareness of the significance of the Pacific Ocean's fisheries resources.¹¹

8 APEC Internet site: <http://www.apecsec.org.sg/97brochure/97organize.html> (28 February 2000).

9 DFAT, *Asia Pacific Economic Cooperation Briefing Notes*, September 1975, p. 4.

10 DFAT, *Asia Pacific Economic Cooperation Briefing Notes*, September 1975, p. 11.

11 DFAT, *Asia Pacific Economic Cooperation Briefing Notes*, September 1975, p. 11.

Human Resources Development Working Group

3.25 This Group ‘works on the development of a skilled, flexible workforce in an effort to enhance the economic growth of APEC members’. It manages HRD projects ‘under broad programs covering industrial technology, business management, economic development management, and education’.¹²

Industrial Science and Technology Working Group

3.26 This Group ‘works to increase understanding of factors affecting the development of industrial science and technology (IS&T) and technology transfer, and to develop appropriate recommendations for ministers’.¹³

Marine Resource Conservation Working Group

3.27 This Group:

deals with the marine environment and conservation of economically and ecologically important marine resources which affect industries including urban development, fisheries and tourism ... [It] is identifying problems and control strategies (coastal pollution, harmful algal blooms, hazardous substances, tainting of fish and other products, deterioration of beaches, reefs, mangroves, seagrass beds) and opportunities in the region for integrated coastal zone management and planning associated with settlement and population growth along the coastlines and adjacent watersheds.¹⁴

Tourism Working Group

3.28 This Group ‘works to foster economic development in the APEC region through sustainable tourism growth’. It identifies and seeks to ‘remove impediments to regional tourism trade’; explores ‘linkages between tourism and the economic development of the region’; explores ‘successful management strategies for the sustainable development of tourism in environmentally sensitive areas’; develops ‘ways of promoting human resource development’; and facilitates ‘information exchange among members’.¹⁵

Telecommunications Working Group

3.29 This Group ‘aims to expand telecommunications services and encourage the adoption of new and compatible telecommunications technologies in the region, including through further telecommunications trade liberalisation and facilitation’. Work is organised under five ‘themes’: ‘data compilation, electronic commerce,

12 DFAT, *Asia Pacific Economic Cooperation Briefing Notes*, September 1975, p. 11.

13 DFAT, *Asia Pacific Economic Cooperation Briefing Notes*, September 1975, p. 12.

14 DFAT, *Asia Pacific Economic Cooperation Briefing Notes*, September 1975, p. 12.

15 DFAT, *Asia Pacific Economic Cooperation Briefing Notes*, September 1975, p. 13.

human resource development and infrastructure’, as well as ‘standards’, which was a later addition. It is developing ‘a model mutual recognition agreement on certification of telecommunications terminal equipment, a regional framework for electromagnetic compatibility, and regional competency standards for telecommunications industry vocational training’. It is also assisting ‘small and medium enterprises in the implementation of electronic commerce’.¹⁶

Trade Promotion Working Group

3.30 This Group is aiming to expand regional trade through co-operation among trade promotion agencies and consultation with business. It is helping business to gain access to APEC information and encouraging business to participate in APEC policy making. The Group ‘has established the “Asia Pacific Business Network” ... an informal business grouping with a particular interest in networking among the region’s small and medium sized enterprises, and conveying their views to APEC’.¹⁷

Trade and Investment Data Working Group

3.31 This Group ‘aims to increase the utility and reliability of regional trade and investment data’. It is doing this by:

establishing a database of these statistics covering all APEC economies and is encouraging member economies to collect statistics using standard concepts and definitions developed by international organisations, to harmonise data collection methods and practices, and to ensure that construction of databases does not duplicate work in other international organisations.¹⁸

3.32 The Group is also preparing ‘inventories and data matrices by APEC partners on bilateral international trade in services and direct investment statistics. Data availability by partners is seen as the main limiting factor in developing comprehensive bilateral data matrices in these fields of statistics’.¹⁹

Transportation Working Group

3.33 This Group aims to promote an ‘efficient and integrated region-wide transportation system that will enhance regional growth and economic inter-relationships for the common good of APEC economies’.²⁰

16 DFAT, *Asia Pacific Economic Cooperation Briefing Notes*, September 1975, p. 13.

17 DFAT, *Asia Pacific Economic Cooperation Briefing Notes*, September 1975, p. 14.

18 DFAT, *Asia Pacific Economic Cooperation Briefing Notes*, September 1975, p. 14.

19 DFAT, *Asia Pacific Economic Cooperation Briefing Notes*, September 1975, p. 14.

20 DFAT, *Asia Pacific Economic Cooperation Briefing Notes*, September 1975, p. 14.

APEC Secretariat

3.34 The Secretariat, which is based in Singapore, is headed by an Executive Director from the country chairing APEC. He or she serves for one year. The Secretariat has 23 seconded professional staff from member economies and a similar number of locally recruited support staff.

3.35 The Secretariat's operational plan comprises six outputs and four services based on a Statement of Business, approved by member economies. The Statement of Business comprises the following:

- The Secretariat is the core support mechanism for the APEC process.
- The Secretariat provides advisory, operational and logistic/technical services to member economies and APEC fora to coordinate and facilitate conduct of the business of the organization.
- On behalf of member economies, it provides preparatory advice on formulation of APEC projects, manages project funding and evaluates projects funded from the APEC Operational and TILF accounts.
- The Secretariat produces a range of publications, liaises with the media and maintains a website to provide information and public affairs support on APEC's role and activities, including specific outreach efforts to business. It acts on behalf of APEC members as and when directed.
- The Secretariat maintains a capacity to support research and analysis in collaboration with APEC Study Centres and PECC as required by APEC fora.
- The Executive Director is responsible to APEC Senior Officials through the SOM Chair and manages the Secretariat in line with priorities set by SOM on behalf of Ministers.²¹

APEC Business Advisory Council

3.36 At the inaugural Leaders Meeting in November 1993, it was agreed to set up a Pacific Business Forum to strengthen links between APEC and the business community. The Forum provided the Leaders with advice and recommendations on trade and investment liberalisation and on business facilitation. In 1995, the Leaders replaced the Forum with the APEC Business Advisory Council (ABAC), a permanent business advisory body.

3.37 Each member economy may appoint three representatives to ABAC, one of whom must be from a small to medium-sized enterprise. Australia's current representatives on ABAC at the time of the Committee's hearings were Mr Michael Crouch AM, Chairman and Managing Director of Zip Industries Australia; Mrs

21 APEC Internet site: <http://www.apecsec.org.sg/97brochure/97organize.html> (28 February 2000).

Imelda Roche AO, Co-Chairman of Nutri-Metics International; and Mr Malcolm Kinnaird, Executive Chairman of Kinhill Engineers Pty Ltd. Since then, Mrs Roche was replaced by Mr David Murray, Managing Director of the Commonwealth Bank.

3.38 ABAC's main objectives are to:

- help APEC strengthen its links to the regional business community;
- allow the business community to advise APEC on its priorities in relation to the implementation of the Action Agenda;
- respond directly to requests from APEC for advice on business reviews on specific issues.²²

3.39 ABAC provides a report to the Ministerial and Leaders' meetings each year with advice on integrating and facilitating business within the region. In 1996, in its capacity as APEC Chair, the Philippines emphasised business activities:

President Ramos initiated the practice of ABAC representatives meeting with APEC Leaders prior to the Leaders meeting itself and also initiated a much larger APEC Business Forum in association with the Ministerial/Leaders' meetings, continuing the trend towards closer integration of private sector networking in the region.²³

Eminent Persons Group

3.40 At the September 1992 Ministerial meeting in Bangkok, it was agreed that an Eminent Persons Group be established 'to enunciate a vision for trade in the Asia-Pacific region to the year 2000, identify constraints and issues which should be considered by APEC, and report initially to the next Ministerial Meeting in the United States in 1993'.²⁴

3.41 The Group made reports to the Ministerial and Leaders' meetings until it was wound up at the November 1995 meetings when ABAC was established.

Membership of APEC

Membership history

3.42 Twelve member economies attended the first APEC Ministerial Meeting in Canberra in November 1989—Australia, Brunei Darussalam, Canada, Indonesia, Japan, Republic of Korea, Malaysia, New Zealand, the Philippines, Singapore,

22 DFAT, submission, p. 3.

23 DFAT, submission, p. 12.

24 APEC Ministerial Meeting, Bangkok, 10-11 September 1992, Joint Statement, para. 14.

Thailand and the United States. It was clear, however, even at this early stage in APEC's development, that its membership would be expanded.

3.43 In the Chairman's Summary Statement, which was issued at the end of the meeting:

Ministers have noted the importance of the People's Republic of China and the economies of Hong Kong and Taiwan to future prosperity of the Asia Pacific region. Taking into account the general principles of cooperation identified above, and recognising that APEC is a non-formal forum for consultations among high-level representatives of significant economies in the Asia Pacific region, it has been agreed that it would be desirable to consider the involvement of these three economies in the process of Asia Pacific Economic Cooperation.

3.44 At the 1991 Ministerial Meeting, APEC became the first international organisation to include the 'three Chinas'—Peoples' Republic of China, Taiwan and Hong Kong. According to DFAT:

The task of drawing them into the process was a difficult one, requiring agreement both on the nomenclature of Chinese Taipei and Hong Kong after its handover, and on arrangements for Chinese Taipei's representation at Ministerial meetings.²⁵

3.45 At the 1991 Ministerial Meeting, the Ministers also declared that:

Participation in APEC will be open, in principle, to those economies in the Asia-Pacific region which:

- (a) have strong economic linkages in the Asia-Pacific region; and
- (b) accept the objectives and principles of APEC as embodied in this Declaration.

Decisions regarding future participation in APEC will be made on the basis of a consensus of all existing participants.²⁶

3.46 At the September 1992 Ministerial Meeting in Bangkok, the APEC Ministers reiterated the membership declaration made at the previous meeting and 'expressed the view that APEC was entering a phase when consolidation and effectiveness should be the primary considerations, and that decisions on further participation required careful consideration in regard to the mutual benefits to both APEC and prospective participants'. The Ministers noted, however, 'the emerging reality of an integrated North American economy and the growing linkages between that North American economy and the rest of the Asia-Pacific region' and asked officials to examine the

25 DFAT, submission, p. 6.

26 Seoul APEC Declaration, Seoul, 14 November 1991.

case for Mexico's membership. Mexico and Papua New Guinea were both admitted in 1993, and Chile's participation was agreed at the 1993 Ministerial Meeting, to take effect at the 1994 Ministerial Meeting. At the same meeting, the Ministers decided to defer any further applications for membership for three years while officials considered membership issues.

Russia's participation in APEC

3.47 At the Ministerial Meeting in November 1997, it was decided that three further economies—Peru, Russia and Vietnam—would take their places in APEC in November 1998. It was also agreed to institute a ten-year moratorium on any further increase in membership.

3.48 The decision in November 1997 to extend membership to Russia to take effect in November 1998 was unexpected. Although Russia has a Pacific Ocean seaboard, that region is underdeveloped compared with many other parts of the nation. In most respects, Russia is firmly oriented towards Europe rather than Asia Pacific. Although its Pacific territory offers development prospects, it has languished, and there is no evidence to suggest early rejuvenation of this area. It is difficult, therefore, to understand the logic of the decision in the light of the APEC membership criterion that an economy 'have strong economic linkages in the Asia-Pacific region'. Although Russia may accept the objectives and principles of APEC', the ability of Russia to meet APEC objectives and obligations is highly questionable. At this stage, it is facing huge economic and political problems in transforming its old communist-structured economy into a modern market economy. The decision has all the hallmarks of one that was made for global strategic reasons rather than for Asia Pacific regional economic co-operation. The Federal Opposition disagreed with APEC's decision to include Russia in APEC.

3.49 Professor Drysdale told the Committee that there are both costs and benefits in Russia's admittance. Russia's close association with the major players in the region will have the potential benefit of providing the region with greater political security and stability in the longer term.²⁷ Inevitably, over time, the APEC economies will have to deal with Russia in a political sense. By being part of APEC, relations between Russia and the other APEC economies might be managed in a more beneficial way. The main question mark in the near future is the role Russia might play in pursuit of the APEC economic agenda and the management of economic crises, such as the current East Asian financial crisis.

3.50 It is unlikely that Russia's admittance will improve the cohesiveness of APEC. Dr Elek drew attention to the fact that Russia's trade with Europe is larger than that with APEC economies and the potential difficulties for APEC as Russia becomes more integrated into the European economy:

27 *Committee Hansard*, 6 March 1998, p. 752.

we are going to need to think through some kind of guiding principles so that Russia does not by default, or without really thinking it through, enter into more relationships with Europe which actually discriminate against the rest of its APEC partners, which is the way Europe usually enters into trading arrangements.²⁸

3.51 The decision has, of course, already been made. The important thing now is to ensure that potential problems associated with Russia's membership are managed in such a way as to enhance the APEC concept and its trade liberalisation goals. Ms Fayle told the Committee in March 1998 that:

There was a consensus in the leaders meeting to admit three new members. Australia has signed on to that consensus and we are enthusiastic about working with the new members, including Russia, to ensure that they make the transition into APEC in as effective and efficient way as possible. We are, for example, sending an expert on IAPs and sectoral liberalisation to Russia to assist them at the technical level with some of that work. We are making a conscious effort to ensure that the new membership does not involve too much greater time consuming effort on the part of APEC and that it does not hold up making progress in some of these areas that are important to us.²⁹

3.52 The Committee believes that APEC should encourage Russia not only to play a constructive role in APEC but also to develop economic links within the Asia Pacific region through the development of the economy of its Pacific territories.

Future membership policy

3.53 Membership has been a sensitive issue for APEC as a number of economies on both sides of the Pacific have sought to become members, including some, such as India, which are not Pacific-littoral economies.

3.54 Two questions in particular have exercised the minds of APEC economies in relation to membership: the size and the actual composition of APEC.

3.55 It is always difficult to decide on the optimum size of an organisation, particularly when there is pressure from potential members to allow their membership aspirations to be realised. In any organisation, it becomes more difficult to achieve consensus as membership increases, even when there is a general homogeneity among members. The great diversity of political systems, population sizes, stages in economic development and cultures among APEC economies makes decision-making more difficult. This has been offset by adopting a policy of lack of prescription, which has made it easier for members to agree on long-term goals and work programs. But,

28 *Committee Hansard*, 5 February 1998, p. 578.

29 *Committee Hansard*, 30 March 1998, p. 824.

as membership and therefore the diversity of interests increase, unanimity will be more difficult to achieve. This, in turn, may slow the pace of reform.

3.56 Fred Bergsten, the former Chairman of the APEC EPG drew attention to the tension between deepening and broadening any international institution:

It is clearly more difficult for any international institution to deepen its substantive links if it has more members and it must divert part of its time to the process of expansion. Europe has always resolved the dilemma by completing its next stage of integration (deepening) before accepting new members (broadening).³⁰

He went on to advocate APEC following a similar course on membership to the one taken by the European Union. He warned that the participation of any large country, which had not yet got far down the track of liberalisation, might complicate APEC's ability to achieve progress.

3.57 In October 1997 (before the most recent increase in membership), the Australian Ambassador to APEC, Mr Grey, told the Committee that there was an upper limit on membership from a practical point of view. He went on to say that 'we have not reached that now, and it may well be that a couple of new additions would not change that dramatically but it should, in our view, be kept as small as possible—in some respects, the smaller the better'.³¹

3.58 At DFAT's second public hearing on 30 March 1998, Ms Fayle, First Assistant Secretary, Market Development Division, said that:

Australia has always opposed excessive expansion of APEC membership. We had a well-known position that we did not think that APEC should expand too quickly simply because that did make things unwieldy and difficult. We felt there was already a large enough agenda and a large enough membership to bite off the sorts of things we had on our plate ... It was simply that we were keen to ensure that the pace of membership expansion was an appropriate one.³²

3.59 In view of the nature of its membership, APEC has made remarkable progress in agreeing to long-term goals and a framework for achieving them. These goals include sensitive areas that have so far defied all other attempts at resolution. There is still much to be done, not only in APEC but also in other related fora, such as the WTO, before these goals are reached within APEC's 2010 and 2020 deadlines. Keeping APEC to a manageable size will facilitate trade and investment liberalisation and facilitation objectives. The ten-year moratorium is evidence of APEC's realisation

30 C. Fred Bergsten, 'APEC in 1997: Prospects and Possible Strategies' in *Whither APEC? The Progress to Date and Agenda for the Future*, Institute for International Economics.

31 *Committee Hansard*, 20 October 1997, p. 81.

32 *Committee Hansard*, 30 March 1998, p. 823.

that a larger organisation might jeopardise achievement of these objectives. The Committee believes that a membership of more than 21 economies would not be helpful in attaining APEC's goals.

3.60 It is inevitable that other economies will seek to join APEC before the expiry of the moratorium. The Committee believes that pressure to break the moratorium should be resisted, unless significant changes in circumstances dictate a change in membership policy. For instance, before the end of the ten-year period, and however unlikely that might seem at the moment, APEC and WTO might achieve important breakthroughs in sensitive areas, bringing the Bogor goals well within APEC's grasp. A further small enlargement of APEC's membership at that time might not be considered to hinder completion of APEC's work program.

3.61 Unlike preferential free trade blocs, non-members are not discriminated against in their trade and investment links with APEC members. The adoption of open regionalism extends liberalisation and facilitation benefits on a most favoured nation basis to all non-members. APEC processes are also open to scrutiny outside the organisation; outcomes of meetings are published, as are details of Individual Action Plans.

3.62 There is no reason for an aspiring member not to undertake the objectives and obligations of APEC members. This would include the voluntary submission of an Individual Action Plan, updated annually, as is the requirement for members. In the view of the Committee, unless an Asia Pacific economy were to do this, it should not be considered for membership.

3.63 In view of the added difficulties involved in an enlarged membership, economies that have demonstrated over time their commitment to APEC goals should be in a much stronger position to have their applications for membership approved than those which only give lip service to those goals.

3.64 The interests of APEC economies will be served if non-APEC economies could be encouraged to embrace APEC's goals. Ultimate membership of APEC is one incentive to do this. However, other ways of accommodating the needs and aspirations of other Asia Pacific economies should also be found without compromising the membership moratorium. One option is an extension of observer status to non-member Asia Pacific economies that embrace the APEC mission and all its obligations. APEC would need to satisfy itself that a non-member is meeting its obligations and will continue to do so once observer status is granted. This measure would be regarded as a preliminary step towards membership.

3.65 A second option is greater representation of non-member economies, which embrace APEC obligations, in the APEC work program. There has been limited representation of non-APEC economies on APEC working groups and project teams. The inclusion of additional relevant people from these economies would help to give them a sense of inclusion in the APEC process and reinforce their commitment to APEC goals.

Membership for Indian Ocean littoral economies

3.66 The other membership question raised in the inquiry was whether membership should include Indian Ocean littoral economies, particularly India, which has sought membership of APEC. Professor Garnaut told the Committee:

I would have thought that India's claims were stronger than Russia's claims. I have thought that for some time. While holding that thought, I did not think that it was crucial for India to be a member, so long as APEC members, and APEC itself, were cognisant of the huge importance of the success of the reforms in India that got under way in the 1990s.

Because trade liberalisation within APEC is within the framework of open regionalism it does not cut India out. India could do with a lot of liberalisation within that framework itself. I think it might be helpful to the political economy of reform in India if particular APEC countries—and why not Australia—engaged in rather active discussion with India of the advantages of parallel liberalisation and, at the same time, deliberately built business links to take advantage of the new opportunities that would emerge from that process.

Open regionalism in South Asia alongside liberalisation within an open regional context in APEC would be a very productive basis for regional trade expansion in India, at the same time as opportunities were expanded for links with the Asia-Pacific region. I would like to see us active in discussions with India in those ways rather than talking of further dilution of APEC.³³

3.67 India is not being disadvantaged by not being a member of APEC. The adoption by APEC of open regionalism as the basis for trade liberalisation means that South Asian economies are not subject to discrimination in trade with and investment in APEC economies. The Committee believes that India and other South Asian economies, which have an interest in joining APEC, have an opportunity during the moratorium to demonstrate their credentials by fulfilling voluntarily the requirements of membership.

3.68 In the same way as Australia is helping Russia with its Individual Action Plan, similar assistance should be extended to India and other non-member Asia Pacific economies embarking on trade liberalisation, should they wish to avail themselves of it. As Professor Garnaut intimated, there may also be commercial spin-offs available to both sides from such cooperation.

Conclusion

3.69 The moratorium gives APEC a breathing space to concentrate on its three pillar agenda. With 21 disparate economies already participating in its ambitious program, it

33 *Committee Hansard*, 6 March 1998, p. 768.

will take all the ingenuity and cooperation of members to reach those distant Bogor goals along a path strewn with obstacles. The addition of new participants would only serve to make the task more difficult to complete. However, in the longer term, it may be both feasible and desirable that APEC membership be expanded to include the participation of other Asia Pacific economies that meet the membership criteria.

Recommendation

The Committee recommends that the Australian Government work to have APEC adopt a position of:

- a) accepting new members only after they have demonstrated their support for APEC policies and goals by voluntarily complying with APEC obligations (including submission and annual updating of Individual Action Plans) for two years;**
- b) granting observer status to potential new members which meet their APEC obligations;**
- c) allowing greater participation in APEC's work program by potential new members; and**
- d) providing assistance to potential new members to adopt APEC policies, goals and obligations.**

CHAPTER 4

TRADE AND INVESTMENT LIBERALISATION

4.1 The 1994 APEC Leaders' Declaration at Bogor of free and open trade and investment by 2010 for developed economies and 2020 for developing economies was, in many respects, a continuation of trade and investment liberalisation that had been occurring for some time among Asia Pacific economies.

4.2 Market extension or regional market integration is an important development in expanding intra-regional trade. Different regions have adopted different ways of integrating their individual markets. While the European Union and North America have instituted market integration through treaties, East Asian economies have adopted more informal trade liberalisation measures. This reflects their more diverse economies, political systems and cultures. The ASEAN economies have developed their own free trade agreement but, in practice, have extended trade liberalisation on a most favoured nation basis soon after introducing such measures within the group.

4.3 From the first meeting of APEC Ministers in November 1989, trade liberalisation occupied an important place on the agenda. At that meeting, the APEC Ministers focussed on ways of achieving greater trade liberalisation on a global basis through the Uruguay Round multilateral trade negotiations. The Chairman, in his Summary Statement, stated:

Ministers agreed that the Asia Pacific region has a long-term common interest in promoting world-wide trade liberalisation. By working together, the region can inject positive views into a range of important international economic forums, including not only the GATT but the OECD, and sectoral bodies (eg the International Telecommunications Union). It was acknowledged that our regional economies would be better placed to show such leadership if we can continue the recent trend of reducing impediments to trade among ourselves, without discriminating against others.

4.4 At the APEC Ministerial Meeting in Singapore in July 1990:

Ministers agreed that a continuing central theme of APEC, following the completion of the Uruguay Round, would be the promotion of a more open trading system. They agreed in this respect that it was desirable to reduce barriers to trade in goods and services among participants, so long as any such liberalisation was consistent with GATT principles and was not to the detriment of other parties.¹

4.5 At the Ministerial Meeting in Seoul in November 1991, Ministers gave further consideration to the theme running through earlier meetings of promoting a more open

1 Asia-Pacific Economic Cooperation Ministerial Meeting, Singapore, 29–31 July 1990 Joint Statement.

trading system by leading by example. This would also be to the mutual benefit of APEC economies. Senior officials were directed to continue work in this area and to give further consideration to the establishment of an Eminent Persons Group 'to consider the likely shape of trade in the Asia-Pacific over the medium-term, and to identify constraints and issues that would need to be addressed by governments in order to realise the potential for trade in the region'.²

4.6 The Eminent Persons Group was established at the next Ministerial meeting in Bangkok in November 1992 to report initially to the Ministerial meeting in November 1993. Ministers considered a report of the Informal Group on Trade Liberalisation in the Region and gave further consideration to means of encouraging trade liberalisation. Ministers 'asked the Informal Group to look ahead to emerging trade issues and endorsed the view that both longer term measures and a shorter term action programme should be pursued'.³

4.7 The initial Report of the Eminent Persons Group was presented to Ministers at the next Ministerial meeting in November 1993. The unanimous Report:

emphasized that APEC must accelerate and expand cooperation in order to respond to three threats to the continued vitality of the region: erosion of the multilateral global trading system; evolution of inward looking regionalism; and risk of fragmentation within the Asia-Pacific region. The EPG recommended APEC undertake initiatives in four areas: regional and global trade liberalization; trade facilitation programs; technical cooperation; and institutionalizing APEC.⁴

4.8 The Report of the Eminent Persons Group was warmly received by Ministers and, following a wide-ranging discussion:

Ministers instructed Senior Officials to develop pragmatic programs to implement the EPG recommendations on trade liberalization and facilitation, technical cooperation, and the development of the APEC structure and decision-making process. Ministers further requested Senior Officials prepare a strategy and program to advance regional and global open trade, identify mechanisms to achieve that goal, and report to Ministers at the next ministerial meeting.⁵

4.9 At the inaugural Leaders' meeting the next day, the Leaders, in their Vision Statement, envisioned a community in which, among other things, 'We continue to reduce trade and investment barriers so that our trade expands within the region and

2 Asia-Pacific Economic Cooperation Ministerial Meeting, Seoul, 12–14 November 1991 Joint Statement.

3 Asia-Pacific Economic Cooperation Ministerial Meeting, Bangkok, 10–11 September 1992, Joint Statement.

4 Asia-Pacific Economic Cooperation Ministerial Meeting, Seattle, 17–19 November 1993, Joint Statement.

5 Asia-Pacific Economic Cooperation Ministerial Meeting, Seattle, 17–19 November 1993, Joint Statement.

with the world and goods, services, capital and investment flow freely among our economies'. The Leaders endorsed the trade liberalisation goals of the Eminent Persons Group and asked APEC to undertake work to broaden and deepen the outcome of the Uruguay Round and to strengthen trade and investment liberalisation in the Asia Pacific region.

4.10 Up to this point, APEC had supported trade and investment liberalisation in the region through the Uruguay Round multilateral trade negotiations and by encouraging member economies to continue the liberalisation process on a voluntary basis. These two approaches were interlinked as APEC would not only benefit from a more integrated regional economy but also from a successful outcome of the Uruguay Round negotiations.

4.11 Following the successful conclusion of the Uruguay Round, which was due in no small way to the efforts of APEC, moves were under way, largely at the urging of Australia, for APEC to go beyond the rhetoric of liberalisation and establish specific liberalisation goals for member economies. The new APEC Chair, Indonesian President Soeharto, was persuaded to support these moves and he used his considerable influence in the lead up to the Ministerial and Leaders' meetings to garner support for them from the other member economies.

4.12 At their meeting in Bogor, Indonesia, in November 1994, the Leaders agreed not only to carry out all the Uruguay Round commitments but also to accelerate the implementation of the Round and to work towards broadening and deepening its outcome. The Leaders also agreed not to take any measures that would have the effect of increasing levels of protection. However, the Leaders went well beyond all previous commitments to enhance trade and investment in the region by agreeing:

to adopt the long-term goal of free and open trade and investment in the Asia-Pacific. This goal will be pursued promptly by further reducing barriers to trade and investment and by promoting the free flow of goods, services and capital among our economies. We will achieve this goal in a GATT-consistent manner and believe our actions will be a powerful impetus for further liberalization at the multilateral level to which we remain fully committed.

We further agree to announce our commitment to complete the achievement of our goal of free and open trade and investment in the Asia-Pacific no later than the year 2020. The pace of implementation will take into account differing levels of economic development among APEC economies, with the industrialized economies achieving the goal of free and open trade and investment no later than the year 2010 and developing economies no later than the year 2020.

We wish to emphasize our strong opposition to the creation of an inward-looking trading bloc that would divert from the pursuit of global free trade. We are determined to pursue free and open trade and investment in the Asia-Pacific in a manner that will encourage and strengthen trade and investment liberalization in the world as a whole. Thus, the outcome of trade

and investment liberalization in the Asia-Pacific will not only be the actual reduction of barriers among APEC economies but also between APEC economies and non-APEC economies. In this respect we will give particular attention to our trade with non-APEC developing countries to ensure that they will also benefit from our trade and investment liberalization, in conformity with GATT/WTO provisions.⁶

4.13 These decisions were broadly consistent with the thrust of proposals put forward by the Eminent Persons Group and the Pacific Business Forum. However, the APEC Leaders did not restrict the benefits of free trade to member economies as recommended by the Eminent Persons Group, opting instead for pursuing free trade goals on a most favoured nation basis. The Group had recommended restricting benefits until reciprocity was achieved through further multilateral trade negotiations.

4.14 Although the Leaders established long-term free trade goals for member economies, it was left to each individual economy to decide its timetable for achieving these goals. This reflected the different levels of development and protection among member economies. Moreover, without this flexibility, it would not have been able to get unanimous support for the free trade goals. As it was, a few economies made statements after the meeting that achievement of the goals was a voluntary matter for member economies.

4.15 The Leaders directed Ministers and officials to prepare detailed proposals to implement their trade and investment liberalisation decisions. As a result of their efforts, the Leaders considered at their next meeting in November 1995, a program, known as the Osaka Action Agenda, which was designed to implement the Bogor declaration on trade and investment liberalisation.

4.16 In the intervening period, there were differences of opinion among members as to what the Bogor declaration actually meant in practice. It was the principles underpinning the Osaka Action Agenda that were the most difficult to resolve.

4.17 There was dispute over comprehensiveness of the free trade goals, with Japan and Korea arguing that sensitive areas, such as agriculture, should be excluded. Although agriculture was the most well known area of sensitivity, all member economies had sensitive areas that would create some domestic difficulties if the tariff and non-tariff barriers affording them protection from external competition were wholly or substantially removed. Ultimately, all member economies agreed not to exclude any particular sensitive areas from the Bogor goals.

4.18 The principle of comparability, 'the idea that liberalisation plans should be roughly comparable, taking into account the level of liberalisation already achieved', was also strongly supported by adherents of the Action Agenda.

4.19 The principles embodied in the Osaka Action Agenda are set out in Table 4.1

6 APEC Economic Leaders' Declaration of Common Resolve, Bogor, Indonesia, 15 November 1994.

Table 4.1 Principles in the Osaka Action Agenda		
	Principle	Essential Meaning
1.	Comprehensiveness	All impediments to free and open trade and investment to be addressed.
2.	WTO-consistency	All liberalisation and facilitation measures to be WTO-consistent.
3.	Comparability	Contributions to trade and investment liberalisation by each economy to be comparable, taking into account the level of liberalisation/facilitation already achieved.
4.	Non-discrimination	Economies to endeavour to apply non-discrimination among APEC economies and to reduce barriers with non-APEC economies as well.
5.	Transparency	Each economy to ensure transparency of laws, regulations and administrative procedures.
6.	Standstill	APEC members to endeavour to refrain from measures which increase levels of protection.
7.	Simultaneous start, continuous process and differentiated timetables.	APEC economies to begin liberalisation at the same time and contribute continuously to liberalisation, facilitation and cooperation.
8.	Flexibility	Flexibility will be available during the liberalisation and facilitation process.
9.	Cooperation	Economic and technical cooperation contributing to liberalisation and facilitation will be actively pursued.

Source: DFAT submission, p. 11.

Progress and implementation of Action Plans

4.20 In 1995, the Osaka Action Agenda set out the agreed principles on which these plans would be based. The Agenda stated that ‘the APEC process of liberalisation and facilitation toward achieving the goals of the Bogor declaration will comprise ... actions by individual APEC economies; actions by APEC fora; and APEC

actions related to multilateral fora'.⁷ Each plan would include, 'concerted unilateral actions to be taken in line with issue-specific guidelines and collective actions'.⁸

4.21 Each APEC economy was asked to produce Individual Action Plans (IAPs) and Collective Action Plans (CAPs). The IAPs are each government's action plan to meet the trade and investment liberalisation and facilitation (TILF) agendas. CAPs are plans of actions that economies agree to take collectively. The IAPs observe the commitment of APEC to allow economies '...to liberalise in their own way at their own speed. They are encouraged to action in the knowledge of belonging to a community of like-minded nations: each knows that, as it opens its own markets, markets are being simultaneously opened in partner countries around the region'.⁹

4.22 The action plan process provides a structured and transparent approach, which facilitates assessment of each economy's progress towards the Bogor goals. In Osaka it was decided that each plan would:

... contain specific and concrete details, with time frames, for the near to medium term, while outlining the basic direction toward 2010 in the case of industrialised economies and 2020 in the case of developing economies.¹⁰

4.23 As required in Section C of the Osaka Action Plan, the plans outline collective and individual action to be taken in the 15 specific areas of the TILF agendas. These areas are: tariffs; non-tariff barriers; services; investment; standards and conformance; customs procedures; intellectual property rights; competition policy; deregulation; government procurement; rules of origin; dispute mediation; mobility of business people; implementation of the Uruguay Round outcomes and information gathering and analysis.¹¹ Under the Ecotech agenda, the plans address actions to be taken collectively.

4.24 In Osaka, it was agreed that all IAPs and CAPs would conform with the nine principles.¹²

4.25 Each plan was to be developed after an informal consultative process and submitted to the Subic Bay meeting in 1996. Consultation would include consideration of the recommendations of the Eminent Persons Group and the Pacific Business Forum. The Committee on Trade and Investment (CTI) was given the 'prime responsibility for progressing APEC's trade and investment liberalisation and

7 APEC, 'The Osaka Action Agenda: Implementation of the Bogor Declaration', *Selected APEC Documents*, December, 1995, p. 6, (now referred to as the 'Osaka Action Agenda').

8 APEC, 'Osaka Action Agenda', p. 6.

9 Professor Peter Drysdale, submission, p. 6.

10 APEC, 'Osaka Action Agenda', p. 6.

11 The Uruguay Round of the General Agreement on Trade and Tariffs commenced in 1986 and was completed in 1994.

12 See Table 4.1 above.

facilitation agenda'.¹³ It was responsible for overseeing the majority of the CAPs and assisted the development of IAPs.

4.26 The IAPs and CAPs collectively became the Manila Action Plan with implementation beginning on 1 January 1997. APEC Ministers acknowledged 'APEC's unique approach' in establishing action plans. They noted that the IAPs '... represented the members' individual voluntary commitments and the first concrete step taken by individual member economies to put into action their commitment'.¹⁴

4.27 In the absence of any legal requirement to conform, the Osaka Action Agenda established the importance of continuous review by providing for annual revisions of the IAPs and the CAPs:

... through a progressive and dynamic mechanism established by the consultation process and reviews ... Action Plans will be revised ... in accordance with the expansion and improvement of guidelines and collective actions.¹⁵

4.28 This approach was confirmed in 1996 when the Ministers noted 'the rolling nature' of IAPs' and affirmed, '... the importance of continuing consultations and annual review in order to sustain the process of voluntary improvements to IAPs'. They took note:

... of the importance of ensuring transparency of and comparability among the respective Action Plans and their implementation in conformity with the principles set out in OAA.¹⁶

4.29 Although implementation of the plans began in January 1997, many of the economies had included in their early action plans the commitments they had made in the Uruguay Round multilateral trade negotiations. As such, a number of internal and external reviews have been undertaken of the progress of the APEC economies towards their goals. The discussion, which follows, outlines aims, objectives and comments on progress in APEC trade liberalisation agenda.

4.30 At the Ministerial Meeting in November 1998, Ministers:

were encouraged by the continued implementation and improvements to the Plans, particularly by economies affected by the financial turmoil. Ministers commended the commitment to specific action and timelines, adherence to the 1997 revised format guidelines and consideration given to APEC Business Advisory Council's (ABAC) recommendations. Ministers also welcomed the voluntary inclusion in a number of IAPs of financial sector

13 DFAT, *An Introduction to APEC*, August 1996, p. 3.

14 *APEC Joint Statement*, Eighth Ministerial Meeting, Manila, November 22–23, 1996, p. 2, www.apecsec.org.sg/minismtg/mtgmin96.html (29 July, 1997).

15 APEC, 'Osaka Action Agenda', p. 7.

16 *APEC Joint Statement*, Manila, 1996, p. 2.

reforms and other measures taken in response to the situation of financial instability. Ministers noted the usefulness of the current process of bilateral consultations and voluntary peer review in providing feedback for further improvements.¹⁷

4.31 In a paper presented to the APEC Study Centre Consortium 1999 Conference, P.J. Lloyd stated:

First, it should be noted that some member countries have made no substantial reduction in their IAPs in tariffs or non-tariff measures affecting goods trade. These include the US and Japan, the two biggest traders in the Asia-pacific region. The US has made none at all apart from commitments made under the ITA and some reductions in agricultural support programmes in 1997 that were the result of agricultural reforms signed into law in April 1996. Japan has minor additions apart from their commitments under the Uruguay Round and other WTO agreements ... Japan's IAPs have put emphasis on trade 'facilitation' measures rather than on 'liberalisation' measures. In the Kuala Lumpur Plans, the USA and Japan made no commitments on tariff reductions or non-tariff measures other than commitments made under the Uruguay Round and post-Uruguay Round WTO agreements.¹⁸

4.32 Mr Lloyd also said that the main problem in assessing the IAPs was identifying APEC's contribution to trade liberalisation as many of the listed items were GATT/WTO commitments. He also pointed out that net additions were declining in the three years up to the Kuala Lumpur meeting. He said that in 'Kuala Lumpur, as well as the US and Japan, Canada, Korea and Malaysia made no tariff cuts other than those committed under the WTO'.¹⁹

4.33 In ABAC's report to the 1999 APEC Chair, it reiterated previous calls for greater transparency, specificity and comprehensiveness of IAPs. It made the following recommendations:

Transparency

The information contained in IAPs needs to be made even more transparent and accessible in both language and format. The IAPs should be laid out in a clear and straightforward manner, indicating not only the steps which economies intend to take in the liberalisation process, but also the policy intentions behind these measures. APEC should take further steps to organise the information contained in the IAPs to allow comparisons between years and between economies.

17 Tenth APEC Ministerial Meeting Joint Statement, <http://www.apecsec.org.sg/vitualib/minismtg/mtgmin98.html> (6 June 2000).

18 P.J. Lloyd, *EVSL and Sector-Based negotiations*, paper presented to the APEC Study Centre Consortium 1999 Conference, 31 May–02 June 1999, <http://www.auckland.ac.nz/apec/papers/Lloyd.html>.

19 *ibid.*

Specificity

In ABAC's view, the IAPs still contain too many vague references to future plans to review policies and/or amend legislation. Instead, commitments to future action must be set out in precise terms, including specific objectives to be addressed and timelines for actual implementation. Only then will the region's business community develop confidence in the IAP process and begin to factor the Action Plans into their own planning processes.

Comprehensiveness

All liberalisation measures being undertaken by APEC economies should be included in the IAPs. This includes actions being taken in response to the recent economic crisis and action agreed as part of the EVSL/ATL exercise. If IAPs are not seen to be comprehensive, their credibility is compromised and their usefulness greatly diminished in the eyes of the region's business community. ABAC encourages APEC member economies to review all steps which they are currently undertaking to liberalise their economies with a view to ensuring that these developments are incorporated into their IAPs.²⁰

4.34 PECC, too, reviewed the IAPs in 1999, providing an overall assessment rather than assessing the detail of individual IAPs. The review was also done from a business and community perspective 'to ensure that APEC gained a market place view'.²¹ The PECC Chair, Mr Roberto Romulo, said that:

The IAPs are not very accessible and user-friendly and we have recommended that APEC give much greater attention to presentation as well as substance. ... The IAPs must improve transparency and provide a clear record of commitments but they don't do either very well at this stage.²²

4.35 According to PECC, IAPs should be:

- Far reaching enough to give confidence and predictability to the region's business community, consumers, innovators and investors
- Challenging enough to the marketplace to reflect APEC's determination to achieve the Bogor goal
- Practical and tangible, containing measures to facilitate international transactions by business and consumers and providing clear and adequate information about policy change and regulation

20 1999 ABAC Report to APEC Economic Leaders,
<http://www.apeccsec.org.sg/abac/reports/rtael99-apmc.html>.

21 PECC, media release, 'Progress Towards Bogor Goals Not Reflected in IAPs', 10 September 1999.

22 PECC, media release, 'Progress Towards Bogor Goals Not Reflected in IAPs', 10 September 1999.

- The means to show the rest of the world that the APEC economies pursue openness and provide leadership within the multilateral trading system.

The overall impression from the IAPs is that actions to date have been modest although PECC is aware of evidence from many other sources which suggests more progress.²³

4.36 At the 1999 Ministerial Meeting, Ministers:

reaffirmed the central role of Individual Action Plans (IAPs) in delivering liberalisation, facilitation and reform under the APEC process. In 1999, both APEC members individually and the Pacific Economic Cooperation Council reviewed Individual Action Plans to gauge progress made since 1996 towards achieving the Bogor goals of free and open trade and investment. Both reviews showed that progress was occurring under the IAP mechanism in terms of each of the areas covered by the Osaka Action Agenda (OAA) with little backsliding evident.²⁴

4.37 The Ministers went on to direct a work program to improve transparency and guidelines. The Ministers also welcomed the submission of IAPs for peer review by five economies, including Australia.

4.38 At the Leaders' Meeting, the Leaders stated:

We reaffirm that individual actions by economies are the principal means by which APEC's goal will be attained. We acknowledge that progress towards the Bogor Goals has been uneven, and undertake to continue concrete actions to fulfil our commitment. We also accept the views of ABAC and other business representatives who have called for action plans to be more specific, transparent and comprehensive, and welcome the initiative by Ministers to review and strengthen processes for individual and collective actions under the Osaka Action Agenda.²⁵

4.39 The IAPs remain a key mechanism for assessing the extent to which individual economies are meeting their APEC obligations by progressing towards the Bogor goals. Although each member economy may progress at its own rate, taking into account the particular circumstances of that economy and prevailing economic and social conditions, members are still obliged to adhere to the condition of comparability, to which all agreed as part of the Osaka Action Agenda.

4.40 The Committee believes that the IAPs should be as transparent as possible to ensure that backsliding does not occur and to make it clear the extent of the progress

23 PECC, media release, 'Progress Towards Bogor Goals Not Reflected in IAPs', 10 September 1999.

24 Eleventh APEC Ministerial Meeting Joint Statement, <http://www.apecsec.org.sg/virtualib/minismtg/mtgmin99.html> (6 June 2000).

25 Leaders' Declaration–New Zealand, 13 September 1999, <http://www.apecsec.org.sg/virtualib/econlead/nz.html> (6 June 2000).

actually made by individual economies. The Committee notes the comments of both ABAC and PECC regarding the potential for business to use the IAPs as business planning tools if they were more transparent and comprehensive.

4.41 The Committee notes that five economies, including Australia, have recently submitted their IAPs to peer review. The Committee agrees that all economies should be encouraged to submit their IAPs to peer review to enhance the transparency of the process.

Tariffs

4.42 The objective of each APEC member economy is to ‘achieve free and open trade in the Asia-Pacific region by progressively reducing tariffs and ensuring transparency of APEC economies’ respective tariff regimes’. Collectively, each APEC economy agreed to:

- develop and keep a publicly accessible computerised tariff database (now available);
- establish a database network drawing on WTO work;
- identify industries for which the progressive reduction of tariffs will have a positive impact.²⁶

4.43 In 1996, 14 of the member economies had also committed themselves to improving the transparency of each reform measure that is taken. This is important in all areas of APEC reform as it can:

... improve the knowledge of the APEC members about the regional trading environment, assist policy development and facilitate trade by enabling businesses to enhance their understanding and to access information at lower cost.²⁷

4.44 In 1995, the PECC study showed that prior to the action plans, liberalisation of tariffs and non-tariff barriers (NTBs) by ‘Australia, New Zealand, Chile, Korea and Indonesia, among others had been of impressive depth’.²⁸ All of these economies continued to show progress in their 1997 action plans, although DFAT reported Korea’s activity on tariffs as remaining ‘weak’ and Indonesia’s as making limited progress in automobile and service reform. Chile was commended for reducing tariffs across the board.²⁹

26 *Manila Action Plan (MAPA 1996)* Vol. 111, Overview–Collective Action Plans, p. 2, www.apecsec.org.sg/mapa/vol1/vol3over.html (23 September, 1997).

27 *Manila Action Plan*, Overview–Collective Action Plans, p. 2.

28 PECC, *Milestones in APEC Liberalisation: A Map of Opening Measures*, 1995, p. 2.

29 DFAT, ‘Summary of Reports on IAP Improvements’, August 1997. DRAFT ONLY.

4.45 The 1996, *Perspectives on the Manila Action Plan for APEC* was an 'independent assessment' which evaluated the progress of APEC against the benchmarks of the Uruguay Round; the progress of other economies and current levels of impediments in APEC.³⁰ The assessment compared the tariff reductions of each APEC economy to their commitments in the Uruguay Round. The report found that the liberalisation reforms which had taken place under APEC had been 'a stronger impetus for lowering tariffs than the Uruguay Round'.³¹ Overall, it was found that APEC's tariff reductions were, 'all well on track' and 'the tariff reductions are faster and deeper' than in the Uruguay Round.³² Hong Kong, Brunei and Singapore were named in the report as 'champions' for being at or near the goal of zero tariffs set by the Bogor declaration. Chile, China, Indonesia and the Philippines were named as the economies whose commitment to extensive reductions in tariff barriers put them in advance of the Bogor trend line.³³ All of these economies continued to make 'satisfactory progress' in 1997.³⁴

4.46 Table 1.2 below shows that for APEC economies, the average unweighted tariff level was lowered between 1988 and 1996 from 15 per cent to 9 per cent.³⁵ In their IAPs, as at November 1996, seventeen of the eighteen economies had committed themselves to reducing tariffs to the levels agreed to in the Uruguay Round and beyond. Australia's commitment to reduce the general tariff rate on most products to 5 per cent by mid 1996 was achieved, mainly due to Australia's involvement in earlier tariff reduction programs.³⁶

4.47 ABAC commented in 1997 that tariff reductions 'vary greatly in terms of product coverage and the ultimate tariff levels to be achieved'.³⁷ Furthermore, it noted that tariffs in sensitive sectors were still to be addressed in several IAPs. Overall, however, the trend in the region is towards lower tariffs and, in DFAT's view, most economies appear to be on track to meet their tariff goals.³⁸

30 PECC, Philippine Institute for Development Studies and The Asia Foundation, *Perspectives on the Manila Action Plan for APEC*, 2nd Edition, 1996, preface.

31 PECC et al, *Perspectives*, 1996, p. 12.

32 PECC, *Perspectives*, 1966, p. 11.

33 PECC et al, *Perspectives*, 1996, p. 12.

34 DFAT, 'Summary of Reports on IAP Improvements', August 1997. DRAFT ONLY.

35 PECC et al, *Perspectives*, 1996. The 1996 data is taken from IAPs and the review notes that comparability, availability and coverage of data compose constraints on the assessment of progress., p. 8.

36 DFAT submission, p. 13. Australia's IAP was tabled in Parliament on 19 November, 1996.

37 ABAC, *ABAC's Call to Action*, Report to the Economic Leaders 1997, p. 15. EMBARGO COPY.

38 DFAT submission, p. 15.

Table 1.2: Unweighted Tariffs of APEC Economies, 1988–96

	1988	1993	1996
Australia	15.6	9.0	6.1
Brunei	3.9	3.9	2.0
Canada	9.1	8.8	6.7
Chile	19.9	14.9	10.9
China	40.3	37.5	23.0
Hong Kong	0.0	0.0	0.0
Indonesia	20.3	17.0	13.1
Japan	7.2	6.5	9.0
Korea	19.2	11.6	7.9
Malaysia	13.0	12.8	9.0
Mexico	10.6	12.8	12.5
New Zealand	15.0	8.0	7.0
Philippines	27.9	23.5	15.6
Singapore	0.4	0.4	0.0
Chinese Taipei	12.6	8.9	8.6
Thailand	40.8	37.8	17.0
USA	6.6	6.6	6.4
Average	15.4	12.9	9.1

Source: PECC, *Perspectives*, 1996, p. 8.

4.48 In its most recent report, in 1999, ABAC acknowledged that there had been a continued reduction in tariffs but more work needed to be done in this area. It cautioned:

APEC against leaving ‘difficult sectors’, characterised by high tariff levels, to later years. Indeed, given the complexity of dismantling highly protected sectors, more time will be needed to address the challenges of structural

adjustment and it is therefore imperative these areas are tackled sooner rather than later.³⁹

4.49 ABAC also recommended that economies remove nuisance tariffs of less than two per cent.

4.50 Australia's tariff levels have been progressively reduced since 1988 and most are now between nought and five per cent. The major exceptions are textiles, clothing and footwear and passenger motor vehicles. As ABAC observed, throughout APEC, tariffs remain high in specific sectors, for example, textiles, clothing and footwear; and wood and wood products.⁴⁰ Tariffs are also high on a wide range of imported products of interest to Australia such as fruit and vegetables and, as such, Australia stands to gain significantly from tariff reductions.

4.51 Australia has reduced tariffs from 15 to 10 per cent in four stages. As in other APEC economies there is still domestic pressure in Australia to retain tariffs on the automobile, textiles, clothing and footwear (TCF) and agricultural industries. A survey regarding the Australian TCF industry showed 85 per cent of people were in favour of paying more for products rather than cutting industry protection. Ninety-one per cent thought lowering tariffs would result in significant job losses.⁴¹ This response suggests that the Australian community is largely unaware of the benefits of the reforms taking place under the auspices of APEC.

4.52 In trade reform, governments are generally reluctant to change where there is domestic resistance to reform.⁴² APEC is addressing this problem by agreements among smaller groups of APEC economies.⁴³

4.53 Research conducted for DFAT estimated that 80 to 90 per cent of the gains for Australia will come from its own liberalisation. The Centre for International Economics estimated that full APEC liberalisation will lead to an increase in Australian real GDP of 0.8 per cent by 2020 with a long-term increase in real wages for Australia of 1.5 per cent. As a result, employment gain is expected to peak at 0.5 per cent.⁴⁴ As DFAT pointed out, however, 'the modelling debate has not reached a definitive conclusion on the relative gains from preferential versus MFN liberalisation.'⁴⁵

39 1999 ABAC Report to APEC Economic Leaders, <http://www.apecsec.org.sg/abac/reports/rtae199-apmc.html>.

40 PECC, *Survey of Impediments*, 1995, p. 14.

41 *The Australian Financial Review*, 8 September, 1997. p. 4.

42 DFAT submission, p. 27.

43 PECC, *Perspectives*, 1996, p. 18.

44 Research done for DFAT by the Centre for International Economics quoted in DFAT submission, p. 23.

45 DFAT submission, p. 25.

Early Voluntary Sectoral Liberalisation

4.54 Early Voluntary Sectoral Liberalisation (EVSL) began in November 1996 with an instruction by Leaders to the Trade Ministers to ‘identify sectors where voluntary liberalization would have a positive impact on trade, investment and economic growth in the individual APEC economies as well as in the region and submit recommendations on how this can be achieved’. Following a meeting of Trade Ministers in May 1997, 41 sectors were nominated by economies, from which 15 were selected for early liberalisation. The list was divided into two tiers, the first of nine was selected for fast track liberalisation. The nine sectors were: environmental goods and services; fish and fish products; forest products; medical equipment and instruments; telecommunications mutual recognition agreement; energy; toys; gems and jewellery; and chemicals. The six second tier sectors were oilseeds and oilseed products; food; rubber; fertilisers; automotive and civil aircraft

4.55 Ministers agreed to a framework for EVSL in June 1998, even though Chile and Mexico opted out of the agreement. At a separate meeting in June 1998, the Ministerial Meeting on the Telecommunications and Information Industry endorsed the proposal for the telecommunications sector.

4.56 However, Japan reneged on its previous commitment to include forest products and fish and fish products in the program. China, Indonesia, Thailand and Malaysia also did not support the program. Ministers agreed that ‘APEC economies may implement immediately the tariff commitments on a voluntary basis’ and to ‘commence implementation of facilitation, ECOTECH and other initiatives according to the agreed schedule in all 9 sectors. Additional facilitation and ECOTECH initiatives will be developed and implemented on a continuous basis’.

4.57 Although Ministers left voluntary implementation of the nine sectors to individual APEC economies, which none has done, it also referred them to the WTO. As P.J. Lloyd reported:

It seems that the idea of referring the proposal to the WTO was based on the precedent of the Manila Meeting which agreed that APEC members would support a proposal from the US for WTO members to negotiate an Information Technology Agreement at the First WTO Ministerial [Meeting] in Singapore one month later. Agreement was reached at the Singapore Ministerial meeting by a number of countries to eliminate tariffs on trade in information technology on an MFN basis. This Agreement is a plurilateral agreement that makes the commitment voluntary for members but binding when made. Only 8 of the 18 APEC economies at the time supported the ITA initiative; a number of Asian member economies of APEC did not. Yet, the proposal still went forward to the WTO and succeeded.⁴⁶

46 P.J. Lloyd, *EVSL and Sector-Based negotiations*, paper presented to the APEC Study Centre Consortium 1999 Conference, 31 May–02 June 1999, <http://www.auckland.ac.nz/apec/papers/Lloyd.html>.

4.58 After a dissertation on sectoral liberalisation in GATT and the WTO, Lloyd concluded:

The history of sector-based negotiations of restrictions on international trade in both APEC and the GATT/WTO system has produced a poor record. The essential problem is that of obtaining a balance of net gains for each participant within one or a small number of sectors. There are other problems. 'Sectors' may be defined narrowly, limiting the aggregate gains and increasing the difficulties of obtaining balance among the participants. Sub-sectors which are difficult to negotiate because of domestic opposition to liberalisation may be left out.

In the light of this history, the failure of EVSL is not surprising. The transfer to the negotiations of tariff cuts in these sectors to the WTO may increase the chance of success as there is a greater set of possibilities of trading off gains or losses in these sectors for losses or gains in other traded goods when the negotiation of industrial tariffs covers all industrial goods and other areas and issues. Given this experience, sector-based negotiations is not an experiment which should be repeated in APEC.⁴⁷

4.59 EVSL may have been destined for failure but the timing did not help, as 1998 was the height of the East Asian financial crisis. There is no guarantee that the nine sectors will even be supported in another WTO Round as support within APEC is not unified and there are other important players in the WTO with their own agendas. However, even though consensus was not achieved in APEC, many member economies supported EVSL, so there is still a body of support for liberalising the nine sectors in another WTO Round.

Non-tariff barriers

4.60 Non-tariff barriers are trade barriers such as export controls, bounties, recognition of qualifications and licensing procedures. Different standards are the largest non-tariff barrier (NTB) and can add five or ten per cent to an exporter's costs.⁴⁸

4.61 NTBs are particularly prevalent in the services industry.⁴⁹ In services, all protection is in the form of NTBs. Their effects are difficult to assess, but a study of NTBs done for the European Union found that NTBs were, on average, six times the

47 P.J. Lloyd, *EVSL and Sector-Based negotiations*, paper presented to the APEC Study Centre Consortium 1999 Conference, 31 May–02 June 1999, <http://www.auckland.ac.nz/apec/papers/Lloyd.html>.

48 DFAT, *An Introduction to APEC*, 1996, p. 13.

49 Centre for International Economics (CIE), *Economic Benefits from an AFTA-CER free trade area*, Vol. 1, Canberra and Sydney, 22 August 1997, p. 7.

tariff only level.⁵⁰ In 1995, PECC reported that while there had been some decline in the incidence of NTBs, some sectors were still ‘strongly affected’.⁵¹

4.62 Each APEC economy is committed to reducing non-tariff barriers (NTBs) and ensuring the transparency of the measures taken. Between 1983 and 1993, non-tariff barriers were reduced by half, ‘declining from 9 per cent of import coverage to 5 per cent. Collectively, APEC members have agreed to exchange information and ‘develop guiding principles which would exert pressure on members to alleviate non-tariff barriers’.⁵²

4.63 As at November 1996, twelve of the eighteen economies had agreed to reduce or eliminate non-tariff measures (NTMs) and the other six to review them. Fifteen economies undertook to improve the transparency of their measures.⁵³ The United States and Canada stated that they would be implementing only their Uruguay Round commitments.⁵⁴

4.64 Australia does not generally make use of non-tariff barriers.⁵⁵ The most significant NTBs are used in agriculture.⁵⁶ Other exceptions include a limited bounty assistance to four products/sectors of Australian manufacturing and export controls on minerals. The Australian Government is committed to removing these non-tariff barriers but will keep controls on uranium to satisfy Australia’s safeguard obligations⁵⁷ and on cultural objects to honour international treaty obligations. Australia has no import or export levies; automatic import licensing; voluntary export restraints; export subsidies or minimum import prices.⁵⁸

4.65 The PECC review named Australia, together with New Zealand, Chile, Indonesia and Singapore as economies where ‘the decline in non-tariff protection has been dramatic leading to virtual elimination’.⁵⁹ As at 1996, however, four economies still had NTBs ‘of around 15 per cent or close to 40 per cent of tariff lines.’⁶⁰ In its

50 Centre for International Economics (CIE), *Economic Benefits from an AFTA-CER free trade area*, Vol. 2, Canberra and Sydney, 22 August 1997, p. 21.

51 PECC, *Survey of Impediments*, 1995, p. 14.

52 Frank Frost, ‘APEC’s Seattle meetings: Issues for Australia’, *Current Issues Briefs* (Foreign Affairs, Defence and Trade Group), Department of the Parliamentary Library, 16 November, 1993, p. 6.

53 ‘SOM [Senior Officials Meeting] Chair’s Report on State of Play in the Submissions of IAPs as of November 1996’, p. 1, www.apecsec.org.sg/mapa/vol1/state.html (23 August, 1997).

54 PECC et al, *Perspectives*, 1996, p. 17.

55 APEC, *Australia's Individual Action Plan*, MAPA, Annex B, p. 22.

56 DFAT submission, p. 22.

57 APEC, *Australia's Individual Action Plan*, MAPA, Annex B, p. 22.

58 APEC, *Australia's Individual Action Plan*, MAPA, Annex B, p. 23.

59 PECC et al, *Perspectives on the Manila Action Plan for APEC*, 1996, p. 9.

60 PECC, *Milestones in APEC Liberalisation*, 1995, p. 3.

1997 IAP, Chile is mentioned as having made no further new commitments on NTMs, services or investment.⁶¹

4.66 The conclusion of the 1996 PECC review was that ‘only very few economies clearly specify their intentions and include a timetable’.⁶² Further, although most economies were committed to removing non-WTO barriers, only Australia, Hong Kong, Japan, Korea and the Philippines offered detailed measures. Overall, PECC stated that it was difficult to assess the progress made toward removing NTBs due to the problems of:

- defining NTBs and what measures should be included,
- agreeing upon a measure such as the frequency measure adopted by UNCTAD, so that progress can be evaluated,
- prioritising the removal of NTBs by different measures or sectors, and
- defining the goal and time schedule in the short, medium and longer term.⁶³

4.67 On the basis of these problems, the review concluded that non-tariff measures must be transparent and run parallel with the process of sectoral liberalisation. In this respect, the review noted that APEC had agreed to establish a list of recognised non-tariff impediments and the products that will be affected by them in 1998.⁶⁴ The 1997 IAPs show that China had accelerated its commitment to eliminate NTMs.⁶⁵

4.68 In its report to the APEC Leaders in 1997, ABAC commented that as with tariff barriers, IAPs needed to be more specific about NTBs. It expressed concern that economies that aimed to reduce NTBs to the level specified by the WTO, still had NTBs at too high a level. ABAC pointed out that major impediments, such as misuse of anti-dumping rules and misuse of country of origin rules, still needed to be identified and addressed.⁶⁶

4.69 In its 1999 report, ABAC commented that some economies had addressed NTBs but mainly through tariffication of various export subsidies under WTO Uruguay Round implementation. It also regarded lack of data on NTBs as a problem.

The Collective Action Plans for Tariffs and NTMs require APEC members to incorporate information on NTMs into a future version of the APEC tariff database and to compile a list of measures recognised as non-tariff impediments to trade. The WTO also intends to incorporate data on non-

61 DFAT, ‘Summary of Reports on IAP Improvements’, August 1997.

62 PECC et al, *Perspectives*, 1996, p. 17.

63 PECC et al, *Perspectives*, 1996, p. 17.

64 PECC et al, *Perspectives*, 1996, p. 18.

65 DFAT, ‘Summary of Reports on IAP Improvements’, August 1997.

66 ABAC, *ABAC’s Call to Action*, Report to the Economic Leaders 1997, p. 16.

tariff measures into its database in the future. There may be opportunities for future cooperation between APEC and WTO in the tracking of NTMs, allowing members of both organisations to make only one submission of data to meet their obligations in both organisations.⁶⁷

4.70 ABAC reported that there were still considerable NTBs in the customs area. It recommended that 'APEC members should undertake concerted efforts to identify and address the NTMs associated with custom procedures, including excessive paperwork, multiple entry procedures, and unnecessary delays'.

Services

4.71 Many APEC economies are making the transition from manufacturing to service industries. According to a PECC survey in 1995, services accounted for 25 per cent of trade in APEC.⁶⁸ However, until the establishment of a General Agreement on Trade in Services (GATS) in the Uruguay Round multilateral trade negotiations, there had not been any multilateral trading rules for services. The agreement effectively extends 'the rules to which all types of trade become subject, and provides the framework for interdependent markets'.⁶⁹ GATS limits the protection extended to the service sector. In accord with this agreement, APEC members are now 'progressively reducing restrictions on market access for trade in services and progressively providing for *inter-alia* most favoured nation (MFN) treatment and national treatment for trade in services'.⁷⁰ National treatment is 'the commitment by a country to treat enterprises operating on its territory, but controlled by nationals of another country, no less favourably than domestic enterprises in like situations'.⁷¹ MFN treatment applies to all members who have met the basic WTO obligations.

4.72 The main services covered by the APEC action plans are energy, telecommunications, tourism and transport. Each service area not only affects other non-service areas but also each other. Investment services, for example, are directly related to the provision of future energy requirements and, as such, the Energy Working Group has a particular focus on investment.⁷² The APEC overview of the planned action plan activities states:

67 1999 ABAC Report to APEC Economic Leaders, <http://www.apecsec.org.sg/abac/reports/rtael99-apmc.html>.

68 PECC, *Survey of Impediments*, 1995, p. 14.

69 European Commission, 'GATS: The General Agreement on Trade in Services: A Guide for Business', p. 1, www.psi-japan.com/gats.htm, (23 September, 1997).

70 DFAT, *An Introduction to APEC*, 1996, p. 13.

71 OECD, 'Council Decision on National Treatment', www.oecd.org/daf/cm/codes/ntiart.htm (30 October, 1997).

72 APEC, *Committee on Trade and Investment 1996 Annual Report to Ministers*, p. 30, www.apecsec.org.sg/olanurpt.html (13 October, 1997).

Huge amounts of investment capital will be required in the power sector over the period to 2010 to meet the rapid growth in demand for electricity. ‘Traditional’ sources of investment capital—government budgets and multilateral lending agencies—will be inadequate to meet these investment requirements and mobilising business sector investment will be crucial to ensure that electricity supply does not act as a bottleneck to economic growth.⁷³

4.73 The Manila Action Plan report goes on to say that the business sector make it clear that success in attracting investment will in turn ‘depend on the success of electricity supply industry reforms and associated policies’.⁷⁴ In the area of energy reform APEC members have made a commitment to:

- adopt fourteen non-binding energy policy principles and identify policies and arrangement to facilitate investment in 1996;
- implement work programs of the Ad Hoc Business Forum and the Electricity Regulators’ Forum to mobilise capital for power infrastructure investment.⁷⁵

4.74 The growing importance of services has led to an increased interest in efficiency and a focus on the importance of telecommunications. Examples of technologies and services, which are transcending conventional national boundaries, include the provision of distance education, the Internet and the mobile phone. Changes in technology can inspire the need for regulation; outstrip the effectiveness of regulation or cause regulations to inhibit responses to new services. The action plans in the area of telecommunications aim to:

- bring about universal service provision in telecommunications;
- endorse the Information Technology Agreement;
- support the talks on telecommunications under GATS.⁷⁶

4.75 In the area of telecommunications, a number of collective actions have been endorsed, including agreement to conform to the APEC Guidelines for Trade in International Value-Added Network Service (IVANS) by 1998 with China and Papua New Guinea complying within the Bogor timetable.⁷⁷ Other collective actions cover consistency of guidelines; harmonisation of administrative procedures; development of mutual recognition arrangements; the reduction of market restrictions; non-discriminatory treatment and the encouragement of private sector investment. In a fully liberalised telecommunications sector, users would have choice and ready

73 *Manila Action Plan, Overview - Collective Action Plans*, p. 2.

74 *Manila Action Plan, Overview - Collective Action Plans*, p. 2.

75 *Manila Action Plan, Overview - Collective Action Plans*, p. 2.

76 PECC et al, *Perspectives*, p. 22.

77 CTI, *1996 Annual Report*, p. 32.

access, suppliers would be able to extend their business without restrictions and governments would have clearly defined responsibilities for consumer protection and regulation.⁷⁸

4.76 Issues affecting the transport industry directly are handled by the Transportation Working Group. The biannual meetings are attended by officers from the Department of Transport and Regional Development, representatives from the industry's regulatory bodies and industry representatives.⁷⁹ Twenty-one senior industry representatives attended the second Ministerial meeting in Canada in 1997. At this meeting, priority was given to: safe and environmentally friendly transportation systems, trade facilitation, promotion of a more competitive transportation operating environment, infrastructure development, human resources development and new transportation technologies.⁸⁰ APEC has the capacity to address a range of impediments which increase exporter's costs, cause delays or deny access to markets. These impediments cover a wide range of business activities and include differing business standards, customs procedures, investment regulations and restrictions on business travel.

4.77 APEC's important role in removing impediments to the development of the transport industry was recognised in submissions from the Department of Transport and Regional Development, the Australian Shipowners Association (ASA) and Qantas Airways Ltd. The Association expressed its support of APEC, commenting that when APEC was first conceived, there were few issues of interest to the shipbuilding industry. This had changed.⁸¹ The Association was chairing the Asian Shipowners Forum, whose participants operate and control approximately 40 per cent of the world's shipping.⁸² Notwithstanding its support for APEC, the Association's submission argues that without 'special fiscal treatment' there would be no national shipping industry in Australia.⁸³

4.78 The reform of air transport is an important APEC concern. Qantas is the leading Australian airline servicing the APEC community and accounting for 60 per cent of the passenger volume between APEC member economies and Australia. In the Asia-Pacific region total passenger numbers carried by Qantas doubled between 1986 and 1996 and visitor traffic from APEC ports quadrupled. However, the share of the market held by Qantas has declined reflecting 'growth by existing foreign competitors, the entry of various new foreign competitors and Ansett's entry to

78 CTI, *1996 Annual Report*, p. 36.

79 Department of Transport and Regional Development (DoTRD) submission, p. 2.

80 DoTRD submission, 'Ministers Responsible for Transportation Joint Ministerial Statement', June 1997, p. 2.

81 Australian Shipowners Association submission, p. 1.

82 Australian Shipowners Association submission, p. 3.

83 ASA submission, p. 1.

various key APEC markets'.⁸⁴ In its submission, Qantas commented that it 'identify with APEC's broad goals and support them, in general terms'.⁸⁵ However, it pointed out that there are sensitivities surrounding the issue of liberalisation.⁸⁶ The strain in the bilateral arrangements between Japan and the United States was a factor which Qantas expected to slow down progress in liberalisation. The Qantas submission favoured bilateralism in the air transport industry over 'open regionalism' stating that '...over the past fifty years bilateralism has shown that it is flexible and capable of adaptation to a less regulated and more liberal environment'.⁸⁷ Qantas suggested that APEC members should 'proceed through bilateral negotiations' and as they do, similar efforts should be made to continue the process of liberalisation in arrangements with countries beyond the region.⁸⁸

4.79 Australia's 1999 Individual Action Plan contained a range of commitments to service reform. The highlights included:

- privatisation of National Transmission Network;
- auction of new electromagnetic spectrum;
- privatisation of further 16 per cent of Telstra in 1999;
- further legislation to complete implementation of the Financial system Inquiry recommendations;
- liberalisation of coastal shipping trades;
- sale of landside businesses of Government-owned shipping line;
- work to remove barriers to private investment in Australia's rail system.⁸⁹

4.80 Action by APEC economies on service reform has been variable. Under GATS, and prior to the establishment of APEC action plans, only two economies, Japan and the United States, made more than 100 WTO commitments out of a possible 155 possible sectoral commitments. Only four economies, including Australia, made more than 80 WTO commitments.⁹⁰ The 1995 PECC *Survey of Impediments* report noted that the service sector remained 'highly regulated' and some sectors completely closed.⁹¹ The 1997 IAPs showed that Brunei, Chile and Indonesia in particular had done little in the way of service reform.

84 Qantas Airways Ltd submission, p. 5.

85 Qantas Airways Ltd, submission, p. 8.

86 Qantas Airways Ltd, submission, p. 9.

87 Qantas Airways Ltd, submission, p. 10.

88 Qantas Airways Ltd, submission, p. 10.

89 Australia's 1999 APEC Individual Action Plan, pp. 6-7.

90 PECC, *Milestones in APEC Liberalisation*, 1995, p. 82.

91 PECC, *Survey of Impediments*, p. 14.

4.81 In the 1996 PECC review, concern was expressed that GATS may legitimate 'a hubs and spokes' approach in which countries can extract favourable conditions through discriminatory trading thus disadvantaging 'less influential players'.⁹² 'Open skies' agreements were cited as an example of this approach. The PECC review stated that the test for the openness of such agreements is whether a new member can join on the same terms and conditions as existing members.⁹³ PECC suggested that the problem of discrimination in GATS would be solved by extending GATT principles to all services as the GATT principles 'adopt the starting point that discrimination will not be applied by members'.⁹⁴

4.82 It was also argued that one of the reasons for the slow progress in this area is the sector by sector approach and that groups of services should be combined for negotiating purposes.⁹⁵ In summary, PECC made a number of recommendations to:

- Support the extension of GATT (rather than just GATS) principles to all services, including those left off the list of the existing GATS agreement such as air transport and government services.
- Fill in the gaps in GATS schedules.
- Move service negotiations away from a sector by sector approach.
- Consider restricting the negotiations in the GATS to one mode of delivery.
- Not forget the other modes of delivery.
- Recognise that there are competition policies associated with the liberalisation of trade but do not use these concerns as a reason for not pursuing the gains from international exchange.⁹⁶

4.83 In its 1997 review, ABAC considered services and stated that the work undertaken on telecommunications, in particular, confirmed the effectiveness of GATS. It suggested such work should be extended to cover finance. In general, ABAC was of the view that the IAPs could be improved 'to contain a structured, comprehensive approach to major impediments in services'.⁹⁷

4.84 In 1999, ABAC noted the efforts of some APEC economies to liberalise services, particularly in telecommunications and finance sectors, but considerable impediments to trade in services remained. It encouraged APEC economies to allow services, which are restricted to domestic service providers, to be subject to

92 PECC et al, *Perspectives*, 1996, p. 21.

93 PECC et al, *Perspectives*, 1996, p. 21.

94 PECC et al, *Perspectives*, 1996, p. 24.

95 PECC et al, *Perspectives*, 1996, p. 24.

96 PECC et al, *Perspectives*, 1996, p. 24.

97 ABAC, *ABAC's Call to Action*, Report to the Economic Leaders 1997, p. 16. EMBARGO COPY.

international competition, not only to improve efficiency in those services but also to give consumers more options and lower prices. It also recommended that:

To assist local service providers to adjust to a more open, competitive environment, liberalisation in trade in services must be accompanied by capacity building at the national level. This will also allow for the implementation of proper policies governing competition.⁹⁸

Investment

4.85 Foreign direct investment flows in the Asia-Pacific region increased four and a half times between 1985 and the early 1990s. However, APEC's share of total investment inflows declined from 61 per cent in 1987 to 40 per cent in 1992.⁹⁹ APEC's role therefore in creating a favourable investment environment is a vital one. APEC aims to assist investment growth:

... through facilitating flows of foreign capital to supplement domestic savings; promote an efficient allocation of capital between competing uses in the Asia Pacific region; reduce the day-to-day costs of doing business through the adoption of more uniform and transparent foreign investment regimes; and facilitate foreign direct investment, which should assist the introduction and adoption of new technologies and production processes across the region.¹⁰⁰

4.86 In 1995, the PECC *Survey of Impediments* identified two main categories of impediments to investment:

- lack of wide application of market access and national treatment;
- widespread use of fiscal investment incentives and performance requirements, often, but not always, in violation of national treatment.¹⁰¹

4.87 In the 1996 PECC review, it was noted that there was considerable competition among APEC economies for investment, resulting in a number of incentives and promotional policies as well as bilateral agreements. The review concluded that an APEC Investment Protection Agreement binding all members should be introduced to address these problems.¹⁰²

4.88 As at November 1996, of the 18 APEC economies, ten had agreed to liberalise investment specifying the measures to be taken and two others without being

98 1999 ABAC Report to APEC Economic Leaders, <http://www.apecsec.org.sg/abac/reports/rtael99-apmc.html>.

99 PECC, *Milestones in APEC Liberalisation*, 1995, p. 86.

100 DFAT, *An Introduction to APEC*, 1996, p. 10.

101 PECC, *Survey of Impediments in Trade and Investment in the APEC Region*, 1995, p. 11.

102 PECC et al, *Perspectives*, 1996, p. 30.

specific. Fifteen were committed to transparency measures and sixteen had agreed to facilitate investment through ‘technical assistance and cooperation’.¹⁰³ APEC achievements in investment liberalisation as at 1996 included:

- agreement to specific liberalisation initiatives by almost half of the APEC members;
- continued improvement in facilitation and transparency measures;
- firm commitment to most favoured nation treatment;
- recognition of the national treatment principle; and
- enhanced dialogue with the business sector.¹⁰⁴

4.89 Although gains have been made, there were concerns that ‘substantial impediments that affect international transactions remain’¹⁰⁵ and that many undertakings were ‘vague and unclear’.¹⁰⁶

4.90 The Eminent Person’s Group recommended in 1993 the adoption of an Asia Pacific Investment Code.¹⁰⁷ In 1994, this became a call for an APEC Concord on Investment Principles, ‘a voluntary code to further improve the environment for international direct investment and thus economic growth throughout the region’.¹⁰⁸ The Pacific Basin Forum also called for an Investment Code to be established.¹⁰⁹

4.91 APEC agreed to introduce Non Binding Investment Principles (NBIP) in 1994. The EPG conducted an assessment of progress in this area in 1995. They found that five of the ten principles involved in NBIP related to transfers of funds, capital movements, national treatment and right of establishment, performance requirements and investment incentives. These principles were assessed by EPG, to set standards which were below international standards.¹¹⁰ Among their recommendations the EPG recommended that NBIP be strengthened and converted into a voluntary code.

4.92 In their 1997 report, ABAC commented that APEC’s agreement to NBIP should be included in future action plans.¹¹¹ It acknowledged that the national

103 SOM Chair’s Report, 1996, p. 2.

104 PECC et al, *Perspectives*, 1996, p. 26–7.

105 PECC Press release, ‘PECC studies for APEC review progress in trade and investment liberalisation’, April, 1996, p. 1, www.pecc.net/9604rev.html (23 September, 1997).

106 PECC, *Perspectives*, p. 29.

107 Eminent Persons Group (EPG) Report, *A Vision for APEC: Towards an Asia Pacific Economic Community*, November 1993, p. 2, www.apecsec.org.sg/epg93.html (8 September, 1997).

108 Eminent Persons Group (EPG) Report, *Achieving the APEC Vision: Free and Open Trade in the Asia Pacific*, August 1994, p. 2, www.apecsec.org.sg/epg94.html (8 September, 1997).

109 PBF, *A Business Blueprint for Asia*, October, 1994, p. 7.

110 EPG, ‘Achieving the APEC Vision’, 1994, p.

111 ABAC, *ABAC’s Call to Action*, Report to the Economic Leaders 1997, p. 17. EMBARGO COPY.

treatment clause of the NBIP is difficult for developing countries to implement. On this basis, it suggested that it would aid business if the nature of the impediments were clearly outlined in action plans.

4.93 The NBIP make it clear that health, safety and environment regulations were not to be relaxed in order to encourage foreign investment. The ACTU submission, however, was critical of the limited nature of the NBIP and called for a social protocol for the APEC investment guidelines.¹¹² The ACTU argument in part was that social considerations, including reference to employment objectives, had been omitted. The Construction, Forestry, Mining, Energy Union submission also raised the concern that the 'Multilateral Agreement on Investment' would give transnational corporations 'an unrestricted right to buy, sell and move businesses, and other assets, wherever they want, whenever they want...this agreement would ban a wide range of domestic 'foreign' investment regulations.'¹¹³

4.94 The ACTU submission pointed out that the Organisation for Economic Cooperation and Development (OECD) and the International Labour Organisation (ILO) addressed the need to reconcile the obligations of governments with respect to multinational corporations in the early seventies.¹¹⁴ The ACTU referred to the ILO Tripartite Declaration of Principles on Multinational Enterprises and Social Policy and the OECD Guidelines for Multinational Enterprises. The ACTU stated that the ILO Declaration, in particular, provided:

... the only universal and comprehensive set of principles formally negotiated and adopted by governments, worker and employers which address the behaviour of MNCs.¹¹⁵

4.95 The ACTU suggested that APEC endorse the ILO Declaration, which already covers 95 per cent of APEC membership. It argued that as these APEC members already report under this Convention regularly, the extra work involved would be minimal.

4.96 The Uruguay Round resulted in the Agreement on Trade Related Investment Measures (TRIMS). TRIMS covered four investment requirements in domestic sales, local content, trade balancing and foreign exchange balancing. As at 1995, only Indonesia, Malaysia, Mexico, the Philippines and Thailand had made a commitment to removing these requirements. The PECC, in its *Milestones* report (1995), suggested that the low number of economies committing to removing requirements was 'a

112 Asia Pacific Labour Network of the International Confederation of Free Trade Unions, 'Trade Union Perspective on Asia Pacific Economic Co-operation Forum (APEC)', ACTU submission, Attachment 2, p. 14.

113 CFMEU submission, p. 5.

114 The OECD Guidelines for Multinational Enterprises and the ILO Tripartite Declaration of Principles on Multinational Enterprises and Social Policy.

115 ACTU submission, Attachment 2, p. 14.

reflection of the limited performance requirements or operational restrictions that have been included in TRIMS'.¹¹⁶

4.97 Another issue of concern was the national treatment principle. APEC members are obliged to phase in national treatment for foreign and domestic investors. The PECC review noted that no timetable was linked to this initiative.¹¹⁷

4.98 In its assessment of action plans in 1997, ABAC observed that MAPA contains few initiatives 'pertaining to finance and investment'. They suggested that 'most economies need to go beyond the commitment to "review" existing investment regimes'.¹¹⁸

4.99 In its 1999 report to APEC Leaders, ABAC noted:

- the apparent demise of the OECD Multilateral Agreement on Investment,
- that investment might not be a initial focus of attention at the next WTO round of multilateral trade negotiations, and
- the shrinking of investment to developing Asia in 1998.

It therefore urged APEC economies to send a strong signal to investors that they are willing to further liberalise their investment regimes in order to attract investment for long-term recovery.

4.100 ABAC endorsed the new 'menu of options' approach to investment liberalisation developed by APEC's Investment Experts Group. ABAC went on to report:

This new approach echoes the Non-Binding Investment Principles but allows greater flexibility for economies to adopt measures suitable to their individual circumstances. At the same time, the proof of member economies' commitment to investment liberalisation will be judged by their IAPs. Whatever options for investment liberalisation and business facilitation are chosen by APEC economies, these steps must be included in the Individual Action Plans, along with a timetable for their implementation. Vaguely worded promises, like adhering to 'non-binding' principles, will not sway investors.

Liberalisation of investment regimes may be a necessary condition to attract direct investment, but it is not a sufficient condition. Lower labour unit costs in emerging markets are no longer the dominant factor influencing capital flows. Today's foreign investors are instead looking for an environment from which they can generate sustained productivity gains. Benchmarks by which foreign investors judge potential hosts are becoming more wide-

116 PECC, *Milestones in APEC Liberalisation: A Map of Opening Measures*, 1995, p. 5, p. 10.

117 PECC et al, *Perspectives*, 1996, p. 27.

118 ABAC, *ABAC's Call to Action*, Report to the Economic Leaders 1997, p. 17. EMBARGO COPY.

ranging and complex. For this reason, investment liberalisation must be undertaken in concert with establishing other ‘value-added’ benchmarks for investors, including sound monetary and fiscal policies, low interest rates and inflation, a sensible exchange rate policy, sustainable external and budgetary balances.¹¹⁹

4.101 The Committee believes that it is important for APEC to continue to press forward with investment liberalisation through the Individual Action Plan process.

Subsidies

4.102 APEC’s liberalisation agenda is being affected by market growth occurring on an uneven playing field. Not only are APEC economies progressing at different rates but also some have unacceptable assistance by way of performance enhancing subsidies on protected sectors. The United Nations *Human Development Report 1997* stated:

Contrary to the post-Uruguay Round image of the world agricultural market as a level playing field, the major exporters, notably the European Union and the United States, have continued to subsidize production and exports. In 1995 the industrial countries spent \$182 billion on subsidies. As poor countries open their economies, they expose many poor agricultural producers to overwhelming and unfair competition from subsidized imports.¹²⁰

4.103 At the first meeting of the WTO in Singapore in December 1996, developing countries repeated their concerns at the slow pace of reduction of European Union and United States domestic support and export subsidies in agriculture and remarked on the absence of significant reductions in quotas on textile exports from developing countries.¹²¹ Experts have observed that this ‘lopsided’ progression of liberalisation ‘tends to prejudice the growth prospects of developing countries by discrimination against areas in which they can achieve comparative advantage’.¹²²

4.104 Aid organisations have also recognised that subsidisation destabilises potential benefits under APEC’s trade liberalisation agendas and is the counterpoint to ‘equitable development’. ACFOA in ‘APEC—Winners and Losers’, its joint paper with Community Aid Abroad, thus recommended that, ‘Any APEC agreement on

119 1999 ABAC Report to APEC Economic Leaders, <http://www.apecsec.org.sg/abac/reports/rtael99-apmc.html>.

120 UN *Human Development Report 1997*, p. 86.

121 ACFOA Submission no. 37, p. 3.

122 *United Conference on Trade and Development Report 1997*, quoted in ACFOA Submission no. 37, p. 4.

trade liberalisation should include a commitment to further reduce subsidies on agricultural exports, especially US subsidies.’¹²³

4.105 Dr Elek told the Committee that the non-discriminatory trading system set up through GATT, which ensured all trading partners were treated equally on commercial rather than political grounds, had won wealth for the Asian Tigers. He emphasised that without this non-discriminatory system, ‘there is no way the East Asian economies could have traded their way out of poverty because the protectionist economies would have picked them off one by one, and we still see that happening in the textiles sector’. Non-protectionist and non-discriminatory rules based system, as supported by APEC through the WTO, are thus seen to work for the ‘transformation of very poor countries to middle income countries’.¹²⁴

4.106 The National Farmers Federation saw the winding back of subsidisation as essential if the benefits of trade liberalisation were to be realised for Australian agricultural industries.¹²⁵ Federation consultant, Dr Andrew Stoeckel, explained:

First of all, common agricultural policies’ high support prices encourage people to produce. The wrong policy is used and, in fact, they keep on producing and produce too much. Once you have got too much, the only thing you can do is export it but, having paid such a high price on the world market for that, the only thing you can do to get rid of it is to dump it and subsidise it.¹²⁶

4.107 At their 1999 meeting in New Zealand, APEC Leaders called on all WTO members to pledge that they would not impose new or more restrictive trade measures for the duration of the negotiations, nor before the Seattle WTO Ministerial meeting.¹²⁷

4.108 The lack of progress at the Seattle WTO meeting sent a grim warning that the momentum for further liberalisation in the short term, especially in more sensitive areas, such as agriculture, is waning.

123 With the caveats that ‘Member economies who maintain subsidies above a certain level should be denied access to agricultural markets opened up as a result of the agreement, until those subsidies are reduced’; and, ‘Food-importing countries who would have to pay more for their food imports as a result of this agreement should be compensated via some appropriate mechanism such as debt relief or the provision of more concessional finance. See Jeff Atkinson, ‘APEC—Winners and Losers’, Community Aid Abroad Background Report No. 7, Australian Council for Overseas Aid Development Dossier 34, October 1995, p. 87.

124 *Committee Hansard*, 5 February 1998, p. 574.

125 *Committee Hansard*, 2 February 1998, p. 339.

126 *Committee Hansard*, 2 February 1998, pp. 339–40.

127 Leader’s Declaration –New Zealand, the Auckland Challenge, APEC Economic, Declaration, Auckland, New Zealand, 13 September 1999.

Summary

4.109 It is important for APEC to have long-term goals, such as the 2010 and 2020 Bogor goals, and to work consistently towards them. They set out clearly the direction that APEC is heading and provide a focus for annual work programs and the collective and individual action plans, which are updated annually. It would, however, be idealistic to think that APEC would achieve all its goals within the prescribed time limits by itself. There are many factors militating against such an outcome.

4.110 The United States' traditional position of reciprocity in trade liberalisation, especially in relation to the European Union, would make it difficult for the United States' Administration and Congress to set aside long-held principles in domestically sensitive trade areas if the European Union did not voluntarily accept similar trade arrangements.

4.111 APEC's referral of the EVSL areas to the WTO in 1998 is a clearer indication of the difficulty APEC is having in achieving consensus among members to extend liberalisation to areas that may be sensitive to some member economies.

4.112 Arguably, some trade areas, especially in agriculture, were always going to be liberalised through negotiations in WTO trade rounds rather than through unilateral action by APEC on an open regionalism basis. In the WTO, the question of reciprocity could be negotiated with all members, making it easier for governments to persuade their legislative bodies and populations to support them.

4.113 APEC lobbied resolutely and effectively to bring about the successful conclusion of the Uruguay Round of multilateral trade negotiations, which resulted in the replacement of the General Agreement on Tariffs and Trade with the WTO. Afterwards, APEC continued to play a part in the implementation of the agreements reached in the Round, with members including their implementation obligations in their Individual Action Plans. By taking a prominent role in the Uruguay Round and its implementation, APEC was not only helping to establish the new cornerstone of world trading arrangements but also progressing its own liberalisation agenda. It was an arrangement that worked well for both organisations.

4.114 Unfortunately, despite making resolutions and declarations in support of a new round of multilateral trade negotiations, APEC has made no concerted effort to win the backing of all WTO members for a new round. APEC Trade Ministers had an opportunity at a meeting in Darwin in June 2000 to give some momentum to a new round but their calls for one lacked conviction. In the absence of resolute leadership within the organisation, APEC has not yet agreed to a unified position with which to lobby non-APEC members of the WTO. Without internal unity in APEC, it is hard to see WTO making much headway among the wider membership, including the European Union, especially on agricultural issues, which are of particular concern to Australia and many other members.

4.115 If some APEC members are reluctant to embrace a new WTO round of trade negotiations, it is unlikely they will be forthcoming within APEC to agree to similar

liberalisation measures on an open regionalism basis, if there is no expectation of reciprocity from major non-APEC economies. Conversely, given APEC membership, the WTO will make heavy weather of future negotiations unless the APEC members bring some unity of purpose to them, as they did with good effect in the Uruguay Round. At that time, however, there was more cohesion and a greater sense of purpose displayed in the organisation than seems to be the case at present. APEC and the WTO need each other to achieve each other's goals.

4.116 Australia played a leading role not only in the establishment of APEC but also in the formulation of APEC's goals and long-term strategies. In recent years, particularly since the onset of the East Asian financial crisis, APEC has not performed as well as it might have done in progressing its long-term goals. It is in Australia's own interests that APEC succeeds in its mission and, therefore, the Australian Government should take all possible steps to assist in the reinvigoration of APEC.

Open regionalism

4.117 Traditionally, where nations have grouped themselves into a free trade bloc, they have restricted the free trading arrangements to themselves and denied similar benefits to other nations with which they were trading. Such agreements have been governed by formal legally-binding treaties, which set out in detail the trading arrangements among members. The European Union and NAFTA are examples of this type of preferential free trade agreement.

4.118 Although many European countries embraced the customs union theories developed after the Second World War by opting for preferential free trade arrangements, Asia Pacific economies went down a different path of economic co-operation. They realised that highly detailed trading arrangements and restrictive trade practices did not suit their diverse political systems and their economies in widely different stages of development and sophistication. A more open multilateral trade system offered greater opportunities for economic growth and national prosperity and for continuing market integration.

4.119 The concept of 'open regionalism' evolved from these developments in trading arrangements among Asia Pacific economies.

The concept and the term were descriptive of an emerging reality of regional economic integration in the Asia-Pacific region in the 1970s. *Open regionalism* was articulated by the first Pacific Economic Co-operation Conference (PECC) in Canberra in 1980.¹²⁸

4.120 DFAT described 'open regionalism' as:

128 Garnaut, *Open Regionalism and Trade Liberalization*, Institute of South East Asian Studies, Singapore, 1996, p. 17.

APEC's approach to economic cooperation or, more specifically, the modality for achieving the Bogor goal of free and open trade and investment by 2010/2020. Central to the definition of open regionalism is the GATT principle of non-discrimination; in addition, the term underscores APEC members' commitment to liberalisation in a way which is consistent with, and reinforces, a more open multilateral trading system. Implicit in the term open regionalism, has also been members' opposition to the creation of a free trade bloc.¹²⁹

4.121 Open regionalism, as it has developed through APEC, does not depend on treaties or legally-binding agreements. It is based on voluntary undertakings by the member economies to adhere to goals and programs within prescribed time frames agreed by consensus. Members may work toward those goals at their own pace, thereby taking account of their different levels of economic development, tariff regimes and domestic political circumstances. This freedom and flexibility to determine their own timing to meet APEC goals allowed members to agree to the broad objectives without having to become heavily involved in detailed and prolonged negotiations on timetables for achieving specific trade liberalisation and facilitation targets. Indeed, if APEC had not followed the processes it did, there would have been no guarantee that agreement on the Bogor goals would ever have been achieved.

4.122 From the very outset, there was never any intention of APEC becoming a closed trade bloc. Prime Minister Hawke made this clear in his speech in Seoul on 31 January 1989, when announcing moves by the Australian Government which led ultimately to the establishment of APEC:

I must stress that my support for a more formal vehicle for regional co-operation must not be interpreted as suggesting by code words the creation of a Pacific trading bloc.

Australia's support for non-discriminatory multilateral trading solutions in the GATT framework is clear, long-standing and unambiguous.

I have made it clear that a major priority of any regional effort would be strengthening of the GATT system.

4.123 This point was emphasised by then Minister for Foreign Affairs and Trade, Senator Gareth Evans, in his address at the opening of the Twelfth Australia-ASEAN Forum in Perth on 15 May 1989:

But it is also important that I make very clear what we are not trying to do. First and foremost, it has been firmly agreed by all those in the region that we are not seeking to create an Asia/Pacific trading bloc. Nor would we support such a development.

129 DFAT submission, vol 3, p. 24.

4.124 At the first APEC Ministerial Meeting in Canberra on 6–7 November 1989, members reiterated their opposition to APEC becoming a trading bloc. In the joint statement issued at the end of the meeting, the Ministers stated:

Every economy represented in Canberra relies heavily on a strong and open multilateral trading system, and none believes that Asia Pacific Economic Cooperation should be directed to the formation of a trading bloc.

4.125 Since that first meeting of APEC Ministers, member economies have maintained their opposition to APEC turning itself into a preferential free trading bloc.

This 'new' regionalism in East Asia and the Pacific gives priority to achieving substantive economic benefits over the construction of elaborate administrative structures or formal international treaties. The all-round benefits of early decisions for practical economic co-operation will increase confidence in the benefits of working together and nurture a sense of trust and a progressively wider set of shared interests among participants. Accordingly, community-building has precedence over institution-building, and persuasion preferred to compulsion.¹³⁰

4.126 DFAT informed the Committee that modelling work by Australia's Productivity Commission and other agencies have shown that non-members would gain only limited 'free-rider' benefits from APEC liberalisation. The APEC Economic Committee reported in November 1997 that, based on computable general equilibrium model simulations, the benefits arising from a fully-implemented Manila Action Plan for APEC would amount to US\$69 billion for APEC members while only US\$2 billion for non-APEC members. It concluded that free rider benefits to non-APEC members would be small and should not be a concern. Although modelling results should be treated with caution, the indicative modelling figures shown here, even if heavily discounted for the sake of caution, demonstrate the benefits members are likely to accrue from achievement of APEC's goals.

4.127 Despite this, DFAT drew attention to the need for reciprocity in trade liberalisation on the part of a number of economies. The United States, for example, would be unlikely to liberalise in areas that might provide the European Union with some benefit without the European Union offering concessions of its own. This is partly due to the more limited share of United States' trade with East Asia (with almost 30 per cent of United States' trade with its NAFTA partners and over 20 per cent with the European Union). It has, however, been possible to accommodate this approach in APEC—for example through APEC's involvement in the development of an Information Technology Agreement, which was concluded in the WTO (thus drawing in the European Union).¹³¹

130 Drysdale and Elek, *APEC: Community-building in East Asia and the Pacific*, University of Washington APEC Study Center [Internet]

131 DFAT submission, vol 3, p. 24.

4.128 A number of witnesses commented on the position of the United States in relation to trade liberalisation. For instance, Professor Snape told the Committee that the concept on reciprocity is ingrained in United States tariff reduction policy and practice:

It might be noted that the United States has not reduced virtually any tariff since the 1920s except on a negotiated reciprocal basis with other countries. The principal exception to that is the preferences for developing countries. But if you leave the preferences for developing countries aside, every liberalisation in the United States—going from the average tariff of 60 per cent, as it was in 1930, down to the current average tariff in the United States of significantly below five per cent—has been on the basis of negotiated reciprocity, and then extended on a general basis.¹³²

4.129 Professor Snape later said that the United States has only been able to liberalise tariffs on the basis of a formal agreement with another country or as part of a formal multilateral agreement. He went on to say that:

So there has been an apparent inability to take a unilateral liberalisation, or in fact to liberalise within the sort of framework which is spoken about in APEC, whereas the Asian view in APEC is very much concerted unilateralism: that we work together but we do not make actual commitments of a legally binding nature in our individual action plans, but we encourage each other.

The United States is going to have real problem working within that framework. There is a real barrier with Congress there. So you get this tension between the two sides of the Pacific or, more specifically, between the United States on the one hand and the Asian countries and Australia on the other, with the United States ... interpreting the open regionalism to allow for preferential commitments within the APEC framework, whereas on the other side of the Pacific we are very much more saying that we want a concerted unilateralism without that formal framework. That has been allowed to ride along fairly well so far because we have not had to really confront the US to make any serious commitments. But as we get closer to the Bogor time that question is really going to have to be addressed fairly seriously, unless it gets embraced, of course, within a WTO context.¹³³

4.130 Despite strong sentiments within APEC against the formation of an APEC free trade bloc, the United States has not endorsed unequivocally open regionalism for APEC. As the world's largest economy, the United States would put at risk the work of APEC towards liberalisation of trade and investment among members if it were to harden its position against open regionalism. Without the United States' presence in APEC or without consensus about the nature and goals of APEC, the organisation

132 *Committee Hansard*, p. 493.

133 *Committee Hansard*, pp. 494–5.

would probably not be able to achieve worthwhile economic reforms to benefit both the region and the global community.

4.131 According to Professor Drysdale and Dr Elek:

None of these features suit the characteristics of the Asia Pacific, where governments understand that their future prosperity and security depend on the future of the global economy. The objectives of Asia Pacific are global as well as regional, as an increasingly integrated regional zone of production and trade seeks accommodation in the global economic system.¹³⁴

4.132 They described APEC as follows:

APEC is an innovative and flexible form of co-operation designed to accommodate the diversity of the region's economies, which differ remarkably in terms of size as well as the density of their populations, incomes, cost structures and natural resource endowments.¹³⁵

4.133 In other words, non-members will not be discriminated against in trade with or investment in member countries. Moreover, the APEC Leaders have agreed to an ambitious plan to achieve free trade by 2010 for developed member economies and 2020 for developing member economies. This goal goes significantly beyond the requirements of the WTO and will be the basis of further negotiations towards liberalisation under that regime.

4.134 Dr Elek told the Committee that:

To do GATT illegally would be fundamentally stupid; it would be destroying the very thing we are trying to strengthen, so nobody is even dreaming of it. To do it in a GATT consistent way is not easy. GATT is a very detailed, legally binding agreement on all sectors to discriminate against the rest of the world. East Asia has made it very clear it has never been interested in it and it is not interested in it. Now we have Russia in, the whole thing is a nonsense. Given that the bulk of its trading with Europe, it is just impossible to start to conceive of APEC becoming a trading bloc in that article 24 sense. It is just not a live option. It is futile to be beating it to death.

The one country that keeps hankering after it is the United States, because it understands reciprocity and no free riders and all that, but there is no way, in any scenario that I can think of, that it can happen between now and 2020.¹³⁶

4.135 Professor Garnaut told the Committee that:

134 Drysdale and Elek, *APEC: Community-building in East Asia and the Pacific*, University of Washington APEC Study Center, footnoted to Drysdale 1988 [Internet]

135 Drysdale and Elek, *APEC: Community-building in East Asia and the Pacific*, University of Washington APEC Study Center [Internet]

136 *Committee Hansard*, p. 597.

Since the Bogor declaration in 1994, what has become of the commitment to free and open trade in the region?

There has been considerable movement since that time towards free trade. At the PECC meeting at the time of the Manila leaders summit at the end of 1996, the PECC did some calculations on the rate of trade liberalisation since the Bogor declaration and the rate of continued liberalisation to which commitments had been made by member governments of APEC. What those calculations showed was that, if you drew a straight line between the levels of protection as they existed before the Bogor declaration and the target, 2010 or 2020, most APEC countries were ahead of target both in what had already happened and in what had been announced to happen by the year 2000. That said, it was surprising to most people when their sums were done at the time.¹³⁷

4.136 Professor Garnaut said that progress made towards trade liberalisation in the region was not due solely to APEC. He said that it already had a momentum of its own and that APEC's role was one of reinforcing this underlying trend. He said:

Whether the APEC goals of free and open trade by 2010 and 2020 continue to mean anything will depend, above all, on whether the western Pacific economies are able to maintain momentum in trade liberalisation through this period. I have mentioned that so far so good, but we have got to wait and see what it looks like when the battles of ideas have gone further.

If there is continued progress in the western Pacific, then a healthy APEC can be an important vehicle for bringing that progress to account in the United States political discussion of trade policy. US polity, US Congress, has a feeling that there is only one fair and free trade country in the world and that everyone else is a free-rider on them.

...

The US polity is strongly committed to the concept of reciprocity in trade policy matters. That is a different approach from the approach that is common in the eastern Pacific and has become the basis of APEC. That does not matter very much for as long as the US remains a relatively open economy—relative to other APEC economies which have got a fair bit of catching up to do.

As liberalisation proceeds further in the western Pacific, it is important that the US becomes part of the APEC trade liberalisation. It would require a very big change in US approaches to trade policy for some more specific sense of reciprocity not to become important. But traditional reciprocity within a free trade area will remain unrealistic and impractical in the Asia-Pacific context.

137 *Committee Hansard*, p. 755.

How I see all of that coming together is: at that time, as the US becomes more specifically engaged, then the APEC role can become larger in introducing APEC commitments to free and open trade into the global arena through the WTO.¹³⁸

4.137 The evidence received by the Committee pointed out clearly that, for APEC, open regionalism is the only realistic option available to it. The diversity of APEC member economies, in terms of political systems, culture, populations and economic development, would make it impossible for APEC to negotiate a preferential free trade agreement. Moreover, from APEC's conception to the current day, there has never been the political will to negotiate a preferential free trade area. Although the United States might have had a hankering for such an arrangement, as that has been its *modus operandi* in trade matters, most other member economies have disavowed this option. The flexibility of open regionalism is the strength of APEC. By not binding members legally to any decision, members can be more readily amenable to liberalisation proposals, knowing that the timing and manner of implementation is in their own hands.

4.138 The other main argument against APEC becoming a preferential free trade area is that it would duplicate and probably undermine the work of the WTO. Furthermore, there is nothing to suggest APEC would be any more successful in reaching agreement in sensitive areas under a rules-based system than the WTO.

4.139 Open regionalism, with all its weaknesses, is ideally suited to APEC's disparate member economies. It is the trading system that many of APEC's members had embraced before becoming members of APEC. It is also consistent with WTO principles and has had a beneficial effect on GATT and the WTO.

138 *Committee Hansard*, p. 760.

CHAPTER 5

TRADE LIBERALISATION—THE WINNERS AND LOSERS

5.1 APEC's Bogor goals are predicated on liberalisation of trade and investment providing benefits to economies that embrace liberalisation. Much of the research and analysis contained in the literature on this topic supports such a proposition. In a seminal paper by Jeffrey Sachs and Andrew Warner in 1995, the authors showed that:

During 1970–89, we find a strong association between openness and growth, both within the group of developing and the group of developed countries. Within the group of developing countries, the open economies grew at 4.49 percent per year, and the closed economies grew at 0.69 percent per year. Within the group of developed economies, the open economies grew at 2.29 percent per year, and the closed economies grew at 0.74 percent per year.¹

5.2 Sachs and Warner also showed that convergence in incomes between rich and poor countries can be achieved by all countries, despite differences in education and technological development, provided that they take on policies of economic integration. They divided their sample of countries between open and closed (according to five criteria) and reported the following findings:

the open countries display a strong tendency toward economic convergence, and that the countries with initially low per capita income levels grow more rapidly than the richer countries. The closed economies ... do not display any tendency toward convergence. In fact, they are clearly the source of the failure of convergence noted in [the total sample]. Even more striking, there is not a single country in our sample (which covers 111 countries and approximately 98 percent of the non-communist world in 1970) which pursued open trade policies during the entire period 1970–89 and yet had per capita of less than 1.2 percent per year (Switzerland had the lowest growth at 1.24 percent).²

5.3 The authors also subjected their data to regression analysis, based on which, they made four conclusions:

- There is strong evidence of unconditional convergence for open countries, and no evidence of unconditional convergence for closed countries.

1 J.D. Sachs & A. Warner, 'Economic Reform and the Process of Global Integration', *Brookings Papers on Economic Activity*, 1995:1, pp. 35–36.

2 J.D. Sachs & A. Warner, 'Economic Reform and the Process of Global Integration', *Brookings Papers on Economic Activity*, 1995:1, pp. 41–42.

- Closed countries systematically grow more slowly than do open countries, showing that ‘good’ policies matter.
- The role of trade policy continues after controlling for other growth factors, as in a standard Barro cross-country growth equation.
- Poor trade policies seem to affect growth directly, controlling for other factors, and to affect the rate of accumulation of physical capital.³

5.4 Although the weight of research supports the general proposition that open trade policies have a positive effect on growth, not all economists share that optimism. In a recent paper, Francisco Rodriguez and Dani Rodrik argued that they found little evidence that open trade policies ‘are significantly associated with economic growth’. They were sceptical about such a link and believed that researchers had overstated the case associating openness with growth. Their work was therefore designed to restore balance in the debate. In summary, they said:

We argue that methodological problems with the empirical strategies employed in this literature leave the results open to diverse interpretations. In many cases, the indicators of ‘openness’ used by researchers are poor measures of trade barriers or are highly correlated with other sources of bad economic performance. In other cases, the methods used to ascertain the link between trade policy and growth have serious shortcomings.⁴

5.5 The authors made it clear, however, that they were not suggesting that trade restrictions are good for economic growth. But they also thought pursuing a link between openness and growth as futile. They suggested instead that researchers might focus on contingent relationships between trade policy and growth in cross-national work. They also proposed work micro-econometric analysis of plant level data sets.

5.6 Despite the scepticism of some scholars about the relationship between open trade policies and economic growth, the Committee believes that the overwhelming weight of evidence suggests that there is a positive link between the two.

5.7 However, concern was expressed during the inquiry as to whether trade liberalisation produces overall benefits or just benefits for some sectors or some countries. DFAT told the Committee:

It has long been known that there are winners and losers in a trade liberalisation process. There is no doubt that some firms will close in a country, some industries will be lost, some jobs will be lost. Any modelling exercise or any qualitative examination of the experience of countries that

3 J.D. Sachs & A. Warner, ‘Economic Reform and the Process of Global Integration’, *Brookings Papers on Economic Activity*, 1995:1, p. 52.

4 F. Rodriguez & D. Rodrik, ‘Trade Policy and Economic Growth: A Skeptic’s Guide to the Cross-national Evidence, Revised December 1999, Abstract.

go through liberalisation processes, however, does show that the overall effect on nations is a positive one.⁵

5.8 Dr Patricia Ranald cautioned that the chosen structure of economic modelling profiles can predetermine their outcomes. She explained:

The problems with the Industry Commission model tend to be that they assume away effects like unemployment. They assume that any unemployment caused by the changes will be what they call frictional or short term, so they do not build it into the model. That is a very big assumption and it changes all the results of the model.⁶

5.9 According to Professor Helen Hughes, APEC's support of trade liberalisation is based on the belief that there is a cycle, which starts with the creation of conditions that facilitate trade, and which then leads to increased employment opportunities and the global generation and dispersal of wealth.⁷ However, international development literature reports that, while there has been unprecedented growth in the global economy during the last 30 years, it has been very patchy and uneven.⁸ Instead of the wealth disparity diminishing worldwide, there is evidence of growing economic polarisation and income inequality, which are now threatening to become permanent features of the world economy.⁹

5.10 The *UN Human Development Report 1996* concluded that there is no direct correlation between increased investment under liberalisation and numbers of jobs created.¹⁰ It also suggested that economic growth does not automatically expand employment or improve wages.¹¹ The Committee was also informed that trade liberalisation, particularly when introduced rapidly, can destabilise economies resulting in financial volatility, job loss, deterioration in standards of living and social disintegration. ACFOA submitted, citing from a United Nations report:

In industrialised countries, pressure from competition of cheap labour and poor conditions is creating job insecurity and a growing wage gap between skilled and unskilled labour. The latter is a global problem. In almost all

5 *Committee Hansard*, 20 October 1997, p. 68.

6 *Committee Hansard*, 3 February 1998, pp. 370–71.

7 As described by Emerita Professor Helen Hughes in her paper 'Wither Development Assistance?' *Development Bulletin*, October 1997, p. 43.

8 *UN Conference on Trade and Development Report 1997* (UNCTAD) reports as quoted in ACFOA, submission no. 37, p. 5.

9 In 1965, the average per capita income of the G7 countries was 20 times that of the world's poorest seven countries. By 1995 it was 39 times as much. *UN Conference on Trade and Development Report 1997* (UNCTAD) *UN Conference on Trade and Development Report 1997* (UNCTAD) reports as quoted in ACFOA, submission no. 37, p. 3.

10 A joint ACFOA and Community Aid Abroad, Jeff Atkinson, *Winners and Losers*, attachment to ACFOA, submission no. 37, p. 6.

11 *UN Human Development Report 1996*, quoted in ACFOA, submission no. 37, p. 6.

developing countries which have undertaken rapid trade liberalisation, wage inequality has increased.¹²

5.11 Growth alone, under this scenario, does not lead to greater income equity. The *UN Human Development Report 1997* stated:

Economic growth can be a powerful means of reducing poverty, but its benefits are not automatic. Argentina grew 2 percent per capita a year in the 1950s, yet saw income poverty rise. Honduras grew 2 percent a year in 1986–89 and saw income poverty double. New Zealand, the United Kingdom and the United States all experienced good average growth during 1975–95, yet the proportion in poverty increased.¹³

5.12 These statistics suggest that even in developed countries that have undergone rigorous liberalisation—New Zealand, the United Kingdom and the United States— income inequity will increase if adequate measures are not taken to ensure that wealth from liberalisation is shared around.

5.13 Australia, too, is well on the road to liberalisation and has also experienced its share of negative effects. Owing to reforms conducted over the last 15 years, Australia has succeeded in pushing its growth rate up to 2 per cent from the 1.5 per cent of the previous 30 years, so moving above the OECD average growth rate.¹⁴

5.14 However, Australian Bureau of Statistics figures show that growth has delivered wealth inequitably, with the gulf between rich and poor steadily growing. The top 20 per cent of income earners now account for almost 50 per cent of income, and the bottom 20 per cent account for less than four per cent of income.¹⁵

5.15 Dr Michael McKinley reported that these trends are also reflected on the world stage with 35 million people unemployed in OECD countries and a further 15 million having unwillingly accepted part-time work or having given up the search. In Japan, the United States and Western Europe, the trend has worsened, with 45 per cent of the unemployed having been out of work for a year or longer. Finally, the ILO in its first survey of global joblessness reports that 2.6 billion, or 30 per cent of the world's work force is unemployed.¹⁶

12 UNCTAD Report, ACFOA, submission no. 37, p. 6.

13 *UN Human Development Report 1997*, p. 7.

14 Alan Mitchell, 'Retro Economics: Brakes on the Future', *Australian Financial Review*, 29 July 1998, p. 14.

15 Quoted in Hugh Mackay, 'Prosperity, Honesty, Sanity—Viva la République', *Sydney Morning Herald*, 14 August 1999.

16 Reported in Dr McKinley, submission no. 44, p. 12.

5.16 Dr McKinley observed that employment shrinkage under global market deregulation was being exacerbated by increased automation in industry.¹⁷

5.17 AusAID told the Committee that growth is essential to produce wealth, but wealth alone will not reduce poverty—good governance is the key to equitable development.¹⁸ The United Nations development studies also confirm these findings. When macroeconomic policies are in place to ensure growth is ‘pro poor’—that it expands employment and productivity and aims to moderate extremes—it is possible to raise living standards across society, as has been done in Malaysia and Norway.¹⁹

5.18 Amnesty urged APEC to accept that lack of accountability and transparency in financial systems is inextricably linked to the lack of basic human rights and labour standards in the countries of concern. It prompted APEC to acknowledge that: ‘Genuine sustainable development can only be achieved in societies where freedom of expression and association are respected and protected’.²⁰

5.19 The Australian Government has remained cautious about canvassing these matters through APEC. In 1999, DFAT told the Committee that:

Another point we thought we might bring to your attention is that we have seen a bit of a proliferation across the APEC agenda in areas that go a little beyond the economic and trade focus that has been at the heart of, and as far as we are concerned remains central to and pre-eminent in, the APEC work program. Some other economies have been anxious to broaden the agenda to cover things like what the North Americans are inclined to describe as civil society issues, gender issues and social welfare concerns. While we certainly see some scope for that work having a place in APEC, we have been keen to make sure that the work that is done there remains focused and outcomes oriented and that the agenda does not proliferate in such a way that we lose the capacity to deliver results.²¹

5.20 Australian businesses have supported this stance.²² Earlier in the inquiry, the Australian Chamber of Commerce and Industry made it very clear that it did not support the extension of APEC programs into these areas. In its submission, it said that ‘By contrast, APEC only need divert its attention away from the main game and embrace peripheral issues like gender, youth, environment or the panoply of “social

17 Submission no. 44, pp. 12–13. Dr McKinley reported that between 1979 and 1992 a more automated US manufacturing sector became more globally competitive, boosting productivity by 35 per cent. At the same, the workforce was simultaneously reduced by 15 per cent. In the decade to 1991, 1.8 million manufacturing jobs were shed.

18 *Committee Hansard*, 23 March 1998, pp. 776–77.

19 UN *Human Development Report 1997*, ‘Overview’, p. 7.

20 ‘APEC: Crisis which Crisis?’, October 1998, p. 24, attachment to Amnesty submission.

21 *Committee Hansard*, 18 February 1999, p. 842.

22 See Ms Louis Filling, MTIA, *Committee Hansard*, 17 November 1997, p. 159; and Mr Brent Davis, ACCI, *Committee Hansard*, 29 September 1998, p. 37.

agenda” items to cause business and regional governments to lose interest and for the initiative to effectively fail’. Mr Brent Davis, Head of International Affairs at the Chamber told the Committee:

I think APEC would find it very stressful to get involved in broader social issues. You have already seen it in the World Trade Organisation when they tried to get up protocols on trade and labour standards; trade and the environment were exceptionally stressful. We see, as I have said, APEC delivering worthwhile outcomes, but it is when we realise that if one tried to put up various social issues like labour standards, like environment, like gender, like youth, it might be very stressful to someone like Malaysia, like South Korea, like Japan, and certainly Singapore. We are well aware of the attitude of the government of Singapore when the Canadians flagged these issues. How can I say it? They were given a few home truths in very plain English.

We think these issues could be dealt with in time, but we would not regard them as the front end issues of APEC. We would not regard them as those delivering the biggest outcomes and benefits from APEC, but we would probably at this point in time see them as stressful to APEC. We do not think at this point in time they should come forward. Down the track there may be ways of accommodating them.

If one looks at the current environmental devastation in Kalimantan—the fires and so on—I think that will cause environmental issues to come up more quickly. But, of course, as one knows in international affairs, there is a great tension in environmental matters. The developed countries want to see some action in a whole range of areas. The developing countries see the developed countries just conspiring against them to retard their growth and labour standards are seen in the same way. It is not that the matter should not be dealt with. It is just a case of sequencing, sensitivity and timing.²³

5.21 Recent developments in environmental protection in the region have highlighted the fact that achieving sustainable development relies on an integrated approach to both environmental and social policy. The Committee heard that a combination of population and rapid economic growth has enhanced awareness that economic gain is not sustainable without consideration of environmental effects. The fires in Indonesia brought this home to South East Asian countries.²⁴ In China, strong commitments to improving its environmental standards in industry saw the introduction of a ‘polluter pays’ system.²⁵ However, the consequential closing of large

23 *Committee Hansard*, 29 September 1997, p. 37.

24 See for example, DFAT, *Committee Hansard*, 20 October 1998, p. 85; Environment Australia, submission no. 43, pp. 8–9.

25 See Paul Eckert ‘China to Shut Polluting Plants Despite Job Fears’, *Reuters* Beijing 12 February 1998, p. [1].

numbers of inefficient and polluting factories resulted in massive unemployment that, in a country without any social security net, had serious social effects.²⁶

5.22 APEC's agendas are thus drawn irredeemably together. The interrelationship of labour, environment and economic issues, and the integration of responsibilities thus entailed, will undoubtedly become ever clearer as the globalisation of trade practice progresses.

Making APEC work for the community: opening up debate

5.23 Although business organisations voiced their concerns about broadening APEC's role to include the social effects of the TILF agenda, development experts and community groups told the Committee that, if APEC is to make progress, it must work to bring its agendas together; to give effect to its commitments to sustainable and equitable development. They saw that every trade-related initiative had social and environmental implications and recommended that these should be fully researched and evaluated by APEC. They argued that Ecotech should work towards moderating the negative effects of trade liberalisation and institute programs to nurture good governance in developing countries.

5.24 In essence, they argued for inclusion of organisations, such as trade unions, and human rights and environmental organisations, in APEC's policy-making processes.

5.25 Community perceptions among APEC member economies of APEC dominated by government and big business has led to misunderstanding of and sometimes opposition to APEC and its programs. This has worked against APEC's claims to transparency and accountability, and thus its credibility. The following views of Canadian NGOs views are representative:

The focus on business goes to the heart of what is structurally wrong with APEC. Given APEC's official goals and the broad responsibilities of governments, the exclusive emphasis on involving the business communities of the region which already have privileged relationships with their national governments, is inappropriate. History offers little reason to assume that, on its own, business will look out for broader interests of society. Business, for example, does not have a good record on issues of environmental sustainability or poverty reduction. Its concerns, however legitimate as private actors, are not the concerns of the broader community. The impetus to involve business and exclude civil society actors has led to an unbalanced agenda for APEC.²⁷

26 'Foreign Correspondent', Australian Broadcasting Corporation, 28 July 1998.

27 'Canada and APEC: Perspectives from a Civil Society. A Discussion Paper', p. [9].

APEC parallel peoples fora

5.26 In 1993, public rallies accompanied the first APEC Leaders Summit on Blake Island. Demonstrators argued that liberalised trade should reward efficiency and promote investment in environmentally sound goods rather than cause ever-lower standards of environmental protection and worker health safety.²⁸ A letter outlining concerns about environmental sustainability was passed on to the Leaders.

5.27 In 1994, NGOs' attempts to publicise their stance were blocked at Bogor, when they found their conference venue locked and their reservation cancelled.²⁹ In the following year at Osaka, Japan's Prime Minister endorsed an ICFTU Asian Pacific Labour Network's petition.³⁰ At the same time, at Kyoto, NGOs and trade union representatives formulated the Kyoto Declaration. It stated that free trade would 'negate the development and democratic aspirations of people' and asserted that 'economic growth and trade must serve human development and be based on the rights of individuals and people'.³¹

5.28 Promotion of the APEC summit in the Philippines in 1996 involved extensive television and media coverage, advertising the themes 'APEC Means Prosperity' and 'APEC Means Business'.³²

5.29 Public resistance was strong. Five different parallel civil society conferences took place in November with over 1,000 representatives attending the Manila People's Forum. About 10,000 people attended mass demonstrations across the Philippines.³³

5.30 Following the unprecedented level of public and media debate about APEC, the Philippines Government agreed that APEC would consult with 'responsible representative' NGOs.³⁴ Some NGOs attended the APEC conference on environmental sustainability and the ICFTU submitted its Philippines Statement. The statement emphasised the importance of shared prosperity in the Subic Declaration, the need for the partnership of union, business and government and the importance of labour standards for poverty alleviation and social stability.³⁵

28 *Canada and APEC: Perspectives from Civil Society. Discussion Paper.* Prepared by the Policy Working Group for the Canadian Organising Network for the 1997 Peoples Summit on APEC, Canada, 30 July 1997, p. 3, attachment to ACFOA, submission no. 37.

29 See *Canada and APEC: Perspectives from Civil Society. Discussion Paper*, p. [3]

30 Australian Council of Trade Unions (ACTU), *Committee Hansard*, 5 February 1998, p. 550.

31 *Canada and APEC: Perspectives from Civil Society*, p. [3].

32 Dr P. Ranald, submission no. 8, p. 24

33 *Canada and APEC: Perspectives from Civil Society*, p. [3].

34 Dr P. Ranald, submission no. 8, pp. 24–25

35 Dr P. Ranald, submission no. 8, pp. 24–25; ACTU, *Committee Hansard*, 5 February 1998, p. 550.

5.31 NGOs also took this opportunity to assert their views on APEC's commitments to equitable and sustainable development. The Australian NGO's country paper for Manila's NGO forum called for:

an acknowledgement that liberalisation of trade and investment, if left entirely to market forces, will damage the environment, increase poverty and social inequity and undermine worker's rights and consumer standards. We argue that these impacts must be taken into account when trade policies are formulated.³⁶

5.32 Australian NGOs argued that research into the effects of liberalisation programs should be done before embarking on them. They also called for formal consultative mechanisms to be established at both national and international levels to 'increase transparency and democracy of decision making' under APEC.³⁷

5.33 In the lead up to the Vancouver meetings in 1997, Canadian NGOs reported that they planned to hold, for the first time, parallel meetings of labour and other NGO groups together.³⁸ This was prompted by the strong domestic coalition between these communities in Canada, and by the large degree of complementarity between views they held on the untenability of APEC's direction.³⁹ Canadian civil society hoped that the Vancouver meetings might be a turning point in APEC's history. Canada's strong history of public consultation, they believed, would allow official and unofficial contacts between APEC officials and civil society and so facilitate a 'broadening of the perspectives of the narrow one sided agenda pursued so far by APEC'.⁴⁰

5.34 Vancouver, with its inclusive focus on women's and youth issues, did slightly open up channels of communication. The ICTFU presented a detailed declaration to Canadian Prime Minister Chretien outlining measures to ensure the greater integration of labour and civil society groups into APEC decision-making.⁴¹ At the same time, APEC charged its Human Resources Development Working Group (HRDWG) to 'increase labour force participation, including women and youth, to improve the efficiency of labour and to develop human resources through education and job related training'.⁴²

36 'Country Paper for Manila NGO Forum on APEC: Australia', attachment to ACFOA, submission no. 37, p. [2], attachment to ACFOA, submission no. 37.

37 'Country Paper for Manila NGO Forum on APEC, p. [2], attachment to ACFOA, submission no. 37.

38 *Canada and APEC: Perspectives from Civil Society*, pp. [6-7], attachment to ACFOA, submission no. 37.

39 *Canada and APEC: Perspectives from Civil Society*, p. [6].

40 *Canada and APEC: Perspectives from Civil Society*, p. [7].

41 ACTU, *Committee Hansard*, 5 February 1998, p. 550.

42 *APEC Canada 1997*, Homepage <http://www.dfait-maeci.gc.ca/~apec/english/sustai-e.htm> (Access, 4 March 1998).

5.35 APEC was now to focus more on Ecotech as ‘capacity building’ and new emphasis was placed on the environment and sustainable development. In this context, APEC asserted the primacy of public/private sector collaboration to bring about the realisation of its vision, for example, of environmentally sustainable cities.⁴³ To coordinate the implementation of these initiatives by APEC Working Groups, a new Ecotech sub-committee of APEC Senior Officials Meeting (the ESC), was established. It was envisioned that NGOs might be brought in to monitor outcomes.⁴⁴

5.36 But initiatives to follow both in Kuala Lumpur in 1998 and New Zealand in 1999, did not suggest that APEC was on the brink of opening its doors to NGO opinion. At Kuala Lumpur, Malaysian Prime Minister Mahathir was pleased to pursue Ecotech initiatives, ratifying demands by regional leaders that APEC’s HRDWG should address unemployment issues as agreed in Bali in February 1998.⁴⁵

5.37 New Zealand followed through in 1999 with statements denying the validity of NGO concerns about the trade liberalisation agenda and asserting the primacy of the model in the lead up to the WTO millennium round.⁴⁶ The Leaders initiated broader consultation with business, to facilitate SME growth, as its contribution to wealth sharing. It did not escape the attention of New Zealand’s NGOs that the APEC Business Advisory Council was still the only ‘non-government’ group allowed unrestricted access to the Leaders Summit.⁴⁷

5.38 On the other hand, APEC, too, remains aware of community feeling represented by NGOs. In February 1998, DFAT told the Committee that APEC members had endorsed an Australian initiative to engage communications experts and market researchers to uncover the ‘anxieties of non government groups and the community at large about globalisation and trade liberalisation’. A valuable initiative in itself, its potential seems undersold in DFAT’s explanation that its aim was ‘to find better ways of communicating government perspectives’.⁴⁸

5.39 In this way, APEC dramatically failed to demonstrate the receptivity needed to manage these issues effectively. In February 1998, Dr Edna Ross, Australian Council for Overseas Aid, told the Committee:

43 See *APEC Canada 1997*, Home Page, APEC and Sustainable Development, Internet site: <http://www.dfait-maeci.gc.ca/~apec/english/sustai-e.htm> (4 March 1998).

44 Foundation for Development Cooperation, Supplementary Submission no. 14A, p. 6.

45 Mr Matt Ngui, *Committee Hansard*, 3 February 1998, p. 440.

46 See Address to APEC Small and Medium Enterprises Ministers’ Meeting, Rt Hon Jenny Shipley, Prime Minister, 26 April 1999, *APEC* Internet site (7 July 1999) and Russel Norman ‘APEC: the Landlords Come to Town’, *Green Left Weekly*, Internet site: <http://jinx.sistm.unsw.edu.au/~greenlft/1999/377/377p21.htm> (20 October 1999).

47 Norman, ‘APEC: the Landlords Come to Town’, *Green Left Weekly*, (20 October 1999).

48 *Committee Hansard*, 18 February 1998, p. 845.

If you go to the NGO forums, a lot of them want to abolish APEC. So there is huge opposition to what the agenda is, and it is the trade liberalisation agenda that there is opposition to. If there were any sign that APEC meetings were genuinely looking at how to improve the living conditions of people in the region, which is what it says it is meant to be doing, then I think the opposition would be reduced.⁴⁹

5.40 As the United Nations has observed, the activities of NGOs represent a current of genuine community concern that has grown with the rise of the global market forces APEC seeks to manage:

The emergence—or, in several parts of the world, the re-emergence—of civil society, is linked to two interlocking processes: the quest for a more democratic, transparent, accountable and enabling governance and the increasing preponderance of market based approaches to national and global economic management, which have resulted in redefining the role of the State and vested new broader responsibilities in market and civil society actors in the pursuit of growth and well-being. In this overall context, a vibrant civil society is critical to processes of democratisation and empowerment.⁵⁰

5.41 The advent of the Asian crisis has given greater impetus to economic cooperation within APEC and increased the role of development cooperation, reducing its disparity with trade and investment liberalisation and facilitation.

5.42 Amnesty International criticised APEC for not focusing on the human rights implications of the crisis. It submitted that APEC, as a ‘prisoner of its own growth rhetoric’, had failed to note the nexus between its call for transparency and accountability in the financial scene and the importance of these in legal and political terms. However:

The crisis has seen belated recognition that the rule of law, good governance, transparency and accountability in the financial systems, are inextricably linked to the lack of basic human rights and labour standards in the countries of concern.⁵¹

5.43 Amnesty reported that the crisis has caused an acceleration of human rights abuses, turning back the tide of advances in a number of countries where, for example, progress recently made in the area of trade union and workers rights were rolled back.⁵²

49 *Committee Hansard*, 2 February 1998, p. 268.

50 Quoted in ‘Engagement with Civil Society Organizations by Multilateral Organizations’, APEC SOM Chair Office 18 August 1997 (prepared by Canadian Government), p. [4]; attachment to ACFOA, submission no. 37.

51 Submission no. 58, p. 20.

52 Submission no. 58, pp. 8–14.

5.44 Ms Joanna Hewitt, then Australian Ambassador to APEC, told the Committee, in answer to the question ‘Is there a danger that we are shifting away from APEC’s charter, or its perceived charter, of economics and getting further into social issues to the detriment of the economic aspect of APEC?’:

It is something we are concerned to avoid. I think that, while there is a good case for proceeding with an initiative the Americans introduced in Kuala Lumpur to look at cooperation between APEC member economies in the area of the social impacts of the financial crisis—for example, things like improving the capacity of those economies to deal with unemployed and those in dire need of food support and so on—we would want to make sure that was done in a way that was consistent with what APEC is capable of achieving. In other words, it would be through providing, where it is helpful, policy support and technical expert assistance that might help those economies improve their own capacity to deal with those problems.

But we are concerned about a broad brush idea—for example, that you should have large numbers of meetings of APEC officials and NGOs on gender issues. The Canadians have been keen to see APEC, as an institution, engage in a much more elaborate set of consultations with NGOs at the international level’.⁵³

5.45 Asked whether there was a danger in broadening APEC’s agenda, Ms Hewitt replied:

I think there is a risk. That is why in our input, both at official and at ministerial level, we have been very much on the cautious side, and have been reluctant to see too much expansion in this area. We have been quite anxious to make sure that the focus stays on the trade and economic heartland.⁵⁴

5.46 During the inquiry, a number of people advocated a broadening of APEC’s agenda to include issues other than economic/business issues. Overwhelmingly, they have argued for the inclusion of social issues rather than their substitution for APEC’s economic/business agenda. Most have supported TILF but are nevertheless anxious to ameliorate the ill effects that some people are subjected to as a result of trade and investment liberalisation. While these are often national issues, which are the responsibility of governments of member economies, APEC does have a role to play. Adverse effects of liberalisation can be taken into account in the planning stages and there is provision within Ecotech for technical assistance to be made available, if necessary, to member economies.

5.47 With regard to labour issues, the ACTU quoted the Duffy Report, which considered that Australia, with its ‘commitment to trade in the region and its key role in international labour fora in the past’, would be a good ‘honest broker’ in any

53 *Committee Hansard*, 18 February 1999, p. 855.

54 *Committee Hansard*, 18 February 1999, p. 855.

discussion on labour-related human rights issues in APEC. The report recommended that: ‘within the consensus-style decision making essential to APEC’s operations, the Australian Government should play a positive role in encouraging its APEC counterparts to move towards a constructive dialogue on core labour standards’.⁵⁵

5.48 The ACTU suggested that Australia should support the formation of an APEC labour forum as a balance to ABAC.⁵⁶ Mr Tim Harcourt, Research Officer, ACTU, suggested this should be a labour–employer forum, to allow a cross-fertilisation of views between workers and employers.⁵⁷

Conclusion

5.49 For a long time, APEC focused almost exclusively on its economic/business agenda, regarding a social agenda as unnecessary distractions to the main game of trade and investment liberalisation and facilitation. It was not that social issues, such as labour and the environment were ignored completely, as these issues were addressed in working groups and committees. They did not, however, occupy any prominent place in the organisation and their proponents were not given any formal role in the way that business was accorded formal status through ABAC.

5.50 Although there was a gradual recognition of the need to address social issues in relation to APEC’s TILF program, it was not until APEC began addressing the adverse social effects of the East Asian financial crisis that social issues assumed a more prominent role within APEC. Economic and social issues are intertwined and there is sense in considering them together rather than as separate entities. If APEC is going to provide higher living standards and a sustainable environment for member economies, it cannot ignore elements of the package that will provide those outcomes.

5.51 In giving support to a slight broadening of APEC’s agenda, the Committee is not advocating any change to the primacy of the TILF program. But, as it has already started to do, APEC should take more account of issues that will be affected by progress in TILF and consult parties with interests in these areas, particularly NGOs.

Recommendation

The Committee recommends that the Australian Government, while giving primacy to APEC’s trade and investment liberation and facilitation agenda, also support the social agenda that will assist all areas of the populations of APEC’s member economies to benefit from the realisation of APEC’s long-term goals.

The Committee recommends that the Australian Government support formal status for non-business NGOs within the APEC structure.

55 Duffy Report, pp.72–73, quoted in submission no. 5, p. 9.

56 Submission no. 5, pp. 9, 15.

57 Mr Tim Harcourt, *Committee Hansard*, 5 February 1998, p. 556.

CHAPTER 6

TRADE AND INVESTMENT FACILITATION—THE COSTS OF DOING BUSINESS

Trade facilitation—second pillar of APEC’s agenda

6.1 The distinction between trade and investment liberalisation and trade and investment facilitation is difficult to make. Both processes involve removing obstacles to trade and investment. Liberalisation tends to be concerned with removing impediments which ‘affect the movement of products, including services, or factors of production across customs barriers’ while facilitation is generally concerned with the ‘cost or difficulty of doing business’ in another country. Thus the reduction or removal of tariffs, quotas, subsidies, and licensing requirements are deemed to be liberalisation while trade and investment facilitation seeks to minimise delays and costs due to customs red tape, consignment hold-ups, travel restrictions, testing and re-testing of products and the multitude of complex and cumbersome commercial transaction procedures. Even so, the distinction between the two is often blurred.¹

6.2 Despite the problems in defining and separating the two processes of liberalisation and facilitation, APEC over the years has developed an agenda with a distinct three-pronged strategy which comprises: trade and investment liberalisation; trade and investment facilitation; and economic and technical development. Often referred to as the three pillars of the APEC agenda, each pillar is held to be equally important and mutually reinforcing.

6.3 In their Bogor Declaration of 1994, APEC Leaders announced that to complement and support the process of liberalisation, they would expand and accelerate APEC’s trade and investment facilitation programs. This would promote further the flow of goods, services and capital among APEC economies by eliminating administrative and other impediments to trade. They went on to state:

We emphasize the importance of trade facilitation because trade liberalization efforts alone are insufficient to generate trade expansion. Efforts at facilitating trade are important if the benefits of trade are to be truly enjoyed by both business and consumers.²

6.4 In this chapter, the Committee presents an overview of impediments to trade in the Asia Pacific region. It assesses trade and investment facilitation as the second pillar of APEC’s agenda and how APEC has gone about trying to provide an open and conducive environment in which to conduct business. The Committee examines issues

1 PECC, *Perspectives on the Manila Action Plan for APEC*, Second Edition, 1996, p. 31.

2 APEC Economic Leaders’ *Declaration of Common Resolve*, Bogor, 15 November 1994.

such as product standards and conformance and customs procedures, and touches on the more sensitive areas of competition policy, intellectual property rights and dispute mediation.

The barriers to doing business

6.5 Traditional trade barriers such as tariffs and quotas are not the only strategic obstacles to free and open trade. A raft of trade and investment procedures, rules and regulations, unfriendly trade policies lacking transparency or arbitrarily applied and infrastructure problems can impede economic transactions.

6.6 A study prepared by UNCTAD in 1994 showed that seven to 10 per cent of the value of goods traded internationally involves the cost of import documentation and other formalities. On average, an international transaction involves between 27 and 30 different parties, 40 documents, 200 data elements and the re-keying of 60 to 70 per cent of all data at least once. Furthermore, meeting these transaction requirements and costs are separate from the costs incurred in satisfying diverse standards, technical regulations, inspection requirements and performance tests.³

Impediments to trade in the APEC region

6.7 Impediments to trade and investment are still relatively high in a number of APEC economies. Mr Christopher Butler, Chair of the APEC Committee on Trade and Investment (1997), maintained that trade facilitation is 'of direct interest to all enterprises in the region, because of the truism a dollar saved is a dollar earned'. He anticipated that improved customs procedures, the harmonisation of standards, better access to information, paperless transactions, the protection of intellectual property, simplified business travel, and other measures to reduce transaction costs would bring substantial benefits to business in the region.⁴ In 1997, the APEC Economic Committee estimated that trade facilitation would create a gain of about 0.26 per cent of real GDP to APEC (or about US\$45 billion), while the gain from trade liberalisation would be about 0.14 per cent of real GDP (about US\$23 billion).⁵

6.8 A 1999 update assessing APEC Trade Liberalization and Facilitation underlined the significant role of trade facilitation. This report estimated that real income gains of approximately US\$46 billion may accrue to the region from the APEC trade facilitation measures already agreed to. The report stressed that there is still the potential to increase these gains to US\$64 billion, or 0.4% of GDP by

3 *MAPA Highlights, Reducing the Cost of Doing Business*, APEC, 1996: See also Philippa Dee et al, *The Impact of APEC's Free Trade Commitment*, Staff Information Paper, Industry Commission, February 1996, p. 10.

4 Christopher Butler, 'APEC: Pathway to Prosperity', APEC, Press release 4, <http://www1.apecsec.org.sg/whatsnew/press/re10a497.html> (5 October 1999).

5 APEC, Report by the Economic Committee, *The Impact of Trade Liberalization in APEC*, November 1997, p. iii.

implementing trade facilitation actions which contribute to reducing the costs of imports.⁶

6.9 Several witnesses before the Committee outlined the difficulties they, or those whom they represent, face in exporting goods and services to APEC economies. Mr Michael Crouch, an Australian representative on ABAC, referred to the diversity of cultures that exist within the APEC membership and the many ways of doing business in the region that depart from established methods. He pointed out that in Asia there is no protection of intellectual property; there is ‘no common customs system, no harmonisation of standards, no testing mechanism for the adoption of standards and no mutual recognition agreement of standards’.⁷ Mr Mitchell Hooke, from the Australian Food Council, also drew attention to a number of significant barriers to trade stating, for example, that ‘some of the shelf-life and labelling standards are quite draconian and quite prohibitive in terms of trade’.⁸

6.10 Mr Alex Gosman, Executive Director of the Australian Electrical and Electronic Manufacturers Association (AEEMA), also identified impediments to trade, such as testing and performance barriers, a lack of knowledge of Australia’s capabilities and different standards. In particular, he cited the retesting procedures required for minor changes to products and concluded that in a number of cases members had advised AEEMA that they would avoid a particular export market because of the difficulty in getting through retesting arrangements.⁹

6.11 In 1995, Australia’s Manufacturing, Engineering & Construction Industry Association (MTIA) surveyed its members engaged in international trade on the trade barriers they face in APEC economies. Only a sample of the non-tariff barriers identified in the survey is given below:

Regulations

China	stringent Government regulations apply and there is preferential treatment of imports from the United States
Chinese Taipei	quantitative restrictions and local content regulations apply

6 APEC, Economic Committee, *Assessing APEC Trade Liberalization and Facilitation—1999 Update*, September 1999, p. 33.

7 *Committee Hansard*, 3 February 1998, p. 415.

8 *Committee Hansard*, 6 March 1998, p. 734.

9 *Committee Hansard*, 27 October 1997, pp. 92–93, 98. See also comments by the South Australian Government, *Committee Hansard*, 6 February 1998, pp. 635–6, DPIE; Submission no. 36, p. 3; and Plastics and Chemicals Industries Association, *Committee Hansard*, 5 February 1998, p. 559. The South Australian Government singled out harmonising customs procedures, regional-wide tariff database and mutual recognition arrangements as important measures to facilitate trade. From DPIE’s experience, industries associated with primary production and energy were looking for greater transparency of regulations and procedures in areas such as quarantine, food inspection and customs clearance as well as greater alignment of standards with internationally accepted standards.

Malaysia limitations on foreign ownership apply

Standards

Brunei Darussalam all commodities are required to conform with either Brunei or British Standards

Hong Kong United Kingdom industrial standards are specified despite the fact that in many instances these standards do not suit local conditions

Indonesia whitegoods exported to Indonesia must meet the electrical standards of the country

Japan Japanese Industrial Standards are frequently reported as a major barrier

Malaysia electrical machinery and appliances sold in Malaysia must conform with Malaysian or British standards

United States unique standards apply in some industries.

Limitations on market access

Korea complex procedures apply to become an approved contractor for defence products and Australian exporters have to contend with stringent supplier requirements which favour local suppliers

The Philippines for medical equipment and welding consumables and equipment, importers must go through a registered local trading company, however, registration is difficult for locals.¹⁰

6.12 It is important to note that non-tariff barriers are particularly severe for small and medium-sized enterprises with their smaller economies of scale, their limited ability to absorb extra costs and their difficulties in gaining access to important information. APEC SME Ministers meeting in April 1999 recognised that ‘Non-tariff barriers represent “fixed costs” in international trade, which are disproportionately burdensome for SMEs’. They called on the APEC working groups to accelerate their trade facilitation work.¹¹

10 Attachment 4 to MTIA’s submission to the White Paper on Foreign and Trade Policy, included in submission no. 28 to the APEC Inquiry.

11 APEC, ‘Joint Statement’, Small and Medium Enterprise (SME), Sixth Ministerial Meeting, Christchurch, 26–28 April 1999.

The successes—small but significant steps

6.13 Clearly, businesses throughout the APEC region face obstacles on many fronts in exporting their products to other member economies. The task of removing these impediments, however, has proven difficult. Mr Christopher Butler recognised that, although large returns would result from reductions in transaction costs, it would be a ‘long-term and painstaking process of facilitating trade and making it easier to do business across borders’.¹²

6.14 ABAC pointed out that the dismantling of non-tariff barriers presented a dual challenge as they are both difficult to define and their effects are hard to assess.¹³ Indeed, the Australian Chamber of Commerce and Industry, in considering the problems in removing non-tariff barriers, told the Committee, ‘Oh yes, tariffs are all fine. We can all see those; we have all written down what we are going to do, but what are we going to do about non-tariff barriers? That will be one of the more...sensitive areas.’¹⁴

6.15 ABAC stressed in its 1999 report, that the lack of data on non-tariff measures was still a problem and an area that APEC needs to address urgently.¹⁵

6.16 Despite the difficulty in identifying and dismantling trade barriers, APEC, since its inception, has worked to lower transaction costs and to promote the efficient flow of goods, services and capital among its members. APEC’s initial agenda incorporated trade and investment facilitation objectives. The agenda has progressively broadened to take in a wide range of activities that go beyond traditional border protection to include administrative, regulatory and structural obstacles to trade and investment.¹⁶ In 1997, APEC Leaders announced that among multilateral and regional fora:

APEC is a pioneer in the area of trade and investment facilitation. Our business community tells us that this is the area of APEC activity of most immediate relevance to them. Lowering costs, eliminating red-tape and delay, promoting regulatory reform, developing mutual recognition arrangements on standards and conformance, and increasing predictability are clear benefits, especially to operators of small and medium-sized enterprises.¹⁷

12 Christopher Butler, ‘APEC: Pathway to Prosperity’, APEC, Press release 4, <http://www1.apecsec.org.sg/whatsnew/press/re10a497.html> (5 October 1999).

13 ABAC, Action Plan Monitoring Committee 1999 Report in ABAC, 1999 Report to APEC Economic Leaders, APEC, 1999.

14 Mr Brent Davis, *Committee Hansard*, 29 September 1997, p. 38.

15 Action Plan Monitoring Committee 1999 Report in ABAC, 1999 Report to APEC Economic Leaders, APEC, 1999, http://www.apecsec.org.sg/ABAC/reports/rtael99_apmc.html (26 August 1999).

16 Mr Peter Grey, DFAT, *Committee Hansard*, 20 October 1997, p. 53.

17 APEC 97 Leaders Declaration, para. 7.

6.17 APEC's commitment to facilitate trade and investment in the region is evident in the extent of activities being undertaken by the ten APEC working groups and the various experts groups and special committees. In 1997, APEC ministers endorsed work in the following areas:

- development of the Blueprint for Customs Modernization and of initiatives on customs cooperation;
- establishment of APEC Internet sites for business information and assistance;
- progress on alignment with international standards;
- increased transparency for acquiring and using intellectual property rights;
- development of a menu of options to enhance the environment for investment that members can voluntarily choose to include in their IAPs;
- the development of model mutual recognition arrangements;
- principles to guide work on dispute mediation;
- improved mobility for business people including through expanded participation in the APEC Business Travel Card Scheme;
- non-binding elements of transparency in government procurement;
- work to make the Asia Pacific information society a reality;
- completion of APEC guidelines for the preparation, adoption and review of technical regulations;
- providing public accessibility through the Internet to the applied tariffs of APEC member economies;
- action plans to create integrated and intelligent transportation systems;
- market and trade information for fishing industries;
- development of guidelines for streamlining and making more transparent the tendering, approval, and regulatory processes for independent power producers;
- initiatives in the Trade Promotion and Trade and Investment Data Review Working Groups.¹⁸

6.18 Although the program is wide-ranging and ambitious, the descriptions of many of the projects are generally vague and open-ended. Even so, APEC has made notable progress particularly in the areas of standards and conformance and customs. Moreover, the trade facilitation initiative has received greater attention in more recent years. In particular, APEC Ministers in Kuala Lumpur in 1998 called for intensified work on trade facilitation and in 1999 APEC sharpened its focus on trade

18 Ninth APEC Ministerial Meeting Statement, Vancouver, 21–22 November 1997, para 5.

facilitation.¹⁹ In their joint communique APEC Leaders instructed their Ministers to give priority to APEC's trade facilitation programs for the coming year.²⁰

Standards and Conformance—'tested once, accepted everywhere'

6.19 Most people would agree that standards are necessary to safeguard consumer health and safety and to protect the environment. But, as noted by the APEC Economic Committee, 'diverse standards and technical regulations along with the corresponding testing procedures for compliance can effectively limit market access by preventing economies of scale, raising production and/or testing costs and increasing the possibility of products being rejected at the customs border of the importing economy'.²¹

6.20 There are strong commercial incentives for establishing uniform standards and for implementing a more efficient, more rational process of obtaining recognition for each other's measurement standards. The APEC Economic Committee pointed out, however, that the harmonisation process 'can be daunting and complex, and careful planning and implementation is critical to ensure that the collective standards meet individual economies' needs'. It noted:

Unnecessary incompatibilities impose several costs. The most obvious may be excessively high transaction costs: examples include the frictions between the metric and imperial systems, differences in color television broadcast formats between the United States and Europe, left-hand drive and right-hand drive vehicles, railroad gauge standards and voltage standards. In such cases, the likely effect is to reduce product variety and international competition in particular markets, as potential exporters are discouraged from entering markets with different standards.²²

6.21 Witnesses from a number of Australian Government departments and business organisations agreed that standards and conformance present a major impediment to trade and market access in the APEC region. DFAT pointed out that the standards issue, such as standards that cannot be met, which are variable or higher or simply different for no particular reason, is probably one of the issues which businesses will most often mention as being a non-tariff barrier.²³

19 APEC, Economic Committee, *Assessing APEC Trade Liberalization and Facilitation—1999 Update*, September 1999, pp. iii, 1 and 10.

20 APEC, Leaders' Declaration, 'The Auckland Challenge, APEC Economic Leaders' Declaration, 13 September 1999, <http://www1.apecsec.org.sg/virtualib/econlead/nz.html> (20 September 1999).

21 APEC, *The Impact of Trade Liberalization in APEC*, Report by the Economic Committee, November 1997, p. 6.

22 APEC Economic Committee, *1996 APEC Economic Outlook*, APEC Secretariat, Singapore, 1996, p. 108.

23 Mr Peter Grey, *Committee Hansard*, 20 October 1999, p. 83.

6.22 The ACCI believed that standards and conformance for products and services was an area where the APEC leaders could offer a substantial down payment on the Bogor Declaration—‘an initiative which would be conducive to promoting APEC’s trade facilitation agenda’. It submitted:

Amongst the main near term priorities for standards are clarity and transparency: that is, standards which are clearly defined, consistently applied, made known to (or readily knowable by) business, and easily understood. In the medium to longer term, there is much to be said for the effective harmonisation of standards.

In the conformance area, the main near term priority must be to move towards mutual recognition of testing arrangements, which the EPG neatly encapsulates with the pithy phrase ‘tested once, accepted everywhere’. To overcome the inevitable claims such an approach would mean testing standards and practices would fall to the level of the weakest performer, the better approach could be ‘tested to existing international standards, accepted everywhere in APEC’.

Such a streamlining of regional standards and conformance arrangements would hold out the promise of considerable cost savings for business, especially for the smaller to medium sized enterprises who are not able to meet the direct testing costs and the expenses relating to lost product or inventory (that is, ‘consumed’ in the testing process).²⁴

6.23 Under APEC’s trade facilitation agenda, the current major focus is on standards and conformance. The APEC Sub-Committee on Standards and Conformance (SCSC) is the body in APEC responsible for promoting cooperation on standards and conformance activities intended to facilitate trade and reduce costs for business. It encourages members to align their standards with international standards and to achieve mutual recognition of conformity assessment. The Sub-Committee promotes cooperation for technical infrastructure development in order to facilitate broad participation in mutual recognition arrangements and it also seeks to ensure the transparency of the standards and conformity assessments of APEC economies.²⁵

6.24 CSIRO maintained that the SCSC has been a very useful forum for APEC to convey the good news about measurement standards. It argued that standards are taken more seriously in the United States than it probably would have been had APEC not come along. It stated: ‘there really is a coming together across regions which has been driven to some extent at least by the presence of APEC’.²⁶ Clearly APEC, through committees such as the SCSC, is a catalyst for promoting trade and investment through the Asia Pacific region and globally.

24 ACCI, *What Australian Business Wants From the Osaka’s Meeting*, ACCI, September 1995, in ACCI, submission no. 25, p. 44.

25 Information taken from APEC, *Activities by groups, Standards and Conformance*, 25 June 1999, <http://www1.apecsec.org.sg/committee/standards.html> (30 June 1999).

26 Dr Barry Inglis, *Committee Hansard*, 2 February 1998, p. 323.

6.25 In 1997, Mr Peter Grey, the then Australian Ambassador to APEC, told the Committee that much work was being done on standards to encourage economies to align their standards with international standards, and to develop mutual recognition arrangements.²⁷ But, despite the advances made in the standards and conformance area, the Department of Industry Science and Technology (DIST) acknowledged that efforts must continue. Mr Wright explained:

...the work being done in the standards and conformance area to make sure that we all understand each other's standards so that we can eliminate differences of that kind is a very important non-tariff measure...No-one is suggesting that it is going to be all plain sailing between now and 2010, but there is that commitment, and it is up to all of us to make it work.²⁸

6.26 Mr Drew Andison (DIST) admitted that SCSC has taken small steps in its program toward achieving uniform standards and measurements. He reported that there 'has been agreement within the subcommittee to align members' national standards with international standards in priority areas, most particularly in the electrical area on a product by product basis in certain areas'. Mr Andison told the Committee that a new work program had been developed in relation to building and construction where there are international standards, 'but their development so far has been dominated by European interests'.²⁹

6.27 On this matter of European standards, he explained that some of the issues covered by international standards deal with requirements for products, such as snow loadings, which are not relevant to a number of Asian economies. Mr Andison told the Committee:

...the thrust of our work over the next year is to try and get a greater regional input into those standards so that when we talk about alignment with international standards, we are aligning with standards that are actually relevant to the region rather than dominated by European interests.³⁰

6.28 In turning to the area of mutual recognition in conformity assessment, Mr Andison explained that the sub-committee had completed a mutual recognition arrangement on food and food products which became operational in 1997. This mutual recognition arrangement (MRA) allows the results of testing and certification in an exporting economy to be accepted by the importing one rather than having products retested upon entry.³¹ According to the Department of Primary Industries and Energy (DPIE), the arrangement will provide the basis for the development and implementation of product and/or sector specific arrangements. It pointed out:

27 *Committee Hansard*, 20 October 1997, pp. 82-3.

28 *Committee Hansard*, 24 November 1997, p. 216.

29 *ibid.*, pp. 217-18.

30 *ibid.*, p. 218.

31 *ibid.*

In addition to facilitating trade, the MRA also provides a platform for pursuing access issues, information exchange on import requirements and food safety issues, and to increase confidence in each other's regulatory authorities and/or regimes.³²

6.29 In its 1999 report, ABAC recommended that, as part of the initiative to set up an APEC Food System, science-based sanitary/phytosanitary standards be established to facilitate production and trade in agri-food.³³ One of the major outcomes in 1999 was an agreement on the arrangement for the exchange of information on food recalls and food recall guidelines.³⁴

6.30 An arrangement was also reached for the exchange of information on toy safety among APEC member economies. The arrangement, which seeks to reduce the risks to the health and safety of children arising from toys, provides a mechanism for the exchange of information among participating members.³⁵

6.31 The recent focus on food and on toys is generally recognised as being too modest and according to DPIE could reasonably be extended to include electrical and electronic equipment, automotive and transport equipment, medical and health devices and products, construction materials, and chemicals. Mr Andison noted that work was advanced on negotiating a mutual recognition arrangement within APEC for electrical products. He concluded 'when completed that project will significantly enhance the ability of electrical products to be traded within the region'.³⁶ Indeed in 1998, SCSC agreed to align member economies' standards with international standards on safety and electromagnetic compatibility by 2004/2008 and in 1999 agreed on a MRA for electrical and electronic equipment.³⁷

6.32 Overall, and as noted by Trade Ministers in June 1999, compliance costs associated with trade need to be reduced but that APEC's progress in simplifying and standardising existing processes is too slow.³⁸ ABAC endorsed this view in its 1999 report calling on APEC members to place priority in identifying and eliminating non-tariff measures in the areas of standards and conformance.³⁹

32 Submission no. 36, p. 6.

33 Letter to Rt Hon Jenny Shipley, in ABAC, 1999 Report to APEC Economic Leaders, APEC 1999, p. 5, http://www.apecsec.org.sg/ABAC/reports/rtae199_letter.html (28 August 1999).

34 APEC, 1999 CTI Annual Reports to Ministers, 1999, p. 42.

35 APEC, Standards and Conformance, <http://www.apecsec.org.sg/scsc/scsc-toy.html> (5 October 1999).

36 *Committee Hansard*, 24 November 1997, p. 218.

37 CTI, Annual Report, 1998, http://www1.apec.org.sg/cti/cti98/rpt2mins98_2a1.html (8 January 1999); APEC, 1999 CTI Annual Reports to Ministers, 1999, p. 42.

38 Annex B, Trade facilitation issues in Statement of the Chair, Meeting of APEC Ministers Responsible for Trade, Auckland, 29–30 June 1999, http://www.apecsec.org.sg/whatsnew/press/rel37_99.html (32 July 1999).

39 Action Plan Monitoring Committee 1999 Report in ABAC, 1999 Report to APEC Economic Leaders, APEC, 1999, http://www.apecsec.org.sg/ABAC/reports/rtae199_apmc.html (26 August 1999).

6.33 The Committee welcomes the work being done by APEC in the area of standards and conformance. It supports the recommendation of the Australian Chamber of Commerce and Industry that APEC leaders be encouraged to give undertakings to accelerate the development and operation of a standards and conformance regime in the Asia Pacific region based on the principle of ‘tested once to existing international standards, accepted everywhere in APEC’.⁴⁰

Customs procedures—the bane of business people

6.34 Another area where APEC is making a valuable down payment on trade facilitation is customs simplification. Customs processes add to the cost of doing business and the more complicated and time-consuming the process, the more costly it is for business. Streamlining procedures and minimising the time taken to get products into a country will reduce costs. The Australian Customs Service recognised that burdensome customs procedures and practices are a significant impediment to trade in the region. Mr Holloway from Australian Customs told the Committee:

This is an area where business has said to us, ‘We believe that some work needs to be done here. It takes us two or three times as long to get our goods into particular countries than others’. There is a question of corruption associated with it, so it can be a very significant non-tariff measure. That is why simplification, harmonisation, throughout the region is seen as being a fundamental reduction to cost to business.⁴¹

The Customs Service estimated that ‘one or two per cent of the cost of doing business and international trade comes from delays at borders or customs problems’.⁴²

6.35 Clearly, the diversity and complexity of customs processes and regulatory procedures operating within the APEC region present significant hurdles to trade and may deter business from engaging in international transactions. The ACCI explained how measures that expedite the flow of goods and simplify customs procedures would bring substantial benefits to exporting firms. It submitted:

A single, standard customs document for all products would overcome the need for various forms and paper-trails for different products to different countries. Administrative processes and compliance costs for governments, as well as for business, would be made much easier if such an approach could be put in place. The deadweight costs of international trade would also be reduced.

Greater use of electronic data interchange would streamline the customs processing task by encouraging more effective use of risk management approaches to the proper barrier protection work of customs agencies

40 Submission no. 25, p. 44.

41 *Committee Hansard*, 27 October 1997, pp. 118–19.

42 *ibid.*, p. 116: See also Australian Customs Service, submission no. 39, p. 10.

(including greater use of computer software-based random selection and checking procedures), as well as overcoming the perennial problem of misplaced or incomplete paperwork resulting in sometimes commercially damaging delays in customs processing.

It would also be useful in redressing bribery and extortion which remain problems in some parts of the world, and enable much faster and more broadly based take-up of pre-clearance arrangements, the latter of which would be especially advantageous for time-sensitive products such as foodstuffs.⁴³

6.36 APEC customs authorities fully appreciated that certainty and speed in clearing goods through international borders would lower costs to business and would assist each economy's growth and development. The APEC Customs Procedures Group of Customs Experts was converted into a formal CTI Sub-Committee on Customs Procedures (SCCP) in 1995. This was in response to the priority that APEC Ministers had given to addressing customs procedures. The major focus of SCCP's program is to harmonise and simplify customs procedures across the APEC region. It aims to 'facilitate trade and investment by expediting the cross-border flow of low risk, legitimate goods and travellers while at the same time dealing effectively with the growing contraband problem'.⁴⁴

6.37 The SCCP has developed a comprehensive work program to improve customs practices throughout the APEC region and during 1997 broadened and deepened its program. It has already achieved a number of significant results, which include:

- full implementation of the Harmonised System of Classification—all APEC economies are now using a common system of tariff nomenclature using a standardised system that will benefit business by engendering certainty and preventing confusion.⁴⁵
- publication of *A Blueprint for Customs Modernization Working with Business for a Faster, Cheaper and Better Border*—it describes, in practical terms, customs simplification and harmonisation in the Asia Pacific region. This publication was updated in 1999.
- launch of the APEC Tariff Database on the Internet—Australia was the chair of the APEC Tariff Database Taskforce throughout the life of the project which brought together the SCCP and Federal Express to introduce an interactive database detailing tariff information for all APEC economies onto the world wide web. The database is freely available to the public and contains current and comprehensive tariff and tariff-related information from most APEC

43 Submission no. 25, p. 45.

44 Australian Customs Service, submission no. 39, pp. 1–2. For background information on CTI, see chapter I, paras, 1.44 and 1.86.

45 Australian Customs Service, submission no. 39, p. 2.

economies.⁴⁶ This marks the first time that there has been a compilation of all the applied tariff rates for all the APEC economies in one location and in English.⁴⁷

- publication of a handbook of SCCP best practices related to customs laws, regulations, administrative regulations and rulings—also available on the Internet.
- seminars and workshops on rules of origins, risk management and computer applications and the United Nations Electronic Data Interchange for Administration, Commerce and Transport (UN EDIFACT)—EDIFACT is a computer messaging system and Australia is the lead shepherd for this project.⁴⁸

6.38 Mr Holloway also explained to the Committee that the Australian Customs Service was looking at the Internet as a means of providing cheaper information on customs matters to business, particularly small business. He also said that the Customs Service was working on a number of pilot projects involving the Internet in order to provide information and cargo automation.⁴⁹ A Virtual Customs Group has been established to explore and develop common approaches towards developing a compendium of APEC customs initiatives on electronic commerce.⁵⁰

6.39 Clearly APEC has made headway in simplifying and harmonising customs systems across the region. The focus has turned to establishing electronic data change systems and shared data bases. APEC is gradually moving toward ‘paperless trading’ but again as noted by APEC Trade Ministers in June 1999 progress in modernising and harmonising is too slow.⁵¹ This assessment was further underlined by ABAC in its report to Economic Leaders in 1999, when, in acknowledging the efforts by APEC officials to streamline customs procedures, it stressed that business ‘continues to tell us that there are still serious obstacles to trade in this area’.⁵²

46 Australian Customs Service, submission no. 39, p. 5; see also APEC, 1997 Collective Active Plans (CAPs), <http://www.apecsec.org/cti/ipart1.html> (27 November 1997).

47 Mr Reinhard Thieme, DPIE, *Committee Hansard*, 17 November 1997, p. 194.

48 The achievements noted are only a sample taken from APEC CTI 1998 Report, Convenor Summary Reports and Collective Action Plans and APEC, CTI 1999 Annual Report to Ministers, 1999. for information on UN-EDIFACT see Mr Stephen Holloway, *Committee Hansard*, 27 October 1997, p. 127. The 1998 CTI Report also listed work being done by SCCP including the development of a comprehensive work program for the three new CAPs on common data elements, risk management, and express consignment clearance.

49 *Committee Hansard*, 27 October 1997, p. 126.

50 APEC, Activities by Groups, Customs Procedures, updated 25 June 1999; APEC, 1999 CTI Annual Reports to Ministers, 1999, p. 49.

51 Statement of the Chair, Meeting of APEC Ministers Responsible for Trade, Auckland, 29–30 June 1999.

52 Letter to Rt Hon Jenny Shipley, Prime Minister of New Zealand, in ABAC, 1999 Report to APEC Economic Leaders, APEC 1999, http://www.apecsec.org.sg/ABAC/reports/rtael99_letter.html (26 August 1999).

Quarantine

6.40 An area closely related to customs is quarantine. The Australian Wheat Board submitted that quarantine is an area where sudden changes in standards can have a significant impact on trade and can act as a significant non-tariff barrier.⁵³ Dr Gebbie (DPIE) agreed that trade barriers, such as quarantine, are looming as significant. He told the Committee, however, that although such issues are being addressed in APEC, 'it is early days'.⁵⁴

Mobility of business people

6.41 Business mobility is of significant importance to enterprises. In 1996, ABAC recognised that travel within the region had increased in recent years and that economic growth had generated a substantial increase in business opportunities while improvements in transportation had reduced the cost and time of travelling. It noted, however, that despite these advantages many unnecessary impediments to business travel remain. Delays in expediting the entry and exit of business travellers as well as hold-ups in the approval of business residency permits and their extension, if required, constitute real barriers to time-efficient business operations.⁵⁵

6.42 Australia, in its 1996 IAP, announced that it would work with other APEC members to establish the APEC Business Travel Card system, allowing the equivalent of visa-free travel to participating economies for accredited business people.⁵⁶ As an interim step, Australia, Korea and the Philippines agreed in 1997 to implement the scheme on a trial basis. Chile and Hong Kong, China also joined the scheme.⁵⁷ The scheme started operating on a permanent basis from March 1999 and seven APEC economies are now participating.⁵⁸ The travel card offers significant time and cost savings to business travellers and is yet another example of Australian initiative and leadership in APEC.⁵⁹

6.43 The Committee appreciates the progress being made by APEC in the area of customs procedures but notes that more could be done to expedite the flow of goods, services and capital across borders. The Committee endorses the proposal by the ACCI that APEC Leaders be urged to accelerate efforts to streamline customs policies

53 AWB, submission no. 46, p. 5.

54 *Committee Hansard*, 17 November 1997, p. 194.

55 ABAC, 1996 Report, *APEC Means Business*, 'Facilitating Cross-Border Flows: the True Measure of Liberalization', 1999.

56 APEC, Manila Action Plan for APEC (MAPA), 25 November 1996, <http://www.apecsec.org.sg/mapa/vol1/australi.html> (4 July 1998).

57 APEC 1998–Malaysia, 'Trade and Investment Facilitation', Australian Department of Foreign Affairs and Trade, http://orpheus.dfat.gov.Australia/apec/98/981109_ti_facilitation.html (3 August 1999).

58 APEC, 1999 CTI Annual Reports to Ministers, 1999, p. 81.

59 ABAC, 1997 ABAC Report to Economic Leaders, *APEC Means Business: ABAC's Call to Action*, November 1997, <http://www.apecsec.org.sg/ABAC/abacrt97/abac97.html> (27 November 1997).

and practices which feature ‘one standard customs form for all products, a commitment to much greater use of electronic data interchange, and expanded use of pre-clearance of both products and natural persons’.⁶⁰

The working groups

6.44 In the Asia Pacific region, the ten Economic and Technical Cooperation Working Groups are promoting free and open trade. They form one of APEC’s central mechanisms for achieving its trade and investment facilitation objectives. The groups provide a forum for debate about policy and priorities and for the development of cooperative strategies to meet the challenges facing the region across a range of sectors. They have the potential to make considerable gains in facilitating regional trade by targeting a variety of practical impediments to trade and already are making headway particularly in the standards and conformance area.

6.45 Australia is directly and actively involved in the work of a number of the groups. The Australian Telecommunications Industry Association (ATIA) has been participating in the APEC Telecommunications Working Group, and, in particular, its task group on developing mutual recognition arrangements for telecommunications product testing. According to ATIA, the standards and conformance arrangements that apply to telecommunications equipment vary considerably among APEC members and have been identified as a major inhibitor to exports through increased costs, often attributed to the requirement for re-testing equipment.⁶¹

6.46 To encourage APEC economies to pull together in developing standards, the task group has developed two sets of guidelines. One is the APEC Guidelines for the Regional Harmonisation of Equipment Certification which encourages conformity amongst APEC members as they liberalise their telecommunications arrangements, including technical and regulatory procedures. CTI noted that current procedures for equipment certification in each APEC economy were complying with the guidelines.

6.47 The second guideline is a ‘Model Mutual Recognition’ framework document. ATIA pointed out that ‘this document sets out the principles which will be followed for developing multilateral and bilateral agreements’.⁶² A framework for conformity assessment of telecommunications equipment was agreed in September 1997 and a MRA for conformity assessment of telecommunications and telecommunications equipment was completed and endorsed by telecommunications ministers in June 1998 for implementation by members. As of 1 July 1999, eight economies (Australia; Canada; Hong Kong, China; Japan; Korea; Singapore; China; Chinese Taipei; and the United States) have been participating in Phase I of the arrangement.⁶³

60 Submission no. 25, p. 46.

61 Submission no. 21, p. 23.

62 *ibid.*, p. 24.

63 1998 CTI Report, p. 3; APEC, 1999 CTI Annual Reports to Ministers, 1999, p. 95.

6.48 Through its participation in the APEC telecommunications working and task group meetings, Australian industry is able to assist less developed nations, mainly ASEAN countries, to improve their standards and testing facilities and processes, and ultimately, it is hoped that better access to markets will result.⁶⁴

6.49 The Transportation Working Group is another APEC group that is seeking to facilitate trade in the region. Australia is an influential member of this group and was the lead economy for a number of transportation projects including:

- the Road Transport Harmonisation Project which aims to reduce the regulatory barriers to trade in automotive products. It is identifying vehicle safety and emission standards being applied by member economies and developing strategies for increasing member awareness and acceptance of international automotive standards. The working group is now implementing phase V of the project, designed to develop and harmonise regulatory system for road vehicles safety and environmental protection.⁶⁵
- the model MRA on Automotive Product, which has the potential to produce cost efficiencies for road vehicle and component exporters. It was an Australian initiative and provides a framework for bilateral and multilateral agreements and sets out standard conditions for the mutual recognition of safety standards, legislative, regulatory and approval processes.⁶⁶

6.50 APEC's Transportation Working Group has also made progress with the finalisation of the Transportation Congestion Points Study and production of 'best practice' manuals for removing bottlenecks at air and sea ports. The study forms the basis of consultations among APEC members for a more effective and coordinated transport system for the region. The study should encourage better planning domestically and will provide Australian exporters with improved access to export markets in the region.⁶⁷

6.51 Mr Bowdler, Deputy Secretary of the Department of Transport, pointed out to the Committee that transportation is 'increasingly being seen as a seamless process both in Australia and elsewhere'. He added:

Most of our growing markets are in the Asia-Pacific area. Transporting our products, such as agri-food products, to those economies is very important. We have to be able to facilitate that chain from virtually when, say, the

64 Submission no. 21, p. 25.

65 Commonwealth Department of Transport and Regional Development, submission no. 26, pp. 2-4; APEC, 1999 CTI Annual Reports to Ministers, 1999, p. 98.

66 Submission no 26, pp. 2-3.

67 Queensland Government, submission no. 47, p.11. See *Congestion Points Study Phase III: Best Practices Manual and Technical Report*, vols. 1 and 2, APEC Transportation Working Group, 1997.

tomatoes are grown in Australia to when they are in a supermarket in Malaysia or somewhere like that.⁶⁸

6.52 This example highlights how the efforts to reduce transaction costs and delays in different areas, such as customs, quarantine and transport, combine to make a significant contribution to the facilitation of trade and to bring real benefits to business in the region.

6.53 The working group projects mentioned above, such as the road transport harmonisation project, provide only a sample of the activities being undertaken by various APEC groups to cut a more direct and less costly route through the production process to point of sale. Witnesses before the Committee generally agreed that the working groups were actively pursuing their respective programs to facilitate trade and investment in the region and were gaining ground, if slowly, in removing obstacles to trade. As explained by the United States APEC Coordinator, Ambassador Wolf, "...its the kind of clearing of trade underbrush where APEC work can really work well".⁶⁹

The difficult sectors—marking time

6.54 Despite the advances that have been made by the working and experts groups and the special committees, much work still needs to be done and progress in some sensitive areas is painstaking. Criticism has been levelled even where an agreement has been concluded. Mr Hooke from the Australian Food Council described some of the difficulties in reaching an agreement, especially in sensitive areas, among 18 (now 21) very diverse economies. He referred to the APEC Food Mutual Recognition Arrangement which, he maintained, held out some promise in the early stages of negotiation. He told the Committee:

The intention was to provide an acceptable level of insurance to importing countries and that their technical regulations on safety fitness for purpose and labelling were complied with while, at the same time, minimising point of entry inspection and control. It would ensure that the procedures in testing laboratories, et cetera, of one country were accepted by another country and that additional conformance testing was not required at the point of importation...It started out as a more ambitious project—with firm commitments required from participating countries and specific sectoral arrangements developed for identified product categories—but it has been substantially softened to the point where we have got a fairly benign umbrella agreement with a capability to do sectoral agreements as annexures and on a bilateral basis. So, to put it bluntly, the uptake is slow.⁷⁰

68 *Committee Hansard*, 27 October 1997, p. 135.

69 USIA, Worldnet Dialogue, Ambassador John S. Wolf, 22 October 1997.

70 *Committee Hansard*, 6 March 1998, p. 729.

To date only five participants have agreed to enter into an agreement pursuant to the umbrella agreement—New Zealand, China, Singapore, Australia and Thailand.⁷¹ The Food Council believes that the fundamental problem is that many developing economies' standards and conformance are 'not up to scratch'.⁷²

Competition policy

6.55 In 1995, the Eminent Persons Group (EPG) identified competition policy as an important policy area and 'one where despite the complexity of the issues themselves, new APEC initiatives should be quite feasible'.⁷³ It explained that the heading 'competition policy' takes in issues covered by the term 'antimonopoly' but also embraces policies on restrictive or abusive business practices that fall outside the domain of antimonopoly policy. The EPG observed:

Competition policy is of high salience to APEC because a growing number of the most important trade disputes in the region derive from concerns about the behaviour of private firms, and the absence of governmental responses to them, rather than from concerns about government policies themselves as in the past.⁷⁴

6.56 The EPG pointed out that harmonisation of competition policy in the APEC region would 'substantially reduce the potential inconsistencies and conflicts faced by private firms as they do business in different locales throughout the region'. Even so, they acknowledged that no consensus existed even among experts or within the EPG on 'the standards toward which competition policy should converge'. They conceded that 'it would be premature to achieve extensive convergence among national competition policies at this early date'.⁷⁵

6.57 In its submission to the Committee, the MTIA asserted:

The potential gains from trade liberalisation initiatives are in many instances negated by the layers of internal barriers to market access present within the economies of our trading partners. Some markets, despite having low tariff barriers, are effectively closed to Australian exports due to restrictive trade practices.⁷⁶

71 APEC 1998–Malaysia, 'Trade and Investment Facilitation', Australian Department of Foreign Affairs and Trade, http://orpheus.dfat.gov.au/apec/98/981109_ti_facilitation.html (3 August 1999).

72 Mr Mitchell Hooke, Australian Food Council, *Committee Hansard*, 6 March 1998, p. 729.

73 The Eminent Persons Group, *Implementing the APEC Vision*, Third Report of the Eminent Persons Group, August, 1995, p. 15.

74 *ibid.*, p. 16.

75 *ibid.*, p. 18.

76 Submission to the White Paper on Foreign and Trade Policy, November 1996, in submission no. 28, p. 16.

6.58 MTIA took the strong position that Australian industry should ‘not be forced to incur the considerable expense and management time costs which it presently does in order to prevent or end unfair trading activity which potentially threatens industry’s viability and adversely affects Australia’s balance of trade’.⁷⁷

6.59 Although competition policy has been established as an issue on the trade and facilitation agenda by its inclusion in the Osaka Action Agenda, progress has moved little beyond workshops, seminars and proposals for conducting studies.⁷⁸ In 1997, ABAC pointed out that there was a need for continued discussion within APEC with the view to reaching a consensus on the definition and scope of competition policy; the objectives of competition policy and deregulation, and the role and scope of competition law.⁷⁹ A significant step toward building a common understanding of competition was reached with the endorsement by APEC leaders in 1999 of the APEC Principles to Enhance Competition and Regulatory Reform. However, these core principles are non-binding and will be implemented by each member voluntarily.⁸⁰ Moreover, the language used in setting down these principles is vague and the commitment required in endorsing the principles is loose and open to broad interpretation.⁸¹

6.60 In 1999, the CTI reported:

The main focus of the short-term and ongoing objectives of the Competition Policy CAP, is to promote information sharing, dialogue and study on competition policy/laws and their enforcement, and their inter-relationship with other policies related to trade and investment, and to increase the transparency of existing competition policies.⁸²

Competition policy is another area that is proving difficult for APEC to advance beyond the stage of study and information gathering and soft commitment.

Intellectual Property Rights (IPR)

6.61 In marketing products in Asia there is no protection of intellectual property. Professor Pitman suggested that much could be done not only to put in place a framework but to ensure that people observe them and set standards. He was not

77 *ibid.*

78 APEC, CTI 1997 Collective Action Plans (CAPs), Report submitted to ministers, <http://www.apecsec.org.sg/cti/ipart1.html> (27 November 1997); APEC, 1999 CTI Annual Reports to Ministers, 1999, p. 61.

79 APEC, ABAC Report 1997, <http://www.apecsec.org.sg/abacrpt97/abac97-recomm.html> (27 November 1997).

80 APEC, 1999 CTI Annual Reports to Ministers, 1999, pp. 62–63.

81 *ibid.* See Attachment to Leaders’ Declaration, *the Auckland Challenge*, APEC Economic Leaders’ Declaration, 13 September 1999.

82 APEC, 1999 CTI Annual Reports to Ministers, 1999, p. 61.

referring to policing but to establishing an understanding and acceptance of the win-win situation that there is in proper use of intellectual property.⁸³

6.62 The Osaka Action Agenda directed APEC economies to ‘ensure adequate and effective protection, including legislation, administration and enforcement of intellectual property rights in the Asia-Pacific region on the principles of MFN treatment, national treatment and transparency as set out in the TRIPs Agreement and other related agreements’. The WTO Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) covers copyright, trademarks, patents, industrial designs and trade secrets. Despite this assertion in 1995, progress on reform in the area of IPRs in APEC economies is slow.⁸⁴

6.63 The APEC Committee on Trade and Investment established an intellectual Property Rights Get-Together in early 1996 to address the issue of intellectual property rights. Although progress has been made in improving transparency in the area of intellectual property rights in the APEC region, few tangible results can be identified. ABAC noted that ‘various APEC economies are enacting legislation to implement TRIPS...it is essential that IPR legislation be supported by robust enforcement procedures’.⁸⁵

Government Procurement, Rules of Origin and Dispute Mediation

6.64 Government procurement, rules of origin and dispute mediation have been established as issues on APEC’s trade and facilitation agenda. ABAC commended the work undertaken to improve the transparency of its member economies’ in procurement practices but urged members to go beyond commitments made in their IAPs. During 1999, the Government Procurement Expert’s Group completed the development of a set of non-binding principles on government procurement. The Dispute Mediation Experts’ Group has set out principles for guiding discussions on APEC dispute mediation and published and distributed a guidebook on arbitration, mediation and conciliation services in each member economy entitled the *Guide to Arbitration and Dispute Resolution in APEC Member Economies*. In 1999, the CTI identified rules of origin as one of the areas most difficult to move forward. Overall, progress in these three sensitive areas of government procurement, rules of origin and dispute mediation has shifted little beyond various information-exchange exercises and training programs.⁸⁶

83 *Committee Hansard*, 29 September 1997, p. 19.

84 APEC, Osaka Action Agenda, <http://www.apecsec.org.sg/osaka/agenda.html>.

85 ABAC, 1997 Report, 3 November 1999: APEC.

86 CTI 1997 Collective Action Plans (CAPs), Report submitted to ministers, <http://www.apecsec.org.sg/cti/ipart1.html> (27 November 1997); APEC, 1999 CTI Annual Reports to Ministers, 1999, pp. 70, 75–76, 87–88, 212.

Services

6.65 In turning to the services sector, the Osaka Action Agenda required APEC economies to reduce progressively restrictions on trade in services and to provide progressively for *inter alia* most favoured nation treatment and national treatment for trade in services. DIST argued that services is a rapidly growing sector for Australia and the APEC reform process will significantly boost Australian export prospects. Investment reforms will also assist Australian industries to diversify their investment portfolios and broaden market activities, including the potential to export to overseas markets.⁸⁷ At the moment, however, APEC members are concerned primarily with reforms within the traded goods sector, while the more difficult task of addressing trade and market access in the services and investment sectors is moving at a snail's pace.⁸⁸

6.66 ABAC pointed out that although the IAPs cover an extensive range of unilateral reforms in service industries many of the reforms have long lead times or cover only a fraction of the industry. It noted in 1997 that 'there remains an extensive array of impediments to regional trade and investment in services. In some cases, APEC work programs have not given the importance to services that their share of global economic activity demands'.⁸⁹ During 1997, the Group on Services (GOS), a sub group of the Committee on Trade and Investment, held 'useful discussions comparing experiences on liberalisation of service sectors'.⁹⁰

6.67 It is now working on a directory of requirements for the provision of professional services in accountancy, engineering and architecture as part of a collective action to study and carry out work on the development and adoption of common professional standards. To date, a number of presentations have been held on services sectors and training seminars conducted on trade in services to promote understanding of such trade amongst public sector officials.⁹¹

6.68 The CTI in its 1999 report suggested that the services area 'needs an overarching policy framework which should tie in, and drive, services related work in all APEC fora'.⁹² Clearly APEC has much work to do in this area.

87 DIST, submission no. 41, p. 5.

88 *ibid.*

89 ABAC, 1997 ABAC Report to Economic Leaders 'APEC Means Business: ABAC's Call to Action', APEC, 1997, <http://www.apecsec.org.sg/abacrpt97/abac97-recomm.html>.

90 APEC, CTI 1997 Collective Action Plans (CAPs), Report submitted to ministers, <http://www.apecsec.org.sg/cti/ipart1.html> (27 November 1997).

91 Convenor's Summary Report on Services, CTI Annual Report to Ministers, 1998.

92 APEC, 1999 CTI Annual Reports to Ministers, 1999, p. 212.

Investment—Non-Binding Investment Policy

6.69 The Non-Binding Investment Policy (NBIP) has also been criticised for lacking teeth. In 1994, in the interests of creating an environment conducive to the free flow of investment, APEC economies, in a landmark decision, agreed to a set of non-binding investment principles. The Eminent Persons Group welcomed this progress on developing investment principles and noted the NBIP as the first specific action in a substantive policy area undertaken by APEC. Even so, it stated:

Our assessment of the ten specific principles included in the NBIP leads us to conclude that five of them are at (or even above) international standards. However, five fall short of meeting the need to provide an adequate investment environment: those relating to transfers of funds, capital movements, national treatment and right of establishment, performance requirements and investment incentives.⁹³

It wanted the NBIP strengthened and progressively applied in practice.⁹⁴

6.70 Although the Pacific Basin Economic Council acknowledged the NBIP as a useful step in codifying the criteria for the regulation of investment in the region, it was concerned about the vagueness of the language and the non-specificity of certain clauses.⁹⁵

6.71 The Committee notes in particular the phrase which reads that APEC members ‘aspire’ to the non-binding principles set down in their policy statement on investment.

6.72 Looking at the commitments given by APEC economies in their IAPs on investment facilitation, ABAC could find no evidence of a determined effort to push ahead in this area. Overall, ABAC summarised the IAPs in 1997 as containing ‘few initiatives pertaining to finance and investment, and most economies need to go beyond the commitment to “review” existing investment regimes. All economies still have to post a timetable for the removal of investment barriers.’⁹⁶

6.73 The United States APEC Coordinator, Ambassador Wolf, concluded in December 1997:

We are still mired down talking about the 1994 non-binding investment principles, and countries are busy asking, ‘What’s it going to take to get more foreign direct investment to reopen the foreign direct investment tap?’

93 APEC Eminent Persons Group, *Implementing the APEC Vision*, Third Report of the Eminent Persons Group, APEC, August 1995, p. 23.

94 *ibid.*, pp. 23–24.

95 PBEC, *Business Issues for APEC*, October 1995, p. 2. See Appendix 3 for the APEC Non-Binding Investment Principles.

96 ABAC, 1997 ABAC Report, <http://www.apecsec.org.sg/abacrpt97/abac97-recomm.html>.

I think the answer is out there. It's greater transparency, and improved investor protections...we still have a lot of work to do.⁹⁷

6.74 To further facilitate investment flows in the region, APEC established an Investment Experts Group (IEG) in 1994 to provide advice to the CTI on investment issues. Its aim was to increase, in the short term, the transparency of APEC investment regimes by updating the APEC guidebook on investment regimes; improving the state of statistical reporting and data collection; and increasing understanding among members on investment policy-making issues. It was also its aim to promote, in the short term, dialogue with the APEC business community on ways to improve the APEC investment environment. IEG's new collective actions appeared less than adequate and certainly lacked a sense of urgency considering the financial crisis in the region and the urgent call for reform in the financial system especially in economic and financial sector management.

6.75 In 1997, ABAC, in assessing the Individual Action Plans (IAPs), reported that some APEC members met and exceeded the NBIP standards, but noted that others could 'make more aggressive, voluntary action to move towards them'.⁹⁸ A year later, ABAC recommended that the Economic Leaders endorse the rapid implementation of the NBIP as the best way to encourage and facilitate the flow of capital, especially long-term capital, back into the region.⁹⁹

6.76 During 1998, the IEG formulated a menu of options intended as a reference tool that economies could consult when updating their IAPs to assist them in identifying policy measures that would help them move toward the creation of a free and open investment regime.¹⁰⁰ ABAC fully endorsed this menu of options but insisted that whatever options are chosen must be included in the IAPs, together with a timetable for their implementation. It concluded:

Vaguely worded promises, like adhering to 'non-binding' principles, will not sway investors.¹⁰¹

97 USIA, transcript, Ambassador Wolf, Worldnet on Vancouver APEC results, 10 December 1997.

98 ABAC, 1997 ABAC Report to Economic Leaders, *APEC Means Business: ABC's Call to Action*.

99 A long-term goal is to assess the merits of developing an APEC-wide discipline on investment in the light of APEC's own progress through the medium-term as well as developments in other international fora. Letter from the APEC Business Advisory Council to the Economic Leaders. The 1998 ABAC Report to the Economic Leaders.

100 Known as 'Options for Investment Liberalization and Business Facilitation to Strengthen the APEC Economies—for Voluntary Inclusion in Individual Action Plans'. See: From the Desk of Chairman APEC-IEG, 9 April 1999, in ABAC, 1999 Report to APEC Economic Leaders, APEC, 1999, http://www.apecsec.org.sg/ABAC/reports/rtael99_invst.html (26 August 1999); Action Plan Monitoring Committee, in ABAC, 1999 Report to APEC Economic Leaders, APEC, 1999, http://www.apecsec.org.sg/ABAC/reports/rtael99_apmc.html (26 August 1999).

101 Action Plan Monitoring Committee, in ABAC, 1999 Report to APEC Economic Leaders, APEC, 1999, http://www.apecsec.org.sg/ABAC/reports/rtael99_apmc.html (26 August 1999).

Financial sector

6.77 The economic crisis certainly highlighted the need for financial sector reform in the APEC region. It encouraged economists, business leaders and politicians to turn their minds to finding solutions not only to the immediate problems but to longer-term measures that would secure local markets.

6.78 The Australian Government, in recognition of the need to support financial markets in the region, commissioned a survey of economic governance capacity building which focused on Indonesia, Thailand, the Philippines, Vietnam and Korea. This report clearly established that APEC had a constructive and valuable role in improving economic governance in the region. It noted that the development of non-binding principles had been an important product of APEC cooperation but that the crisis had placed a premium on translating principles into practice. The range of economic governance building currently underway in the APEC region is considerable but as pointed out in this chapter progress is slow in areas such as competition policy, government procurement and intellectual property and that APEC's commitment to agreed investment principles lacks depth.¹⁰² APEC has a major role in laying the foundations for strong and open markets in the region by starting with concrete steps that would: promote transparency and accountability in business transactions; see the introduction of appropriate reporting and disclosure standards; improve regulation and management of financial services; and generate reliable economic data.

6.79 As a means to encourage reform, Australia strengthened its leadership role in November 1998 by putting in place a \$50 million initiative covering the next three years to assist economies in the region. It intends to implement practical measures to strengthen financial and economic management and to build sound supervisory and prudential institutions, such as the training of central bank officials and providing technical assistance for prudential supervision programs.¹⁰³ The Australian Government deepened its involvement in this area with the funding of a Symposium on Corporate Governance in APEC in December 1998.¹⁰⁴

6.80 Australia was only one of a number of prominent voices urging APEC economies to improve financial markets in the region especially through the adoption of internationally acceptable accounting standards and adequate disclosure practices, the alignment of standards and the mutual recognition of qualifications. The Chairman of the PECC Financial Markets Development Project Group asserted that developments in financial markets since mid-1997 had driven home the 'imperative for some communication and occasional coordination'. He suggested that Asian

102 Centre for International Economics, *APEC economic governance capacity building survey: An Australian initiative as part of APEC's response to the East Asian financial crisis*, a report prepared for the Australian Government, Canberra, 30 October 1998.

103 Press Release, Prime Minister John Howard, 'Economic and Financial Management Initiative, 16 November 1998, <http://www.ausaid.gov.au/apec/media.html>.

104 Australian APEC Study Centre, *Corporate Governance in APEC: Rebuilding Asian Growth*, Symposium Report, December 1998.

economies could ‘work towards coherence and eventual convergence of banking supervision practices’ and pointed out that rules, standards and norms could be aligned with those already adopted internationally. He drew attention to a number of long-term initiatives starting with the harmonisation of financial disclosure and accounting standards and adoption of measures leading toward greater integration of financial markets.¹⁰⁵

6.81 ABAC stated that it would be working to see the strengthening of the legal, regulatory and accounting framework within which the local markets operate.¹⁰⁶

6.82 In May 1999, APEC Finance Ministers acknowledged that sound financial systems, corporate governance and improved accounting, transparency and disclosure standards were central to restoring the confidence of domestic and international investors and the return of capital flows. They noted the progress had been made in developing a voluntary action plan to support freer and more stable capital flows in the region. The Ministers urged APEC economies where relevant to move towards the adoption of auditing and accounting standards that meet or exceed international standards.¹⁰⁷

6.83 Clearly, as stated by the chair of the PECC Financial Markets Development Project Group, ‘the principle of free and open financial flows within the APEC community can be held up as an ideal towards which individual economies progress at their own discretion and pace’.¹⁰⁸ A promising step toward a concerted effort by APEC to ensure improvement in the functioning of the financial sector was taken by New Zealand in adopting the theme, ‘strengthening markets’, as one of its key signatures for APEC 99. Much work remains to be done in this area.

Expanding opportunities

6.84 APEC made a promising start in 1999 in placing a fire under the process of trade and investment facilitation. Trade Ministers meeting in June 1999 identified issues that called for close attention including many of the key areas in which steady if slow progress has already been made—APEC Business Travel Card Scheme; compliance costs associated with trade; customs procedures across the region; harmonisation of qualifications and the mutual recognition of skills; and the

105 Jesus P. Estanislao, Statement to APEC Finance Ministers on behalf of PECC FMD, Langkawi, Malaysia, 15 May 1999; Jesus P. Estanislao, ‘New Cooperation in East Asia: Peer Assistance and Review, *Issues—PECC*, 15 May 1999.

106 APEC Business Advisory Council Strategy for September Meeting with Economic Leaders, APEC Secretariat Press Release 30/99.

107 Joint Ministerial Statement, Sixth APEC Finance Ministers Meeting, Langkawi, Malaysia, 15–16 May 1999, APEC Secretariat Press Release 29/99, http://.apccsec.org.sg/whatsnew/press/rel26_99.html.

108 Dr Jesus Estanislao, ‘New Cooperation in East Asia: Peer Assistance and Review, *Issues—PECC*, 15 May 1999.

complexity and inconsistency of tax systems. They also recognised the growing need to address e-commerce.¹⁰⁹

6.85 Indeed, New Zealand, as Chair of APEC 99, signalled its intention to reinvigorate the process of facilitation by adopting the theme ‘expanding opportunities for doing business throughout the region’ to underline its commitment to promote the unencumbered flow of goods and services in the region. Put simply by Trade Ministers the work aims ‘to make business easier throughout the region, particularly for small and medium enterprises, through the elimination of red tape’.¹¹⁰

6.86 Ministers were pleased with progress to date on Collective Action Plans, including in the areas of customs procedures, mutual recognition of standards and conformity assessment procedures, mobility of business persons, government procurement, and professional services. Such measures are critical to boosting trade and investment flows through lowering the transaction costs of business. Ministers instructed officials to develop a package of concrete measures in September.¹¹¹

6.87 ABAC strengthened this theme by calling for trade facilitation work in APEC to be given ‘new urgency’.¹¹² Ministers in Auckland praised APEC’s progress:

APEC’s trade and investment facilitation work has played a critical role in improving conditions for business in the APEC region. It has helped save time and money. It has responded to business’ calls for less paperwork, simplified procedures and easier access to information. Improved facilitation has provided internet access to essential market information and introduced greater consistency and certainty in legal and regulatory frameworks in the region.

Nonetheless, they also pressed for an intensification of effort in trade facilitation, with a focus on tangible outcomes for business and APEC. Leaders further underlined this message. They instructed their Ministers to give priority to trade facilitation during the coming year.¹¹³ Trade and investment facilitation in APEC has become a dominant theme.

109 See Appendix 4, The SOM I meeting in February 1999 formally established the APEC Electronic Commerce Steering Group which is to coordinate the APEC E-Commerce activities. Summary Conclusions of the First APEC Senior Officials Meeting (SOM) for the Eleventh Ministerial Meeting, Wellington, 8–9 February 1999.

110 Statement of the Chair, Meeting of APEC Ministers Responsible for Trade, Auckland, 29–30 June 1999.

111 *ibid.*

112 ABAC, ABAC Capacity Building Task Force, Recommendations, 1999 Report to APEC Economic Leaders, APEC 1999, http://www.apecseco.org.sg/ABAC/reports/rtael99_cbtf.html (26 August 1999).

113 Leaders’ Declaration—New Zealand, ‘The Auckland Challenge’, APEC, APEC Economic Leaders’ Declaration, Auckland, New Zealand, 13 September 1999; Joint Statement, APEC, Eleventh APEC Ministerial Meeting, Auckland, New Zealand, 9–10 September 1999.

CHAPTER 7

TRADE AND INVESTMENT FACILITATION— CHALLENGES AHEAD FOR AUSTRALIA AND APEC

Introduction

7.1 In this chapter, the Committee looks at the challenges ahead for APEC's trade and investment facilitation agenda, including the need to produce early and tangible results and to manage an ambitious and wide-ranging program. It considers the relationship between government and business, especially in Australia, in setting APEC's agenda and in advancing the process of trade and investment facilitation. Finally, the Committee assesses Australia's past contribution to trade and investment facilitation in the Asia Pacific region and looks at its potential to drive the process forward.

7.2 Clearly, APEC members have committed themselves to a demanding program of trade and investment facilitation. In the view of the South Australian Government:

APEC has in many ways set itself a much broader challenge, through its trade and investment facilitation agenda, than that of an old-fashioned free trade area, which merely aims to eliminate tariffs, quantitative restrictions and other border measures. It is trying to reduce all kinds of impediments to trade and transaction costs, including by tackling at least some areas of divergence of domestic policy.¹

The need for immediate and tangible results

7.3 Despite APEC's ambitious agenda, reform in sensitive areas, such as competition policy, services, rules of origin and dispute mediation, barely inches ahead. The gap between APEC rhetoric and action remains wide. Dr Andrew Elek recognised that economies would need help from each other later on to tackle these hard problems but he suggested the best way to do this was to 'build momentum on some of the easier ones first'.²

7.4 Indeed, APEC is very gradually acquiring a body of achievements which could sustain the APEC agenda and help carry it forward but, as noted by a number of witnesses, APEC needs to add to these achievements.

7.5 The Australian Chamber of Commerce and Industry (ACCI) praised the work produced by APEC work groups such as guidebooks, the work books and the CD-ROM materials, where basic information held by national governments has been collated and made public. It stated that, if nothing else, the availability of such

1 Submission no. 51, p. 3.

2 *Committee Hansard*, 3 February 1998, p. 578.

information has been useful for business in making information accessible and transparent.³ The ACCI, however, suggested that the time has arrived for APEC to move 'beyond that information, consolidation and investigation phase and now needs to...focus its attention on some real outcomes'.⁴

7.6 Mr Wright, Head of the Industry Policy Division of the Department of Industry, Science and Technology, submitted that the main danger for APEC lies in its failure to deliver trade and investment liberalisation and facilitation outcomes. He believed that in the short to medium term, APEC has the potential to make significant inroads in facilitation and he looked hopefully to areas such as infrastructure development, cooperation standards and conformance and deregulation to produce results.⁵

7.7 Along the same lines, Dr Gebbie, Acting First Assistant Secretary, Department of Primary Industries and Energy, pointed out that business concentrated on the much shorter-term achievements or benefits coming out of APEC rather than the distant goal of 2010. He explained:

It is important that we have some shorter term gains that will be understood quite directly by business and the public. This is precisely the reason for the attempts at early voluntary sectoral liberalisation...Without some gains in areas like that, it will be very difficult to maintain a positive focus on APEC by business and the public.⁶

7.8 It should be noted that the EVSL initiative endorsed at the Leaders Meeting in November 1997, included market opening and trade facilitation reform.⁷ Mr Gebbie saw trade facilitation as a means to achieve visible and early results and told the Committee:

The idea there is to focus and get concrete results on very real impediments to doing business in the APEC region. The sorts of things that are going on in the facilitation area should not be forgotten. They will be quite important also to maintaining strong long-term business interest in what is going on there.⁸

7.9 That APEC needs to produce tangible results was made most forcibly by ACCI which asserted: 'To succeed, APEC must hold fast to its economic and commercial agenda, focusing on delivering outcomes which make it easier for business to conduct trade, commerce and investment around the dynamic Asia Pacific

3 Mr Brent Davis, *Committee Hansard*, 29 September 1997, p. 31.

4 *ibid.*

5 *Committee Hansard*, 24 November 1997, p. 201.

6 *Committee Hansard*, 17 November 1997, p. 191.

7 See statement made in Summary Conclusions of the First APEC Senior Officials' Meeting for the Tenth Ministerial Meeting, 16–17 February 1998, Penang, para 27.

8 *Committee Hansard*, 17 November 1997, p. 192.

region'.⁹ ACCI believed that APEC's value lay in what it can deliver in the trade facilitation and the trade liberalisation area.¹⁰ In agreeing to a road map that will direct the future work of APEC to strengthen markets in the region, APEC Ministers urged member economies to intensify their efforts in trade facilitation with a focus on concrete outcomes for business.¹¹

In the shadow of trade liberalisation

7.10 As shown above, a number of witnesses looked to trade facilitation to produce the concrete results needed to demonstrate that APEC is an effective body in achieving real benefits for business in the region. Some witnesses were concerned, however, that the interest shown in trade and investment liberalisation would draw attention away from the advances and potential gains to be made in facilitation. One commentator feared that the emphasis given to trade liberalisation, especially the setting of the 2010 and 2020 goals, means that 'other important benefits that it might generate may be lost as enthusiasm wanes in the face of implementation problems'.¹²

7.11 Dr Ravenhill agreed, arguing that one of the difficulties confronting the future of APEC is that the expected benefits of APEC have been oversold to the public. The excessive emphasis placed on liberalisation has overshadowed the work being pursued in facilitation and cooperation and development areas where progress is more likely to be realised.¹³ He believed that the focus on trade liberalisation, has nowhere been more prevalent than in public discussions in Australia. In his opinion, this has 'led to unrealistic expectations of what APEC is likely to achieve in this sphere' and has 'obscured work within the other "two pillars" of the organization; trade facilitation and economic and technical cooperation'.¹⁴

7.12 Unfortunately, the nuts and bolts nature of trade facilitation activities to date makes dull reading. Thus, although Professor Snape felt that APEC would make significant headway in facilitation, he felt that its very drab low profile would weaken the successful promotion of APEC achievements especially with the Leaders Summit assuming such a prominent role in the APEC calendar. He argued:

The problem of having the economic leaders involved is that it raises the expectations of continued high profile success and if there is not a continuation of high profile success coming through the APEC process then

9 ACCI, 'Challenges Ahead for APEC' *ACCI Review*, February 1997, in ACCI, submission no. 25.

10 *Committee Hansard*, 29 September 1997, p. 31.

11 APEC, Eleventh APEC Ministerial Meeting, Auckland, New Zealand, 9–10 September 1999. p. 3, <http://www1.apecsec.org.sg/virtualib/minismtg/mtgmin99.html> (20 September 1999).

12 See for example, Mark Beeson, APEC: nice theory shame about the practice; *Australian Quarterly*, vol. 68, no. 2, Winter, 1996, p. 35.

13 *Committee Hansard*, 2 February 1998, p. 293.

14 Submission no. 52, p. 1.

it is very easy to imagine that the economic leaders may, in fact, start to lose some of their enthusiasm for it; they do not get the headlines any more...

If that momentum drops down, one wonders whether the fairly important—but mundane and non-headline grabbing—trade facilitation, harmonisation of customs procedures and all those sorts of things can in fact be maintained if the high profile successes are also not being maintained.¹⁵

7.13 This situation assumes greater significance in light of the disappointment following the inability of APEC to proceed as planned with fast tracking its EVSL initiative. The failure of this highly publicised initiative to fulfil expectations raised at the Leaders' Meeting in 1997 drew attention away from much of the solid though slow work being achieved in areas such as trade and investment facilitation. Moreover, the failure exposed APEC to accusations of being ineffective.

7.14 Clearly, the Bogor Declaration of 2010 and 2020 has claimed centre stage and, as the showpiece of APEC's agenda, threatens to obscure the mundane but valuable advances made in areas such as customs and standards. As pointed out by the Chair of PECC:

The vision of an APEC community where goods, services and investments flow freely and where everybody benefits has yet to seize the imagination of our private sector—both business and the non-business sector including consumers.¹⁶

7.15 Aware that the work being undertaken in trade and investment facilitation held a low profile, Trade Ministers, in June 1999, emphasised the importance for APEC to communicate more effectively information about the advances being made in this area of facilitation.¹⁷ The APEC Economic Committee added that 'deeper analyses on the trade facilitation would be timely, in particular in 1999'.¹⁸

7.16 APEC Ministers in Auckland in September 1999 acknowledged that trade facilitation work is not well known and future outreach efforts will be required to improve business and community understanding.¹⁹ In amplifying this message, the

15 *Committee Hansard*, 4 February 1998, p. 498.

16 Mr Roberto R. Romulo, Chairman PECC, Statement at the Meeting of APEC Ministers Responsible for Trade, Auckland, June 1999.

17 See Statement of the Chair, Meeting of APEC Ministers Responsible for Trade, Auckland, 29–30 June 1999.

18 APEC Economic Committee, *Assessing APEC Trade Liberalization and Facilitation—1999 Update*, September 1999, p. 1.

19 APEC, Eleventh APEC Ministerial Meeting, Auckland, New Zealand, 9–10 September 1999. p. 3, <http://www1.apecsec.org.sg/virtualib/minismtg/mtgmin99.html> (20 September 1999).

Economic Leaders in Auckland noted especially the importance ‘to better communicate the value of APEC’s trade facilitation role’.²⁰

7.17 The Committee accepts that much of the preliminary work in APEC requires research, the collation of material and dissemination of information, but equally, it is mindful of the need for APEC to be seen to be making steady progress and delivering real benefits to business in the region. The Committee recognises both the achievements and likely benefits of APEC trade facilitation initiatives. It considers that the interest in trade liberalisation should not detract from the body of work already built up in trade facilitation—that, indeed, the achievements in facilitation should be brought out from behind the shadow of trade liberalisation.

Recommendation

The Committee recommends that a publication on trade facilitation and economic and technical cooperation be produced as a companion to the publication *Trade Liberalisation: Opportunities for Australia*.

The Committee further recommends that this publication cover not only the achievements in the area of trade facilitation but also the difficulties in identifying and removing the non-tariff barriers.

7.18 In this way, it may further open up debate about trade practices in the region and encourage businesses to come forward and advise government on their particular experiences in getting products into other economies.

Keeping focus

7.19 Another challenge facing the APEC trade facilitation program is in managing and coordinating the numerous and wide-ranging projects being undertaken by the working and experts groups and the various committees. The very effectiveness of the working groups is threatened by having to stretch their resources across a number of projects. The possible effect on the work of the various APEC groups has particular significance for APEC’s agenda because of the need to produce early and tangible benefits.

7.20 Professor Ravenhill acknowledged that APEC has the opportunity to achieve results in facilitation but suggested that it needed to establish a clear sense of priorities which, he argued, was lacking. He maintained that APEC has ‘spawned a proliferation of working groups and projects in various issue areas’. Although he agreed that these activities have produced positive, although modest, gains in helping to reduce the transaction costs of business among APEC members, he saw possible problems. In

20 APEC, Leaders’ Declaration, ‘The Auckland Challenge, APEC Economic Leaders’ Declaration, 13 September 1999, <http://www1.apecsec.org.sg/virtualib/econlead/nz.html> (20 September 1999).

particular, he could foresee that an increase in projects may lead to a dissipation of energies with APEC having no clear sense of priorities.²¹

7.21 The ACCI also expressed concern about the number of projects, which in 1997 were estimated to have been over 300. It believed that APEC must 'discard some of the dead wood' and get back to about 40 good projects with priority areas and that a degree of self-discipline must be exercised in formulating programs.²² Mr Alan Oxley emphasised the need for closer, tighter, and more focused management of projects. He wrote recently:

A quick review of the work programs endorsed by Ministers...reveals that the desire to do something is stronger [than] the capacity of officials to identify concrete work targets. There are a large number of programs which repeat work done elsewhere; are not coordinated with related work in other APEC working groups and other organisations; and have nebulous purposes.²³

7.22 The number of projects also has implications for Australian Government departments and agencies trying to meet the demands set by the APEC agenda. The Committee on Trade and Investment acknowledged that the proliferation of meetings is increasingly taxing economies' resources.²⁴ In turning specifically to the activities of the APEC Transportation Working Group, Mr Bowdler, whose department is involved with this group, acknowledged in October 1997 that the number of projects was a worry. He told the Committee that the Group had spent its recent meetings considering how to manage its agenda and how to retire projects that had been completed, 'rather than keep them dribbling on in some way'.

We would not like to see this work program grow much more. We would find it hard to keep up our own input... APEC can be a little unwieldy because our working group meets only every six months. It is important to try and keep some momentum going between those meetings. So management of the APEC load is a significant one.²⁵

7.23 The Australian Customs Service was aware that, in spreading its resources too thinly, its efficiency could suffer. To help manage its workload and to hold its focus, the Customs Service developed an action plan which contained 12 items. The Service sought advice from the private sector on its plan. Mr Holloway from the Customs Service told the Committee that the general feedback was positive and business was able to identify items that should be a priority. Arising from these consultations, the

21 Submission no. 52, p. 5.

22 *Committee Hansard*, 29 September 1997, p. 31.

23 Alan Oxley, *APEC—the next 10 years*, Australian APEC Study Centre Paper 16, Australian APEC Study Centre, 1999, <http://www.arts.monash.edu.Australia/ausapec/iss16.htm> (5 August 1999).

24 APEC, 1999 CTI Annual Reports to Ministers, 1999, p. 212.

25 *Committee Hansard*, 27 October 1997, p. 143.

Australian Customs Service identified a number of key items likely to reap benefits for business.²⁶

7.24 This difficulty in managing the number and range of projects has been complicated by the extra demands placed on APEC resources by the financial crisis. This problem in managing and coordinating APEC projects applies also to the liberalisation pillar but more so to the Ecotech pillar of APEC's agenda.

Trade and investment facilitation—a partnership between government and business

Public and private sector input: Business perspective

7.25 Business has a vested interest in APEC's agenda to improve market access and trade facilitation. APEC's credibility rests on its ability to clear away obstacles to trade and investment in the region. In 1995, the then United States Secretary of State, Mr Christopher Warren, highlighted this point when he stated:

...the real test of APEC's success will be whether its work has practical relevance to the business community. The private sector remains the catalyst of this region's dynamism. That is why APEC's job is to remove impediments that unnecessarily restrict business activity...APEC should permit our businesses to function effectively across a dozen time zones and languages. We can only achieve that goal by considering business views closely.²⁷

7.26 The view that business has a vital place in ensuring APEC's success was strongly supported by ABAC. It noted:

Business has a crucial role to play in the achievement of APEC's vision. It is the principal constituency in APEC's quest for freer and more open trade and investment...It is also the main generator of cross-border flows of goods, services, capital and information. The freeing of these flows, and the broadening and deepening of transactional linkages in strategic sectors such as finance, transportation, telecommunications and infrastructure, will be the main gauges of APEC's success in the 'real world' of business.²⁸

7.27 A dominant theme running through APEC Leaders' and Ministers' meetings has been the potential for the private sector to contribute to the APEC decision-making process and in its activities. At the Vancouver summit, Leaders remarked on the increase in business participation in APEC activities but nevertheless stressed the

26 *Committee Hansard*, 27 October 1997, p. 117.

27 USIA, 'Three C's Key to Successful APEC Action Agenda', US Statement at the Seventh APEC Ministerial, 16 November 1995.

28 ABAC, *APEC Means Business: Building Prosperity for our Community*, ABAC Report to APEC Leaders, 1996, <http://www.apecsec.org.sg/abacrp/ExecSummary.html> (12 June 1998).

importance for APEC to broaden its outreach to the business sector.²⁹ In June 1999, Trade Ministers referred to the need to increase support from business for APEC in achieving free and open trade. They noted especially the role of the private sector in shaping APEC's agenda on e-commerce.³⁰

7.28 Australian business also recognised the value in establishing a partnership between government and the private sector to clear the path for trade. The Federation of Automotive Products Manufacturers saw APEC as a forum that allows Australia at an industry level to address many of the non-tariff trade barriers that impede free trade. It argued, for example, that the work being done on investment, banking and business law is fundamental to developing Australian trading relationship within the region. It stated: 'Our own industry has worked closely with the Australian government to drive towards uniform standards on cars and parts, a measure that will not only save us an enormous amount of money but one that will ultimately open many trade doors blocked by obscure or meaningless regulation'.³¹

7.29 MTIA argued that government and business should join forces in advancing the work of APEC to benefit Australia's trading interests. It stated that MTIA had the responsibility to report government policies to its members; to influence government policies in response to its members' concerns; and to make sure that their members' interests were represented. In MTIA's view, facilitating trade was 'very much a two-way activity' between government and business.³² Clearly for MTIA, the collaborative efforts of government and business were required if the obstacles faced by Australian traders were to be removed. Ms Vivienne Filling, Principal Adviser, MTIA, told the Committee:

If the government were to bow out of the process, certainly businesses could work together in identifying non-tariff measures, tariff measures and investment barriers that they would want to have eliminated. When it comes down to it, you need, first of all, the support of the government for the actual elimination of those barriers and the leadership to keep its government departments and businesses striving for this objective of trade and investment liberalisation.

7.30 She believed that APEC would not achieve the Bogor goals if governments were to step back.³³

7.31 ACCI also underlined the need to have business involved in the consultation and decision-making process of developing trade facilitation strategies. It maintained

29 APEC, APEC Leaders Declaration, 25 November 1997, Vancouver, <http://www.apec97.gc.ca/news/1125b.html> (7 October 1999).

30 See Statement of the Chair, Meeting of APEC Ministers Responsible for Trade, Auckland, 29–30 June 1999.

31 *Committee Hansard*, 23 March 1998, pp. 782–3.

32 *Committee Hansard*, 17 November 1997, p. 155.

33 *ibid.*, p. 161.

that Australian diplomats and trade negotiators can only take the APEC initiative so far—‘they can set up processes, frameworks and mechanisms, they can build the engine and the chassis of the car’. Nonetheless, ACCI argued that APEC’s ‘continuing momentum must come from effective involvement by the private sector; business must put the petrol in the car if it is to go forward...’³⁴ ACCI further elaborated:

The potentially more important, and much more challenging, game is to identify and then attack the growing number of non-tariff barriers—the insidious rules, regulations and practices which are more often than not designed to frustrate international trade and commerce.

The form such barriers can take seems to be limited only by human ingenuity: peculiar customs requirements, odd quarantine rules, strange requests for information and paperwork; unusual procedures, bizarre licensing obligations; and the list goes on.

In many respects, these practices are often only known to business and do not show up on government lists of trade requirements or when they do, what seems reasonable enough can be implemented in a most unreasonable and obstructionist way for trade and commerce.

It is these practices which business can, and must, bring to the attention of our trade negotiators who will then have an obligation to follow through to flush out into the open such nefarious practices and win substantive commitments from the miscreant governments to not just wind them back but to abolish them.

It is this team play which the Australian Chamber of Commerce and Industry has in mind when we talk of a co-operative effort between business and government on APEC matters where each brings to the table for the national benefit their respective comparative advantages and expertise.³⁵

7.32 In summary, ACCI argued that business identifies the problems and our trade negotiators go into bat to remedy them.³⁶ It concluded:

Government will continue to be the prime player in APEC, for the foreseeable future...government will be, if you like, the bridge that holds the whole facility together. That is not to say that government should be the source of the agenda, but it certainly will be the architecture that keeps the process going.³⁷

34 ACCI, ‘Business and the APEC Process’ presented by ACCI to DFAT, Seminar Series on ‘Business and APEC’, Brisbane, Melbourne, Sydney, June 1995, p. 7 in ACCI, submission no. 25, p. 3.

35 *ibid.*, pp. 7–8.

36 *ibid.*, p. 8.

37 *Committee Hansard*, 29 September 1997, pp. 36–37. See also comments by Mr McAllen from the Plastics and Chemicals Industries Association, *Committee Hansard*, 5 February 1998, p. 560.

7.33 Again, on this practical level of removing obstacles to trade, the ATIA highlighted how crucial it was for industry to be involved in trade negotiations. It pointed out that industry must advise government representatives on the particular markets to which they are seeking improved access. Put simply by ATIA:

Government representatives cannot be expected to understand which economies are of most importance to industry, and which ones currently cause the most difficulty in market access (in terms of non-tariff barriers, such as testing arrangements) without adequate consultation and active involvement with industry.³⁸

The Association made the point that ‘industry representatives who are actively participating in APEC working groups should be seen as valuable resources to the Australian Government as they provide tangible evidence of how action on non-tariff barriers are proceeding’.³⁹

Public and private sector input: government’s perspective

7.34 DFAT maintained that it was government policy to involve the private sector in APEC processes. It acknowledged that collaboration between business and relevant government bodies on issues related to APEC activities was needed if government were effectively to dismantle trade barriers. In October 1997, Mr Peter Grey, then Australia’s Ambassador to APEC, told the Committee that there is an almost endless stream of potentially non-tariff barriers. He explained that DFAT sought to go out and consult with industry and industry associations and kept a reasonably up-to-date list of all non-tariff measures.⁴⁰ As an example, he pointed out that governments need to be involved in developing mutual recognition arrangements between economies. He suggested:

The ideal situation is to have mutual recognition arrangements which work so well that once governments have signed them they may update them from time to time, but there will be no need for other ongoing involvement.⁴¹

7.35 On a more specific level, the Australian Customs Service pointed out that traders in the private sector would be the immediate beneficiaries of the SCCP program to harmonise and simplify customs procedures. It emphasised the importance in having business people active in charting the direction to be taken by the SCCP. To encourage such participation, the Australian Customs Service put in place mechanisms to facilitate dialogue with the private sector on APEC customs issues,

38 Submission no. 21, p. 25. See also statement by the Plastics and Chemicals Industries Association which told the Committee ‘We want the government to understand our industry, to know what the ramifications are for employment, current account deficit and all the rest of it. We want a government that is pro-active in supporting us...’, *Committee Hansard*, 4 February, 1998, p. 465.

39 Submission no. 21, p. 26.

40 Mr Peter Grey, DFAT, *Committee Hansard*, 20 October 1997, pp. 82–3.

41 *ibid.*, p. 65.

including regular reports on the outcomes of all SCCP meetings and face to face meetings between Australian Customs and industry representatives prior to each SCCP meeting.⁴² In October 1997, Mr Holloway, Acting National Manager, Executive Support Branch, Australian Customs Service, explained to the Committee that knowledge about APEC varies significantly among their clients. He stated:

A group of our clients has a very good knowledge of what is going on...There is probably a much larger element of companies exporting into the region that do not choose to have that understanding.⁴³

7.36 He stated further that at a recent meeting, intended to provide an opportunity for their clients to discuss their concerns about customs issues in the region, only 20 out of an invited 350 attended. He noted 'So there is a certain amount of frustration from our part in getting that interest from business'.⁴⁴

7.37 Dr Imelda Roche, then an Australian ABAC representative, also touched on the apparent reluctance of some sections of the private sector to engage in the mutual exchange of information on APEC activities. She informed the Committee that the annual APEC Business Forum, convened by the Deputy Prime Minister, had met twice in Sydney with an average attendance in excess of 150. The APEC Business Forum provides the opportunity for business and government to work collaboratively in addressing regional trade issues and in establishing Australia's priorities for APEC. The forum is part of the government's endeavour to keep business well informed on APEC and also acts as a conduit to keep government in touch with the views of business.⁴⁵ Dr Roche conceded that, although the attendance at the Forum is 'pretty good', there is room for improvement. She observed, 'there is still...a degree of apathy in terms of people responding'.⁴⁶

Information—a two way street

7.38 Evidence placed before the Committee emphatically underlined the value in having business and government work jointly to identify the barriers to trade and to formulate strategies to open markets. Despite the importance accorded by both government and some business people to the role of the private sector in advising government, a number of witnesses drew attention to the problems in establishing and maintaining close links between the public and private sectors. The Customs Service and Ms Roche spoke of apathy on the part of business. A number of witnesses felt there was also a problem on the side of government.

42 Australian Customs Service, submission no. 39, p. 5.

43 *Committee Hansard*, 27 October 1997, p. 120.

44 *ibid.*

45 For information on the APEC business forum see DFAT, *Committee Hansard*, 30 March 1998, p. 832.

46 *Committee Hansard*, 3 February 1998, p. 417.

7.39 Mr Matt Ngui from Wollongong University suggested that APEC and Australia's participation in APEC were still seen 'very much as a government business and that in the private sector, although it has interests and organisations that are involved in APEC, the actual linkages between business organisations and the organisations within APEC are still fairly vague and unstructured'. He raised concern that business had 'not yet seen or is able to see, or maybe government has not yet explained to business, what the real benefits are for business...from participation in APEC'.⁴⁷ He proposed that 'one obvious thing is that Australian governments need to initiate some program of information sharing with business people in relevant industries'.⁴⁸ In particular, he noted the difficulty for small business in obtaining information about regional trade initiatives and in conveying their views to government about APEC.

7.40 Dr Rikki Kersten, Director, Research Institute for Asia and the Pacific, University of Sydney, added her voice to the concerns about public and private sector collaboration. She stated: 'In Australia, business looks upon APEC as a thing of government, not something that really relates to them and the way they do business, let alone as a way to maximise their opportunities in the region'.⁴⁹

7.41 The South Australian Government readily acknowledged the encouraging progress made in the area of trade facilitation but maintained that there was a problem with the dissemination of information about developments within APEC. It argued that 'information on the trade and investment facilitation agenda, which can most directly affect in the short term business opportunities in overseas markets...is particularly scarce'. Put succinctly, it noted that both business and State Governments know too little about the achievements of APEC's facilitation program and its ongoing priorities. To remedy this situation, the South Australian Government highlighted the value in having a mechanism in place whereby the relevant Australian Government departments would make this sort of information readily available.⁵⁰

7.42 On the other hand, MTIA praised DFAT for doing a very good job in terms of informing peak bodies about the implications of APEC. Ms Filling told the Committee, 'they consulted with us in great detail, for example, on the information technology agreement. We are represented on the business advisory forum on APEC and we have an opportunity to discuss those issues'.⁵¹

7.43 The Committee acknowledges that DFAT engages the large peak bodies in its APEC communication network but took note of evidence suggesting that some businesses refrain from active and direct involvement with government in developing

47 *Committee Hansard*, 3 February 1998, pp. 398–9 and 403.

48 *ibid.*, p. 405

49 *Committee Hansard*, 6 March 1998, p. 705.

50 Submission no. 51, pp. 6 and 9.

51 *Committee Hansard*, 17 November 1997, p. 155.

trading strategies within the region. It also accepted that information about APEC was not filtering through to all sections of the Australian business community nor were all businesses encouraged to take an active role in APEC matters.

7.44 This problem in Australia concerning weak or defective networks of communication between government and business about APEC's work in facilitating trade and investment and its achievements mirrors a larger problem throughout the APEC region as mentioned earlier in this chapter. Australia also faces the same difficulty that APEC as an organisation confronts in effectively conveying to business, indeed to consumers, not only information about APEC but also more importantly the positive messages about APEC's work. Clearly, the imagination of the Australian business and non-business sector is yet to be fired by 'the vision of an APEC community where goods, services and investment flow freely'.⁵²

7.45 The Committee considers that a more determined and concerted effort should be taken by the government and government agencies to ensure that business and government do form a constructive partnership to improve the trading environment in the APEC region. It recognises a need for the Australian Government to more effectively engage business and indeed, the community, in the debate about free and open trade and investment in the region.

The communication network between government departments

7.46 The AEEMA expressed concerns not only about the communication network between business and government departments but also between government departments themselves. Mr Gosman from AEEMA spoke to the Committee about the confusion that can result from a lack of liaison between agencies involved in APEC activities. He said:

...the Department of Foreign Affairs and Trade will pick up some of the broader trade liberalisation negotiations, the industry department picks up some of the standards issues, the department of communications picks up telecommunications, the department of energy picks up energy, and we have been to one or two meetings where it is obvious that some of these departments have not been speaking to each other. We have known more about what their colleagues are doing than they do.⁵³

7.47 Despite his criticism, Mr Gosman did note in October 1997, however, that over the previous 18 months, DFAT had increased their specialisation in the industry area with the appointment of a trade negotiator for automotives and a specific trade negotiator with the Supermarket to Asia program. He was hopeful that further initiatives would be put in place to improve interaction between industry and DFAT.⁵⁴

52 This statement was made by the Chair of PECC in relation to APEC as a whole but equally applies to Australia. Statement of the Chair, Meeting of APEC Ministers Responsible for Trade, Auckland, 29-30 June 1999. See para 1.14.

53 *Committee Hansard*, 27 October 1997, p. 100.

54 *ibid.*, pp. 103-4.

He was less confident about DIST's efforts to improve their communication links with industry. On that matter, he supposed 'the jury is still out on whether they have remedied that weakness'.⁵⁵

7.48 Customs stated that it did not have a communication difficulty with DFAT. It did nonetheless state that the customs expert group forms part of a specific subcommittee that 'has a very strong sense of identity and consensus within the group'. Mr Chapman told the Committee that the Customs Service, in close consultation with DFAT, is able to manage its own agenda. He acknowledged that they were fortunate that their area was specific and technical and the group was not policy driven.⁵⁶

7.49 At the time this evidence was taken, it appeared that communication among government agencies and between them and the business community was not as effective as it might have been. With the effluxion of time, the level and effectiveness of communication among these parties would obviously have changed. Inevitably, with an organisation as intricate and complicated as that of APEC, maintaining full communication among the many government, business, academic and other interested parties is a difficult task. Nevertheless, such communication is vital in ensuring that Australia continues to make a significant contribution to APEC's attainment of its long-term goals.

7.50 The Australian Government should from time to time review the APEC communication network between government agencies and the business community in Australia in order to strengthen these links and, in particular, to encourage greater participation by Australian companies.

Australia's role in trade facilitation

7.51 DFAT in general terms thought that Australia as a small to medium-sized player in the system could have a brokering or supportive role in APEC. Mr Peter Grey, then Australian Ambassador to APEC, stated:

I would like to think that at least we would be able to continue to provide, in a sense, the drive, and the policy innovation which will keep us as a major player in the APEC context. In a range of organisations we have shown an ability to punch above our weight, and that has largely been because of focus, activity and trying to be innovative.

...

Australia's role in APEC is still well recognised and still well regarded...We continue to put forward initiatives and to take the lead on

55 *ibid.*, pp. 104–5.

56 Mr Timothy Chapman, Australian Customs Service, *ibid.*, p. 121.

certain issues. We are still recognised and appreciated for taking a major constructive role in APEC.⁵⁷

7.52 Evidence presented to the Committee shows this assessment to be sound particularly in relation to the APEC trade and investment facilitation agenda where Australia has taken the lead in a number of areas, but most notably in the science and technology sectors and more recently in the financial services sector.

7.53 CSIRO had detected ‘a great deal more respect from the sophisticated manufacturing nations now towards Australian science and Australian technology than perhaps was the case 10 or 15 years ago’. It maintained ‘there is a view around the region that Australian science is powerful, it is well targeted, we do not try to do everything, but the things we do we do well.’ Dr Adam asserted that CSIRO is viewed by other APEC economies as a ‘very worthwhile first port of call in the region for help, for advice’.⁵⁸

7.54 The National Association of Testing Authorities (NATA) agreed, stating that Australia ‘is very well placed in terms of the sophistication of our technical infrastructure to demonstrate that our testing and conformity assessment activities are at world’s best practice’. Mr Anthony Russell from NATA told the Committee:

Our standards, our legal metrology fraternity and our national measurement system are well respected in the region. We are currently selling our technology, and sometimes giving it through the APEC support initiatives, to the region but we believe the benefits of that will be that the more our regional partners mirror our arrangements and our standards of conformance, the more simply our manufacturers and exporters will be able to add confidence to their products et cetera, with certification and test data coming from Australia.⁵⁹

7.55 Establishing standards and conformance procedures calls on highly technical skills and APEC relies on existing specialist bodies to guide their work in this area. Indeed, the CSIRO pointed out that APEC is ‘building on, and can build on, very longstanding and very strong scientific collaborations in the area’.⁶⁰ According to CSIRO, the move toward agreements was happening before the establishment of APEC but APEC has given impetus to the move and made it easier.⁶¹ CSIRO suggested that APEC has accelerated measures to reach regional agreement on standards which in turn has sparked the move for a global agreement.

57 *Committee Hansard*, 20 October 1997, p. 82.

58 *Committee Hansard*, 2 February 1998, pp. 326–7.

59 *Committee Hansard*, 3 February 1998, p. 430.

60 *Committee Hansard*, 2 February 1998, p. 319.

61 *ibid.*, p. 326.

7.56 Australia is taking a prominent role in this area and its contribution can be seen through its involvement in the Asia Pacific Legal Metrology Forum and the Asia Pacific Laboratory Accreditation Cooperation. Both bodies are making a valuable contribution to the work of the SCSC.⁶²

7.57 According to NATA, Australia currently enjoys the status of operating the world's most comprehensive and experienced national program for laboratory accreditation. To capitalise on that resource in the APEC context, NATA explained that it seeks to maintain a close working relationship with both the Australian business community and governments. This is to ensure that its technical relationships with its counterparts in APEC continue to develop positively and to reflect the broader Australian needs and policies for trade facilitation.⁶³

7.58 NATA underlined the point:

If Australian leadership can be maintained in this area, it is an assurance that the mechanisms developed by our trading partners for assessing the competence of their laboratories, will reflect Australian arrangements, rather than Australia having to adjust our infrastructure to other modes.⁶⁴

7.59 Australia is taking the lead not only in the areas of science and technology. As noted in the previous chapter, it has shown initiative, drive and leadership in introducing the APEC Business Travel Card, in chairing the APEC Database Taskforce and in its capacity as lead shepherd in a number of projects such as the Road Transport Harmonisation Project and the model MRA on automotive product. Mr Crouch, the Australian ABAC representative, observed pointedly that Australia has a valued role in the APEC process and is highly regarded. He was sure:

Australia will continue to adopt a leading role in bringing together a mechanism and a process whereby trade within the APEC countries can be simplified.⁶⁵

7.60 The Committee shares Mr Couch's view and takes particular note of the observation made by CSIRO that Australian science is powerful, well targeted—that it does not try to do everything, but the things it does it does well. The Committee suggests that this approach should go beyond Australian science to other fields of endeavour in APEC. This strategic approach to facilitating trade takes on greater significance in light of the sheer scope of projects and programs embraced by the APEC agenda.

62 See appendix 6 for more information on the work of both these organisations.

63 Submission no. 23, p. 8.

64 *ibid.*

65 *Committee Hansard*, 3 February 1998, p. 416.

Recommendation

The Committee recommends that the Australian Government actively encourage business, institutions and associations, such as National Association of Testing Authorities, to continue their efforts to identify specific areas where Australia can best contribute to facilitating trade and investment in the APEC region and to support them in their efforts to carry forward their ideas and initiatives.

Trade facilitation—building a sense of community

7.61 Trade and investment liberalisation and trade and investment facilitation are important processes for APEC but, as Dr Hadi Soesastro pointed out, APEC should not be seen simply in the context of opening markets. He suggested that APEC should always be seen ‘as part of the larger context and broader objective of building the community’.⁶⁶ He goes on to state that most people have come to recognise that APEC’s agenda needs this balance of trade liberalisation, trade and investment facilitation as well as economic and technical cooperation. He argued that facilitation such as harmonising rules and regulations is ‘the most natural way to bring economies together’.⁶⁷

7.62 As seen in work being done in the SCSC and the SCCP, in the various working groups and in Asia Pacific Legal Metrology Forum and Asia Pacific Laboratory Accreditation Cooperation, trade facilitation can nurture a sense of community. Dr Elek told the Committee:

You cannot build a community of interest just simply by talking about trade and investment. You need to start talking about all sorts of other things that nations can cooperate on—sensible things like communication, about harmonising customs procedures, getting better visa procedures to make business travel easier and exchanging information about policy experience.⁶⁸

7.63 The APEC trade and investment facilitation agenda can help business on a practical level—it is outcome oriented and has been able to produce concrete results. But the agenda also has the potential to lay very firm foundations on which to build economic and technical cooperation.

66 *Committee Hansard*, 2 February 1997, p. 282.

67 *ibid.*, pp. 289–290.

68 *Committee Hansard*, 5 February 1998, p. 576.

CHAPTER 8

DEVELOPMENT COOPERATION: SIDE TRACK OR CENTRAL TO APEC'S FUTURE?

Introduction

8.1 In this chapter, the Committee examines the third of APEC's three pillars, development cooperation, by tracing the evolution of APEC's 'second track' agenda and reviewing its role in APEC.

8.2 Development cooperation is manifested in APEC through a program of economic and technical cooperation, known as Ecotech.

Ecotech's goals are to achieve sustainable growth and equitable development, reduce economic disparities among APEC economies, improve the economic and social well-being of the people, and to deepen the spirit of community in the Asia-Pacific region. These goals complement APEC's broader trade liberalisation and facilitation objectives, including by recognising liberalisation will not be effective unless developing economies have the systems and understanding to meet these obligations. Technical assistance is thus an important element of the Ecotech agenda. It also recognises there is a need to create a climate in which markets can be progressively liberalised and bottlenecks to continued economic growth removed. Infrastructure has been a priority issue.¹

8.3 The Ecotech program is carried out mainly through ten Working Groups², which were begun in 1990. They focus on six priority areas: developing human resources, establishing stable capital markets, building economic infrastructure, harnessing technologies of the future, promoting environmentally-sound growth, and strengthening small and medium-sized enterprises.³ Working Groups seek to address infrastructure shortcomings in developing countries, support regional harmonisation of standards, and promote information and technology exchange. Human development programs assess labour and social security issues and provide training and technical assistance for government officers, businesses and the financial sector so as to ensure the market has an informed basis on which to develop. Ecotech activities are thus structurally connected to the trade facilitation agenda.⁴

1 DFAT, submission, pp. 6–7.

2 These Working Groups are listed in Chapter 3.

3 APEC Organisation and Process, Internet site:
<http://www.Apecsec.org.sg/97brochure/97organize.html>, (18 August 1999).

4 See Department of Foreign Affairs and Trade's comments, submission no. 19, pp. 6–7.

Why Ecotech is not aid

8.4 Dr Elek emphasised that APEC is not a new ‘aid bureaucracy’. Instead, its focus is on the exchange of knowledge and technical expertise—through Ecotech.⁵ Dr Charles Morrison noted that there has always been confusion about how economic technical cooperation relates to traditional ODA transfers under APEC. This, in turn, has confused APEC’s role as ‘a process of information exchange and policy dialogue’ with the ‘different role’ filled by aid implementing agencies.⁶

8.5 In his paper, ‘Development Cooperation in the 21st Century’, Dr Morrison demonstrated this fine distinction when he described how the provision of ‘foreign aid’ fits into the APEC development cooperation model. He acknowledged that, given the different stages of development of APEC economies, some of the advanced APEC economies ‘will want to assist others in meeting their goals through foreign assistance’. However, APEC’s model for the application of foreign assistance is distinctive in two ways:

- APEC should not coordinate or have any hand in the provision of these funds. Foreign assistance would be used as part of a sovereign government’s domestic development schedule and so would be independent of APEC’s oversight; and,
- Government derived aid assistance would be secondary in size and importance to that generated through private sector activity.

Development cooperation: future directions for APEC

8.6 Dr Andrew Elek told the Committee that Australia’s great achievement in setting up APEC in 1989 was the forging of a coherent framework, which took into account the divergent needs of all potential APEC participants; a process which inevitably involved ‘distilling fairly separate agendas’—trade liberalisation and development cooperation.⁷ From the beginning, APEC combined trade interests and development assistance as dual agendas in a regional coalition of countries at very different stages of economic development.

8.7 Despite the existence of this framework, many people have commented on their perceived disparity between APEC’s declared commitments to development cooperation and its achievement in this area. For example, Professor Cliff Walsh, Director of the Centre for Economics in Adelaide, told the Committee that development cooperation was a suppressed item on APEC’s agenda. He was sceptical

5 See for example, Dr Andrew Elek, *Committee Hansard*, 5 February 1998, p. 589; and ‘Forward’, p. iii, and Chapters in Andrew Elek, ed., *Building an Asia-Pacific Community: Development Cooperation within APEC*, 1997.

6 See ‘Development Cooperation in the 21st Century’ in Andrew Elek, ed., *Building an Asia-Pacific Community: Development Cooperation within APEC*, Canberra: The Foundation for Development Cooperation, 1997, p. 24.

7 *Committee Hansard*, 5 February 1998, pp. 583–84.

of APEC statements giving equal status to development cooperation compared with trade and investment liberalisation and facilitation. He thought this was not happening in practice.⁸

8.8 The Australian Council for Overseas Aid, while advocating a more prominent role for development cooperation in APEC's 'two track' structure, observed:

We think that second track is very important because it is about intensifying development cooperation in the region, trying to address some of the social and economic inequities between countries and promoting sustainable development. However, from what we can see, the main focus of APEC's work to date has been on the first track: trade facilitation and liberalisation and reducing impediments to trade and investment in the region.⁹

8.9 Although DFAT emphasised its commitment to advancing trade liberalisation, it also recognised a clear role for APEC in capacity building in the finance and related sectors. In this area, there would be little overlap with other major international financial institutions.¹⁰

8.10 Most witnesses accepted the view that the 'first track' trade and investment liberalisation and facilitation agenda would, in the long term, generate wealth in APEC member economies and, through open regionalism, in the economies of their other trading partners.¹¹ It was agreed that if all member countries were to progress, markets must be open in order to generate wealth.

8.11 Despite giving priority to the 'first track', many considered that wealth would not be generated equitably across the region unless mechanisms were in place to assist developing economies to build the infrastructure needed to support market growth. The role of APEC's 'second track', development cooperation, was widely acknowledged as the means of providing that assistance to economies in need of support. It was not, however, until the effects of the Asian financial crisis became clear that APEC's Ecotech agenda received the attention it deserved.

Distilling the agendas: development cooperation under APEC

8.12 In a paper on Ecotech, Mr Alan Oxley, Chairman of the Australian APEC Study Centre, described how APEC is a creature of a new era of cooperation, which

8 *Committee Hansard*, 6 February 1998, p. 652.

9 *Committee Hansard*, 2 February 1998, p. 264.

10 *Committee Hansard*, 30 March 1998, p. 808.

11 See for example Dr Hadi Soesastro's comments on trade liberalisation and open regionalism, submission no. 50, p. 9, Mr Alan Oxley, Australian APEC Study Centre, submission no. 12, p. 3; and the Australian Council for Overseas Aid, submission no. 37, p. 1. The last also emphasised the importance of ensuring that mechanisms to address the needs of developing nations were in place, *passim*.

evolved at the end of the Cold War and with the rise of the Asian Tigers and Chile.¹² During this period, prior notions about developed country obligations to provide concessions to developing countries to assist growth were put aside. Instead, for example, developed and developing economies worked jointly for the Cairns Group coalition against any country, developed or otherwise, which resisted reduction of trade barriers for agricultural produce. The Uruguay Round further reinforced the view of equity among nations when it came to economic reform. From this time on, the assumption that developing countries should be allowed special exemptions from tariff reduction and other trade agreements, as was allowed under the GATT, was generally unacceptable to the international community.¹³

8.13 Mr Oxley stated that the free market had thus emerged as ‘the orthodox instrument for economic development’, sweeping aside former notions about balances and counter balances to ensure progression in developing economies.¹⁴ He concluded that APEC is the premier regional organisation to adopt this model, as:

There is no presumption that APEC is divided politically according to the economic status of its members. The emphasis in language is on collaboration in the common interest. APEC is the first regional organisation for economic cooperation that is composed of developed and developing economies that is not founded on the principle that collaboration must be based on the premise that there are inherent differences between developed and developing economies.¹⁵

8.14 Therefore, APEC is an organisation ‘not bound by political preconceptions of the development process’. In its official statements, it refers to its members as economic entities along a continuum of development, not as weaker (developing) countries requiring assistance from the strong (developed) ones. APEC thus focuses on ‘meet[ing] the economic development interests of its members’ while disregarding the historical and political differences which have led to their placement at diverse points on that development continuum.¹⁶

8.15 Dr Hadi Soesastro told the Committee that ‘both APEC and the ARF [ASEAN Regional Forum] are the two pillars in the regional architecture that we hope will help maintain peace, security, stability and also increase prosperity in the region’. He said that:

12 *The Ecotech Agenda—APEC’s Other Side. Will Infrastructure be APEC’s New Orientation, Issues Paper No. 10*, May 1997, p. 3, Appendix C, APEC Study Centre, submission no. 12.

13 GATT set out a general principle that developing countries were entitled to ‘special and differential treatment’. Oxley discerned, however, that this was ‘a political statement’ as there were only a few areas where they were given specific legal rights. Oxley, *The Ecotech Agenda*, note 4.

14 A. Oxley, *The Ecotech Agenda*, p. 3.

15 A. Oxley, *The Ecotech Agenda*, p. 4.

16 A. Oxley, *The Ecotech Agenda*, p. 1.

Trade liberalisation, which has been an important focus of the agenda of APEC, should be seen in the APEC context not simply as an exercise to opening up markets. It certainly is an important agenda for APEC, but it should always be seen as part of the larger context and broader objective of building the community. I think by now we have come to an agreement, a recognition, that APEC's agenda needs this balance of trade liberalisation, trade and investment facilitation as well as economic and technical cooperation.¹⁷

8.16 In 1995, Dr Soesastro wrote that there were two views of APEC, a broad view and a narrow view. The broad view was based on an understanding that APEC is about community building in the region—a view suggesting that APEC is a process and that the process is what is important. The narrow view focuses on outcomes, such as producing an investment code or the negotiation of tariff cuts. He expressed concern that the narrow view would create too much stress and tension inside APEC, which would be divisive.¹⁸ He told the Committee:

Community building implies that one needs to be more willing to engage in a give and take process, understanding each other's problems and so on. The narrow view in fact in APEC has been predominantly adopted in the past by the Americans, who want to see results immediately. The political processes in the United States do not tolerate people coming together without bringing back visible results. Therefore they have always been talking about results and outcomes, whereas community building needs a process of understanding. You have to develop a habit of cooperation and these things. At the end I do feel that again one needs to have some kind of a balance, because simply talking is also not the purpose of the exercise.¹⁹

8.17 Dr Soesastro said that, in the process of trade and investment liberalisation, there are both winners and losers and that governments need to anticipate who will be the losers and either lessen or eliminate their hardship in the process. He also said that some economies would need support when they embarked on trade liberalisation.

While opening up, there is always this fear that developing countries tend to lose out. There needs to be a sense of solidarity being shown within the APEC process, and this should be especially reflected and manifested in an attempt to really help these developing countries build and strengthen their capacity, strengthen the institutions and strengthen the regulatory environment. These are very important when these countries open up. There also needs to be a greater sense of assurance that we will not lose out in the process. That is the function of the economic and technical cooperation agenda of APEC.²⁰

17 *Committee Hansard*, 2 February 1998, p. 282.

18 Hadi Soesastro, 'APEC After the Bogor Declaration', *The Sydney Papers*, Spring 1995, pp. 78–85.

19 *Committee Hansard*, 2 February 1998, p. 291.

20 *Committee Hansard*, 2 February 1998, p. 283.

The evolution of Ecotech

8.18 The idea of equality in the market place is the foundation stone on which APEC commits its members to 'mutual respect and mutual benefit'.²¹ But recognition of difference has been the substance of the coalition's history and its success.

8.19 The developing members of APEC, particularly the ASEAN countries, were concerned about the weight of influence Japan and the United States would have in driving the organisation's agenda. Australia played an important role in reassuring the ASEAN countries that the organisation would be a balanced and inclusive one, in which 'members would be there on an equal footing'.²²

8.20 Indeed, the framing of the phased agreement for tariff reduction at Bogor in November 1994, seemed a bridge to future harmony. AusAID stated in its submission that developing member acceptance of the liberalisation agreement relied heavily on APEC's acknowledgment of difference, backed up by a stronger development cooperation emphasis:

The Bogor Declaration of 1994 stands out as the most significant APEC development so far. A key factor in its acceptance by all APEC Leaders was that it explicitly recognised the difference in capacities of developing APEC members to effect free and open trade. Hence a further ten years was allowed for APEC developing economies to achieve the goals outlined at Bogor. A further factor influencing acceptance by all, was the Leaders' call in Bogor to intensify development cooperation. They stressed the importance of Economic and Technical Cooperation (Ecotech) in APEC to attain sustainable growth, equitable development, to reduce economic disparities in the region.²³

8.21 Professor David Robertson noted that the agreement uniquely brought together the Western and the Asian way 'where targets are agreed by consensus, where everybody's words are believed to have equal weight, and where targets are pursued not formally, but with best intentions'.²⁴

8.22 This consensus was, however, not achieved easily. As Professor Ippei Yamazawa of the APEC Eminent Persons Group reported, when President Soeharto introduced the term 'development cooperation' into the Bogor Declaration, some members resisted it.²⁵ Dr Andrew Elek attributed this to 'uncertainty and ambiguity

21 Eminent Persons Group (EPG) Report, Manilla 1996 quoted in Forward, Elek, ed., *Building an Asia-Pacific Community*, p. iii.

22 Dr Soesastro, *Committee Hansard*, 2 February 1998, pp. 282–83.

23 AusAID, submission no. 57, pp. 3–4.

24 *Committee Hansard*, 6 March 1998, p. 739.

25 In 'APEC's Economic and Technical Cooperation: Evolution and Tasks Ahead' in Andrew Elek, ed., *Building an Asia-Pacific Community: Development Cooperation within APEC*, Canberra: The Foundation for Development Cooperation, 1997, p. 42, as part of submission no. 14.

about what development cooperation means', with the term conjuring up uncomfortable resonances of former donor/recipient obligations between APEC's developed and developing member economies.²⁶ Nevertheless, APEC not only achieved consensus on phased tariff reductions but also on a commitment to 'intensifying Asia–Pacific development cooperation'.

8.23 On 19 November 1995, at Osaka in Japan, APEC's Economic Leaders set out to design operational guiding principles and a strategy for implementing the Bogor commitments. They adopted the *Osaka Action Agenda* a blue print for action on trade and investment liberalisation and on economic and technical cooperation.²⁷ Emphasising their equal commitment to the twin agendas, the Leaders, in their *Osaka Declaration of Common Resolve*, stated:

The Osaka Action Agenda is the template for future APEC work towards common goals. It represents the three pillars of trade and investment liberalisation, their facilitation, and economic and technical cooperation. Achieving sustained economic development throughout the region depends on pursuing actions in each of these areas vigorously.²⁸

8.24 Behind this rhetorical commitment to balanced agendas, tensions between the United States and Japan, with their different expectations of APEC, again surfaced.

8.25 According to Professor Yamazawa, the 'lack of consensus on economic cooperation among APEC members has impeded the strengthening of cooperation efforts in APEC'.²⁹ The term 'development cooperation', reluctantly accepted at Bogor, was again rejected by Senior Officials in preparatory discussions for the *Osaka Action Agenda*. He reported that the Leaders finally agreed upon the 'modest term "economic and technical cooperation" (Ecotech)', with the result that: 'Part Two of the *Osaka Action Agenda*, although being one of the two major pillars on the APEC agenda, turned out to be no more than a collection of individual work programs and still lacked a strong thrust for visible achievement'.³⁰

8.26 Professor Yamazawa also recorded the difficulties the Japanese Chair had in getting support for the Partners for Progress (PFP) proposal at the APEC Senior Officials Meeting in February 1995. Japan initiated this proposal to break down a perceived reluctance 'to strengthen economic and technical cooperation beyond studies and seminars'. The program was to incorporate a wide range of cooperation

26 A. Elek, 'An Asia–Pacific Model of Development Cooperation: Promoting Economic and Technical Cooperation through APEC', *Building an Asia-Pacific Community*, p. 5.

27 Appendix F, 'Asia–Pacific Economic Cooperation 1997', received with Australian APEC Study Centre, submission no. 12.

28 *APEC Economic Leaders Declaration of Common Resolve*, Osaka, Japan, November 19, 1995 in Department of Foreign Affairs and Trade submission no. 19.

29 Professor Ippei Yamazawa, 'APEC's Economic and Technical Cooperation: Evolution and Tasks Ahead' in Andrew Elek, ed., *Building an Asia–Pacific Community*, 1997, p. 42.

30 Yamazawa, 'APEC's Economic and Technical Cooperation', p. 42.

activities that would be administered by an established agency within APEC. The proposal was defeated because of concerns about funding and a disinclination to increase APEC's bureaucracy.³¹

8.27 The SOM did, however, embrace the PFP proposals for technical cooperation programs focussing on three trade and investment liberalisation, and facilitation (TILF) areas: standards and conformance; intellectual property rights; and, competition policy. Professor Yamazawa reported that the SOM recognised these as essential supports to the successful progression of the first track agenda. Japan made its final commitment for support to the TILF at the Leader's dinner when Mr Murayama announced that 10 billion Yen would be provided over several years for TILF's promotion.³²

'Designed to Deal with Diversity': APEC after Subic

8.28 At Subic in 1996, the need to redefine the terms of APEC's vision became increasingly urgent. It became clear that dragging the chain on development cooperation would also retard the progress of the liberalisation agenda. As Mr Oxley said, governments will not agree to economic integration 'unless they are satisfied that very basic strategic interests are being advanced or protected.' Until developing nations felt more comfortable on that account, enhanced regional cooperation was unlikely.

8.29 The then United States Secretary of State told the pre-Subic Bay Ministerial Meeting in Manila: 'Now we must begin to take specific concrete steps that will open up our economies and help lift the lives and living standards of our peoples'.³³

8.30 Dr Frederico Macaranas, Chair of the 1996 APEC Senior Officials Meeting, noted that the development cooperation agenda had not been developed to the extent of that for trade and investment liberalisation and facilitation.³⁴ The desire to advance the free trade agenda bolstered a new consciousness of the need to refine and focus the development cooperation agenda, so as to garner public support for the total plan. Earlier, in its final report in 1995, the Eminent Persons' Group had asserted that if real progress was to be made:

it was necessary to develop a clear conceptual framework which allowed economic cooperation and development cooperation being promoted jointly by APEC governments to be clearly distinguished from 'old style' foreign aid, which carried overtones of patron-client relations, policy conditions and

31 Yamazawa, 'APEC's Economic and Technical Cooperation', p. 41.

32 Yamazawa, 'APEC's Economic and Technical Cooperation', p. 41.

33 Tas Luttrell, 'APEC after Subic—the Road to Free Trade, *Current Issues Brief (Foreign Affairs, Defence and Trade Group)*, no. 25, 1996–97.

34 In Forward to Elek, ed., *Building an Asia-Pacific Community: Development Cooperation within APEC*, Received from the Foundation of Development Cooperation as part of submission no. 14.

leverage. A new model of development co-operation was needed, based firmly on the guiding principles of mutual respect and mutual benefit which underlie the APEC process.³⁵

8.31 As a consequence, APEC made its first focussed attempt to resolve internal disagreement about the role and direction of its development cooperation agenda and to establish a workable framework for ‘community building’ among all member economies.

8.32 Prior to the Senior Officials Meeting in May 1996, issues papers were prepared on the potential nature and priorities of economic and technical cooperation to be promoted through APEC.³⁶ The Foundation for Development Cooperation convened an international dialogue group, which met three times, in September 1995 in Tokyo and in February and May 1996 in Manila. The outcome was the paper ‘An Asia-Pacific Model of Development Cooperation: Promoting Economic and Technical Cooperation through APEC’, which was submitted to the Philippines Chair at Subic.³⁷

8.33 Issue papers were also prepared by the Economic Committee and by the United States Government. The Philippines Government then prepared a synthesis paper based on all three. Subsequent deliberations by APEC Senior Officials led to the design and endorsement of The Declaration on an Asia Pacific Economic Cooperation Framework for Strengthening Economic Cooperation and Development at Subic Bay in the Philippines in November 1996.

8.34 At Subic in 1996, APEC Leaders committed themselves to equitable development: ‘We recognise that our vision of community can only be strengthened if our efforts benefit all citizens’.³⁸ They went on to say:

As an essential complement to our trade and liberalisation agenda, economic and technical cooperation helps APEC members to participate more fully in and benefit from an open global trading environment, thus ensuring that liberalised trade contributes to sustainable growth and equitable development and to a reduction in economic disparities.

8.35 In November 1996, APEC Economic Leaders issued the Declaration on an Asia-Pacific Economic Cooperation Framework for Strengthening Economic Cooperation and Development, which appeared as companion document to the Manila Action Plan for APEC (MAPA).

35 In the EPG’s last report to the Leaders. Disbandment was recommended at Osaka in 1995. See Forward to Elek, ed., *Building an Asia-Pacific Community*, p. iii.

36 See Andrew Elek, ‘An Asia-Pacific Model of Development Cooperation: Promoting Economic and Technical Cooperation through APEC’, in Elek, ed., *Building an Asia-Pacific Community*, 1997, p. 1.

37 Elek, ‘An Asia-Pacific Model of Development Cooperation’, p. 1.

38 *APEC Leaders Declaration: From Vision to Action*, Subic, November 1996.

8.36 In their Declaration, the APEC Economic Leaders explained the context for directives made in these documents and ordered their implementation. They targeted economic and technical cooperation, instructing APEC Ministers to give ‘a human face to development’ by directing relevant fora to give high priority to:

developing human capital; fostering safe, efficient capital markets; strengthening economic infrastructure; harnessing technologies of the future; promoting environmentally sustainable growth; encouraging the growth of small and medium enterprises.

8.37 The Framework provided for increased private sector involvement in Ecotech. The need for this partnership between government and business was explained by the APEC Economic Leaders in their Subic Declaration:

Lack of infrastructure severely contains sustained growth. Since public finance cannot fully meet the enormous requirements of the region, private sector investment must be mobilized. Providing the appropriate financial, economic, commercial and regulatory environment is the key to stimulating such investments. We direct the relevant ministers to work together with private sector representatives and with national/international financial institutions, including export credit agencies, and develop a framework for this purpose.³⁹

8.38 Government to government development aid was included in the Framework, articulated as ‘aid between equals’ and designed:

To help build a growing sense of community and promote a spirit of enterprise that leads our people to work with and learn from each other in a cooperative spirit, economic and technical cooperation activities should draw on voluntary contributions commensurate with member economies’ capabilities and generate direct and broadly shared benefits among APEC member economies to reduce economic disparities in the region.⁴⁰

8.39 At Subic, APEC achieved a new level of consensus on the relationship between trade liberalisation and facilitation, and its development cooperation agendas; a relationship which had become increasingly symbiotic.

Vancouver 1997

8.40 At Vancouver in November 1997, despite the onset of the Asian financial crisis, APEC Economic Leaders remained optimistic, and declared that ‘the fundamentals for long-term growth and prospects for economic growth in the region

39 APEC Economic Leaders Declaration: From Vision to Action, Subic, 25 November 1996.

40 Declaration on an Asia-Pacific Economic Cooperation Framework for Strengthening Economic Cooperation and Development, Section III. Character of APEC Economic and Technical Cooperation, no. 3, Manila, November 1996.

are strong'.⁴¹ APEC's course was to endorse the central role of the IMF, drawing on the funding framework outlined at Subic to supplement IMF initiatives. 'Capacity building' would complement the IMF packages, which linked aid to stringent liberalisation programs. In this context, remedies to the crisis under 'capacity building', while incorporating human development elements, would mainly focus on building financial infrastructure in struggling economies, while the IMF would push the liberalisation process.⁴²

8.41 In pursuing their commitment to 'capacity building', the Economic Leaders elaborated the six priority areas established in the Framework for Strengthening Economic Cooperation and Development. Four of these focussed on economic, financial and technological development; the remaining two on human resources and the environment.⁴³

8.42 A new Ecotech Sub-Committee (ESC) was established to coordinate the implementation of these initiatives. In the short term, the ESC was intended to focus the direction of economic and technical cooperation and to ensure that its activities received adequate attention from APEC leaders. In the long term, it was to be a means of monitoring the implementation and evaluating the effectiveness of Ecotech activities.⁴⁴

8.43 ABAC gave support to the Manila Declaration initiative for public/private collaboration in advancing the Ecotech agenda. It recommended the formation of Partners for Equitable Growth (PEG), which was designed to be a non-profit organisation with a board of senior business and government leader directors to be run along private sector lines.⁴⁵ PEG would be engaged in:

- mobilising the resources and resourcefulness of the business/private sector in support of APEC's Ecotech objectives; and
- a strategy of developing clear complementarity between APEC Ecotech and the APEC trade and investment liberalisation and facilitation (TILF) initiatives.⁴⁶

APEC adopted the ABAC recommendation to form PEG.

41 APEC Economic Leaders Declaration: Connecting the APEC Community, Vancouver, 25 November 1997 (para. 3).

42 Declaration, para. 3.

43 *APEC Canada 1997*, Internet site: <http://www.dfait-maeci.gc.ca/~apec/english/sustai-e.htm>, (Access, 4 March 1998).

44 Foundation for Development Cooperation, supplementary submission no. 14A, p. 6.

45 *Review of the Manila Action Plan for APEC: Enhancing MAPA's Relevance to Business*, ABAC Report 1997, Internet site: <http://www.apecsec.org.sg/abac/abacprt 97/abac97-review.html>, (Access, 27 February 1998, p. 6).

46 *Review of the Manila Action Plan for APEC*, ABAC Report 1997, p. 6.

8.44 ABAC further clarified its vision of the private/public partnership:

We do not see business/private sector initiatives in APEC's Ecotech diminishing or replacing government initiatives in the APEC Working Groups and elsewhere. Rather we see business/private sector initiatives as complementing government initiatives in the spirit of partnership envisaged in the Manila Declaration.⁴⁷

8.45 In the Vancouver Framework for Enhanced Public/Private Partnerships in Infrastructure Development, the Leaders set up a model to make infrastructure investment attractive to the private sector. APEC had therefore moved closer to integration of the APEC agendas.

8.46 Canada, using its prerogative as host country, opened up APEC's development cooperation agenda by giving more prominence to environmental issues. It also initiated programs designed to ensure that youth, women and business participated more actively in APEC.⁴⁸ It also held the first-ever FEEEP (Food, Environment, Energy, Economic growth and Population) symposium, although this progression was overshadowed by APEC's failure to commit itself to this in a tangible way and other sustainable development issues.⁴⁹

Kuala Lumpur 1998: a delicate balance

8.47 Malaysia, as Chair of APEC in 1998, and other Asian members, considered that APEC's economic and technical cooperation agenda had been overshadowed by the trade liberalisation agenda. Malaysia fully supported the Vancouver initiatives on capacity building, particularly those designed to develop the region's human resources and harnessing technologies for the future. Malaysia wanted APEC to build engagement with the Asian Pacific business community.⁵⁰

8.48 The worsening crisis during 1998 was to give these and related issues more prominence. APEC considered the need to strengthen global financial architecture and to strengthen APEC's response to the devastating social effects of the crisis through HRD work group activity.

8.49 In January 1998, a meeting of the APEC Human Resources Development Group had convened in Bali to consider the human effects of the crisis, particularly in

47 *Review of the Manila Action Plan for APEC, ABAC Report 1997*, p. 6.

48 *Asia Pacific Economic Cooperation (APEC), Ninth Ministerial Meeting, Joint Statement*, Internet site: <http://usiahq.usis.usemb.se/regional/ea/apec/vanmindc.htm>, (Access, 11 May 1998).

49 In the case of the Action Plan for Sustainable Cities, for example, no overarching mechanism was set up to monitor outcomes, and under FEEEP, APEC Ministers were unable to agree beyond being 'actively engaged' in addressing the issues. See Environment Australia, submission no. 43, p. 5.

50 Address of Ambassador Dato' Noor Adlan at the Sir Herman Black Lecture, Tuesday 5 May 1998, Sydney, Australia, *APEC Homepage* (4 August 1999).

relation to unemployment. A taskforce was set up to evaluate the situation and to work out appropriate responses for APEC.⁵¹

8.50 On 22–23 April 1998, the APEC HRD Task Force on the Human Resource and Social Impacts of the Financial Crisis held its first meeting in Jakarta, Indonesia. A New Zealand academic, Associate Professor Nigel Haworth, was commissioned to prepare papers and analyse case studies.⁵²

8.51 Associate Professor Haworth reported that the crisis had compelled APEC to encompass short-term programs to address immediate problems. This was a change for Human Resource Development under APEC, which usually worked towards broader medium and long-term capacity building goals over a three to five year time frame.⁵³ Priority areas included the need to strengthen or develop minimal social safety nets in Asian countries and to assess and address the effects of the crisis on particular sections of the labour market—women, migrants and middle-aged men.⁵⁴

8.52 Laying important foundations for APEC to expand its human resources development agenda, Professor Haworth asserted that pressures on the labour market caused by the crisis meant that APEC should also look at labour and management issues, an area not previously part of APEC's agenda.⁵⁵ He argued that consideration of problems in this area was essential as support for the export-led growth model APEC promoted for regional recovery because: 'technology transfer and the focus on innovation and flexibility at the heart of export-led models require continual improvement in managerial competence and in employee skills levels'.⁵⁶

8.53 As a result of the consideration of these matters, the Economic Leaders included them in their Declaration: Strengthening the Foundations for Growth and its attachment, the Kuala Lumpur Action Program on Skills Development.

8.54 APEC Leaders also directed Ministers to act on a range of initiatives aimed at 'Strengthening the Financial Systems Individually and Globally'—corporate governance measures—under the general aim of laying the foundations for sustainable

51 Nigel Haworth, 'The HRD Dimension of the Asian Financial Crisis: Towards the Definition of an APEC Response', A paper based on the APEC HRD Working Group Task Force on the Human Resource and the Social Impacts of the Financial Crisis Experts Meeting, Jakarta, April 1998, prepared for the APEC HRD Working Group Task Force on the Financial and Economic Crisis Symposium, Chinese Taipei, June 1998, p. 17.

52 Communique to HRD Working Group Members and Other APEC Fora: APEC HRD Task Force on the Human Resource and Social Impacts of the Financial Crisis, 7 May 1998.

53 Eight priority areas with key emphases in developing education systems, training provision, skill mobility, with the role of SMEs, sustainable development and trade liberalisation conditioning these. See Haworth, 'The HRD Dimension', p. 19.

54 Haworth, 'The HRD Dimension', p. 6.

55 Professor Haworth notes that the Labour and Management element of HRD had been growing in strength since Subic, p. 19.

56 *ibid.*, p. 22.

growth into the next century. These included the formulation of approaches to strengthen the regional and global financial system and to examine the scope for regulation of the international financial system through an expanded G22 and to forecast and control financial instability.

8.55 APEC's support was also given to the formation of the Asian Growth and Recovery Initiative. This was a package of \$10 billion, which would help address the particular problems of the nations in crisis—without IMF conditions imposed, as mooted at Vancouver by Asian members—and would also work to develop early warning systems. This initiative would be funded by the United States and Japan and international institutions, the World Bank and the Asian Development Bank, according to the aid model defined by Leaders at Subic.⁵⁷

8.56 On the social dimension, APEC Ministers were directed to work together with these institutions to devise effective strategies to 'strengthen social safety nets', and so ameliorate hardship in Asia. The role of Ecotech was brought into the foreground, with Leaders noting that economic and technical cooperation had 'acquired added urgency' with the occurrence of the crisis.

8.57 The main thrust of the response on Ecotech and labour market issues was carried by the Kuala Lumpur Action Program on Skill Development. It stated:

In the face of the current economic crisis, APEC has agreed that there is a need to address the social impact of the crisis. Retraining of displaced workers can contribute towards alleviating the social impact on those affected as well as strengthening community spirit in APEC.

8.58 The document named four specific areas for development:

- upgrading the industrial skills base: creating greater efficiency, enhanced technology flow;
- spawning new entrepreneurs: importance of a thriving SME sector;
- technology skills for the new millennium: new skills for rapid transformation in the workplace; and
- strengthening institutional infrastructure to facilitate trade and investment liberalisation: enhanced capacity to respond to market demands.

8.59 Under this program, private sector expansion and upgrading of skills were intended to ameliorate the massive unemployment resulting from the crisis. APEC intensified efforts under the Partners for Progress model of private/public sector

57 Box 1. 7 in 'The Financial Crisis in Asia', excerpt from the *Asian Development Outlook*, (12 July 1999).

collaboration to stimulate the growth of SMEs and encourage ‘smart partnerships’ between business and the private sector to ensure that training matches demand.

8.60 These commitments for victims of the crisis were in keeping with APEC’s market development model and its HRD commitments to enhance education and training opportunities.⁵⁸ The focus on ‘capacity building’ at Kuala Lumpur was mainly directed to big business and strengthening financial markets, in keeping with APEC’s conviction that ‘export-led growth’ would soon lead the unemployed in Asia back into jobs.

8.61 Despite these commitments, APEC’s performance was not without criticism. Some commentators claimed that APEC had really done very little that was new at Kuala Lumpur and that the formula for recovery had not changed—demand led growth.⁵⁹ Further, in focusing on international reform, others judged that APEC had failed to avail itself of the opportunity provided by the crisis to consider labour and management issues as a background to structural reform across the region. As official APEC observer, PECC told APEC Finance Ministers at Langkawi, Malaysia, in May the following year:

before we focus too much on the macro-economic, big picture issues of regional and international architecture, we have to take a closer look at promoting corporate and industrial reform and development.⁶⁰

8.62 The PECC saw that the timing was right—with many APEC economies already in the midst of making these changes—and APEC with ‘a credible capacity to supply economic and technical co-operation’. Unfortunately, despite the skills development commitments made in November in Kuala Lumpur, PECC judged that APEC Trade and Industry Ministers and Foreign Ministers had not succeeded in giving substance to Ecotech—‘things had not gone very far’ over half a year later.⁶¹

New Zealand 1999

8.63 The Joint Ministerial Statement of the APEC Sixth SME Ministerial Meeting held in Christchurch on 26–28 April 1999 drew attention to the effects of the financial crisis on SMEs:

The recent regional economic crisis has and is continuing to have profound effects on SMEs. SMEs have been particularly affected by the credit crunch.

58 See Summary Conclusions: 18 APEC HRD Working Group Meeting, Chinese Taipei, 16–19 June 1998.

59 See Peter Hartcher, ‘A Solution not Asia–Pacific, nor Co-Operative’, *Australian Financial Review*, 17 November 1998, p. 5.

60 Statement to APEC Finance Ministers in behalf of PECC FMD at Langkawi, Malaysia, 15 May 1999, para. 7.

61 Statement to APEC Finance Ministers in behalf of PECC FMD, para. 6.

Returning SME's to growth is vital to the region's economic recovery. The business environment, however, is also rapidly changing. Corporations are divesting, leading to the creation of more SMEs. This underscores the fact that SMEs will be the engine for growth in the future.⁶²

8.64 The focus on SMEs would also further APEC's human development objectives for women and for indigenous peoples.

8.65 The second major meeting held in New Zealand during its year as host was the Women in APEC meeting, entitled 'Our Contribution to Economic Prosperity'. The meeting examined the role of women as entrepreneurs, in light of statistics showing women as premier initiators of small and medium businesses. Their role in SMEs was highlighted as SMEs had an important role to play in the region's recovery from the financial crisis.⁶³

8.66 Several new development cooperation initiatives were begun during the year. These included Australia's proposal that APEC should work with the Asian Recovery Information Centre, being set up by the Asian Development Bank. Australia focused on the effects of the crisis on children. The United States reported on work on strengthening social safety nets in APEC fora and through the virtual Task Force set up for this purpose.

8.67 In 1999, Human Resource Development (HRD) Ministers took APEC's broader development cooperation objectives closer to centre stage. Their Joint Ministerial Statement, endorsed in Washington on 27–28 July 1999, advocated the:

- placing of human resources development and other employment policies at the *centre* of economic policy and cooperation; and
- increased collaboration and information exchange with and among other regional and international organisations and enhanced cooperation among government, labour, business and civil society.⁶⁴

8.68 The HRD Ministers also directed, for the first time, that APEC members should consult the International Labour Organisation to 'establish labour market frameworks and strong safety nets to enhance growth, employment and social cohesion'.

8.69 These developments demonstrated that, under the impetus of the financial crisis, APEC was prepared to assume a more interventionist role than before. Prior to the 1997 meetings at Vancouver, President Clinton had foreshadowed America's

62 Address to APEC Small and Medium Enterprises Ministers' Meeting, Rt Hon Jenny Shipley, Prime Minister, 26 April 1999, (7 July 1999).

63 APEC Womens Meeting Brings Leaders to New Zealand, 17 June 1999, APEC New Zealand 99: Newsroom, APEC Internet site, (7 July 1999).

64 Committee's italics. APEC Human Resources Development Joint Ministerial Statement. Third APEC Human Resources Development Meeting, Washington DC, *USIA Washington File*, 29 July 1999, p. 7.

support for such a move. The President saw that, with the region in crisis and Japan in recession, there was room to assist other countries to build good economic policies of their own. He considered that the IMF should begin that process but if ‘that fails or is insufficient, then those of us in the region will come in and support it’.⁶⁵

8.70 APEC has, in effect, accepted the first principle of sustainable development, which is acceptance of the interrelationship between economic, social and the political factors. It should now be more able to assist in bringing about ‘the effective management of a country’s social and economic resources in a manner that is open, transparent, accountable and equitable’—good governance, the essential platform for poverty reduction.⁶⁶

8.71 The APEC Leaders Declaration issued in New Zealand on 13 September 1999 welcomed these initiatives and emphasised the need for coordinated delivery of development programs to address the human and economic dimensions of the crisis.⁶⁷ A ban on new protectionist measures while WTO rounds proceed gained at least verbal consensus.⁶⁸

Building private/public sector partnerships through Ecotech

8.72 Most development experts accept that APEC’s ability to realise its development goals relies on its ability to cultivate a productive relationship between the public and private sector.

8.73 In 1998, Australian representatives of APEC’s Business Advisory Council said that Australian business’ understanding of APEC’s goals was then in its ‘embryonic stages’.⁶⁹ They reported a largely apathetic response to economic forums they had organised through DFAT to explain APEC to the business community.⁷⁰

8.74 Dr Christopher Findlay, Associate Professor of Economics at the University of Adelaide, reported a similar response. In late 1997, at a function held in Melbourne by the Australian Pacific Economic Cooperation Committee (AusPECC), business people were asked what they thought APEC’s priorities ought to be. They suggested

65 ‘Remarks by President Clinton and President Hashimoto of Japan’, Photo opportunity, Waterfront Centre Hotel, Vancouver, Columbia, 24 November 1997, The White House, Office of the Press Secretary (Vancouver, British Columbia, *The White House Homepage* Internet site: <http://www.whitehouse.gov/WH/New/APEC/19971124-3293.html> (10 August 1999).

66 See *One Clear Objective: Poverty Reduction through Sustainable Development, Report of the Committee of Review 1997*, Australian Overseas Aid Program, April 1997, p. 223.

67 Leader’s Declaration—New Zealand, The Auckland Challenge, APEC Economic Declaration, Auckland New Zealand, 13 September 1999, *APEC Homepage*, (28 September 1999).

68 Prime Minister, Transcript of the Prime Minister the Hon John Howard MP, Press Conference, Hyatt Regency Hotel, Auckland, New Zealand.

69 *Committee Hansard*, 3 February 1998, p. 417.

70 *Committee Hansard*, 3 February 1998, p. 417.

single sector development, such as cars or beef, or focus on ‘free trade’ or trade facilitation. None saw any potential in economic and technical cooperation activities.⁷¹

8.75 Dr Findlay explained that business participation in Ecotech would produce mutual benefits: ‘it would force the participants to make clearer their goals, and it would facilitate the execution of projects because business would come to see the opportunities that were associated with the programs’.⁷² At that time, however, he reported that only one third of Ecotech projects had business input or participation.⁷³

8.76 The Committee believes that APEC should continue to seek business support for development cooperation programs. Although business will benefit directly from many of the Ecotech projects run with its support, it will also ultimately benefit from greater liberalisation, which should result from APEC’s development cooperation program.

Ecotech and SMEs

8.77 SME development in the area of information technology has been cited by APEC as the star of future growth across all APEC economies.⁷⁴ SMEs have been hard hit throughout the region by the financial crisis and their revival and multiplication are seen as crucial to the region’s recovery. SME growth is also regarded as essential for developing economies. The OECD’s Development Assistance Council explained:

Microeconomic enterprises are a large, growing and very dynamic element of the economies in developing countries. In many small countries these very small, generally family-based enterprises or sole proprietorships comprise an important part of the informal economy. A thriving microenterprise sector generates output, employment and incomes and strengthens intersectoral linkages leading to more integrated, resilient economies and balanced growth. It also promotes more broad-based participation—particularly by the poor and by women—in productive activities, leading to more equitable income distribution.⁷⁵

8.78 Australian ABAC representative, Mr Michael Crouch, explained the relative importance of SMEs in Australian and Asian economies. He said that in Australia there are ‘some 2,500 large companies and some 495,000 small and medium

71 *Committee Hansard*, 6 February 1998, pp. 603–04.

72 *Committee Hansard*, 6 February 1998, p. 622.

73 *Committee Hansard*, 6 February 1998, p. 623.

74 See remarks by US Secretary of Commerce William M. Daley, APEC Human Resources Ministerial Dinner, 28 July 1999, Washington DC, *USIA Washington File*, p. 3.

75 *Orientations for Development Co-operation in Support of Private Sector Development*, (Note by the Secretariat), OECD, DAC: Development Co-operation Secretariat, June 1994, p. 24.

companies', with a comparative ratio in Asia.⁷⁶ Meanwhile, 60 to 70 per cent of trade within APEC is carried out by SMEs.⁷⁷

8.79 Mr Crouch emphasised the importance of human resource and infrastructure development to SMEs in Asian nations where weakness in these areas meant loss of mutual benefits in terms of jobs and trade for both Asia and Australia.⁷⁸ Mr Crouch also described the important role Australia had played to date for SME representation in ABAC by recommending that each of the three ABAC committees have co-chairmen drawn from SMEs.⁷⁹

8.80 Mr Malcolm Johns, Director of the Federation of Automotive Products, saw that the failure to provide real channels of communication for exchange of information and expertise under Ecotech, particularly at a sectoral level, had had profound regional implications for the auto sectors in Indonesia, Malaysia and Thailand.⁸⁰

8.81 In relation to this, Dr Andrew Elek told the Committee that APEC is always seeking 'intelligent business inputs' but these are not easy to obtain. Commenting on the APEC Business Advisory Council's research capacity, he said:

It [ABAC] is proving quite effective, but you find that behind the scenes they rush around and seek views from various other experts on what they should say, because business does not tend naturally to think in these international global strategic terms.⁸¹

8.82 The Committee believes that PECC and its national constituent bodies are organisationally in the best position to assist ABAC with its research needs. APEC should ensure that PECC and its national constituent bodies are appropriately funded to provide such assistance to ABAC.

Australia's foreign policy approaches to development cooperation under APEC

8.83 The Australian Government has continued to advocate that APEC pursue trade liberalisation goals while, at the same time, supporting capacity building to provide a basis for continued growth in APEC countries.⁸²

76 *Committee Hansard*, 3 February 1998, pp. 414.

77 *Committee Hansard*, 3 February 1998, p. 415.

78 *Committee Hansard*, 3 February 1998, pp. 415–16.

79 *Committee Hansard*, 3 February 1998, p. 415.

80 *Committee Hansard*, 23 March 1998, p. 794.

81 *Committee Hansard*, 5 February 1998, p. 584.

82 See Transcript of the Prime Minister, the Hon John Howard MP Address to the APEC Business Summit, Putra World Trade Centre Kuala Lumpur, 16 November 1998, *PM's Homepage* Internet site: <http://www.pm.gov.au/media/pressrel/speech/1998/apecbusi.htm> (4 August 1999).

8.84 DFAT's idea of 'capacity building' was focused on the strengthening of market capacity, with the assumption being that wealth thus accumulated would disperse in developing communities equitably and automatically, without intervention from APEC. Mr Peter Grey, then Australian Ambassador for APEC, told the Committee that APEC is about:

facilitating economic growth. It is based on an assumption that improved economic growth will filter down and lead to improved conditions for individuals within an economy. But how that process is undertaken, and the policies which individual governments choose to implement, is not something which APEC is involved in.⁸³

8.85 AusAID put DFAT's view of growth as the prime mover of equitable development into a broader development assistance context, describing how growth is beneficial, but only for economies with standards of good governance to ensure the benefits are shared around. Dr Robert Glasser, then Acting Assistant Director-General, Mekong Branch, AusAID, said:

I think what the studies show...is that you can have tremendous rapid economic growth and horrible inequality at the same time. So, if you do not have the policies in place, the good governance, transparency, accountable systems and a commitment by the government to distribute effectively and to make sure that as many members as possible in society can share in the fruits of growth, you can have growth and inequality at the same time.

Similarly, the studies show that without economic growth poverty is not going to be eliminated or alleviated in a country; that you can have all the goodwill that you want but, without the money and the support and foreign direct investment and savings in a society and economic growth, you are not going to be able to do anything about inequality in a society.

So the lessons for the aid program are that you need to encourage growth, and in this case APEC's agenda is doing that through free and open trade, but that is not enough and it is important at the same time—with the aid program funds, for example—to fund activities in those countries that promote good governance, that promote public accountability. If you get the governance right, you will have the combination of good growth and you will address also the income in inequalities within a country.⁸⁴

8.86 AusAID's current operational stance has, in part, been modelled on *One Clear Objective: Poverty Reduction through Sustainable Development*, the Simons Committee of Review Report 1997. The report defined the concept of good

83 *Committee Hansard*, 20 October 1997, p. 87.

84 *Committee Hansard*, 23 March 1998, pp. 776–77.

governance as ‘the effective management of a country’s social and economic resources in a manner that is open, transparent, accountable and equitable’.⁸⁵

8.87 The objectives to be realised through good governance are identical to those that APEC’s development cooperation agenda aims to achieve. Even so, as AusAID explained in its submission, Australian support for its promotion in APEC developing member economies comes substantially out of AusAID’s bilateral budget:

The primary focus of AusAID’s aid program is on poverty reduction and sustainable development in the Asia Pacific region. With limited resources, Australia focuses its aid effort on developing countries in the region. Over 80 percent of Australia’s total aid budget is delivered in the region. Many of our development cooperation partner countries are also members of APEC. The bulk of Australia’s aid to APEC developing countries is actually delivered through AusAID’s bilateral and other regional programs.⁸⁶

8.88 AusAID submitted that, during 1997–98, Australia had committed over \$40 million to activities which ‘support trade capacity building and economic governance, including in APEC developing countries’. This represented support of a wide range of TILF and Ecotech activities in sectors such as education, infrastructure, transport and energy, and natural resource extraction.⁸⁷

8.89 Dr Glasser said that AusAID’s major organisational response to APEC had been the establishment of the APEC Support Program which, as a feature, had brought about an increased degree of engagement between departments carrying out activities under the Program.⁸⁸ In early 1998, over \$5 million had been committed to implement Support Program activities with ‘priority given to proposals, which provide direct assistance to these economies in maximising the benefits offered by a free trade environment’.⁸⁹

8.90 In its aid budget summary for 1999–2000, AusAID reported that Australia would provide \$1.5 billion as official ODA over the period, an increase of \$22 million over the 1998–99 budget figure. The Asia Crisis Fund was doubled to \$12 million and country assistance for Indonesia was increased by \$6 million (total flows at \$121 million). Other developments included broader focused funding for a new three-year micro finance initiative (for extending credit to very poor entrepreneurs) to the value of \$3 million dollars, and a 30 per cent increase in funding to the Human Rights Fund,

85 *Better Aid for Better Future*, November 1997, Government response to *One Clear Objective: Poverty Reduction through Sustainable Development, Report of the Committee of Review 1997*, Australian Overseas Aid Program, April 1997, p. 223.

86 Submission no. 57, p. 7.

87 Submission no. 57, p. 8; and see Appendix 3.

88 *Committee Hansard*, 23 March 1998, p. 778.

89 Submission no. 57, p. 9.

to \$1 million.⁹⁰ AusAID would also provide funding for technical assistance to set up the Asia Development Bank's Asia Recovery Database in Manila.⁹¹ In 2000–01, the Asia Crisis Fund was replaced by the Asia Recovery and Reform Fund, which was allocated \$6 million. The purpose of the Fund is to assist countries in the region to undertake economic restructuring in the immediate post-crisis period, with a view to achieving sustained recovery and stronger social protection systems. This is intended to reduce the risk of future crises and help ensure long-term economic and social gains from future development.

8.91 Mr Ian Dunlop, Chief Executive of the Australian Institute of Company Directors, and a leading advocate for corporate governance reform, warned that the recent signs of recovery in the region, having occurred faster than expected, might forestall necessary corporate governance and government reforms initiated during the depth of the crisis. Without these, lack of accountability and associated inequities of the past will not be moderated and future market growth will be without integrity or predictability. Mr Dunlop emphasised that governance also needs to encompass the integrity of legislative, regulatory and political structures, not just corporate practice.⁹²

Conclusion

8.92 From the outset, the role of development cooperation in APEC has been to assist members to reduce disparities in economic development among them so that all members can share the benefits of liberalisation. In APEC rhetoric, development cooperation has been one of APEC's three pillars. It has been clear, however, from the evidence available to this Committee, that APEC has focused much more of its attention on its TILF agendas at the expense of development cooperation. It was not until the severe adverse effects of the Asian financial crisis became apparent that development cooperation assumed a greater role in amelioration of those effects. Even now, not everyone is convinced that APEC is giving enough attention to its Ecotech program.

8.93 Both APEC and the WTO experienced setbacks in 1998–99. In November 1998, APEC failed to agree on its early voluntary sectoral liberalisation program, passing it instead to the WTO. In November/December 1999, the WTO meeting in Seattle failed to launch a comprehensive round of world trade talks. At the time of publication, no round had been launched. In both cases, the Federal Opposition was critical of the Government, arguing that APEC could have been better used to help initiate a new WTO round, and that the Australian Government had become a spectator, rather than a player, at the WTO.

90 Aid Budget Summary 1999–2000, Australian Agency for International Development, *AusAID* Internet site: http://www.ausaid.gov.au/publications/general/budget99/Budget99_Summary.html (9 August 1999).

91 See 'ADB to Establish An Asia Recovery Information Centre Web Site', *ADB News Releases Online*, Internet site: <http://www.adb.org/news/1999/nr063-99.asp> (12 July 1999).

92 Sue Mitchell, 'Asian Reforms Under Threat', *Australian Financial Review*, 2 July 1999, p. 52.

8.94 As discussed elsewhere in this report, the Committee believes that APEC should not back away from its pursuit of its Bogor goals in respect of trade and investment liberalisation. Nevertheless, at this time of lower activity on the liberalisation front, there is an opportunity to give considerable more focus to development cooperation. This would not only help members which are still recovering from the financial crisis but also others which are not yet in a position to maximise the economic and other benefits available from liberalisation. With such assistance, member economies, which are currently hesitant to embrace further liberalisation measures, might become less reluctant to pursue APEC's liberalisation agenda.

Recommendation

The Committee recommends that the Australian Government initiate and support moves in APEC to give greater attention to development cooperation programs.

The Committee believes that APEC should continue to seek business support for development cooperation programs. Although business will benefit directly from many of the Ecotech projects run with its support, it will also ultimately benefit from greater liberalisation which should result from APEC's development cooperation program.

CHAPTER 9

SUBREGIONAL GROUPINGS—STEPPING STONES OR STUMBLING BLOCKS?

9.1 In this chapter, the Committee addresses term of reference c)—Australia in relation to APEC with particular reference to ‘the importance to APEC of subregional groupings including the Association of South East Asian Nations (ASEAN), North American Free Trade Area (NAFTA), Asia-Europe Meeting (ASEM), East Asia Economic Caucus (EAEC) and Australia-New Zealand Economic Relations Agreement (CER)’.

9.2 In addition to the groupings named above, the Committee will also include in this chapter the proposed Free Trade Area of the Americas (FTAA); the ASEAN Free Trade Area (AFTA) as part of its examination of ASEAN; and the AFTA-CER linkage.

9.3 The first section of this chapter reviews the general debate on regional trade groupings and whether they support or undermine the multilateral trading system. The second section examines APEC’s objectives and assesses its role as a trading group within the global setting, particularly its relationship to the WTO. The third section analyses the importance of subregional groupings to APEC’s objective of promoting free and open trade. The last section looks at the implications that the subregional groupings in the Asia Pacific region have for Australia’s economic and trade objectives.

Overview of regional trading groups

9.4 Over the last decade, regional trading arrangements have proliferated. Since GATT came into force in 1947, 194 regional trading agreements have been notified to that organisation or its successor the WTO¹. The extension of the European Union and APEC, the formation of NAFTA, and Mercosur, proposals for a Trans-Atlantic Free Trade Area and moves to establish a Free Trade Area of the Americas as well as a range of initiatives to set up trading groups, such as the AFTA-CER linkage, suggest that the trend toward the formation of regional trading groups has not abated. Indeed, since the creation of the WTO in 1995, 67 additional arrangements have been notified to the WTO, some of which are in the area of trade in services.²

1 Renato Ruggiero, Director-General of the WTO, ‘Regional Initiatives, Global Impact: Cooperation and the Multilateral System’, 7 November 1997, <http://www.wto.org/wto/speeches/rome2.htm> (8 October 1999). For more recent figures see WTO, ‘Regional Integration and the Multilateral Trading System’, <http://www.WTO.org/WTO/develop/regional.htm> (8 October 1999).

2 WTO, ‘Regional Integration and the Multilateral Trading System’, Internet site: <http://www.WTO.org/WTO/develop/regional.htm> (8 October 1999).

Regional trading groups—building blocks?

9.5 The emergence of trading groups especially in the first half of this decade caused widespread concern. In 1990, the then Prime Minister of Singapore, Mr Lee Kuan Yew, referred to the possibility of three great trading camps forming, one centred on the Deutsche Mark in Europe, another on the United States Dollar in the Americas and the third on the Yen in Asia.³ Three years later the APEC Eminent Persons Group maintained that the global trading system was at risk. They pointed to the increase in trade protection; the rapid rise in the number of trade disputes; and the escalation of inward-looking regionalism.⁴ In particular, they noted recent signs that the European Community was turning inward and shirking its global responsibilities and that the proposed NAFTA would be a preferential trading arrangement indicating that the United States might be abdicating its traditional role as leader of the global trading system.

9.6 The fear that the world economy would fragment into trading blocs subsided with the successful conclusion of the Uruguay Round in 1994 and the establishment of the WTO. Observers began to acknowledge that regional arrangements could support multilateralism.⁵

9.7 In 1995, a report by the OECD suggested that the formation of regional groupings may stimulate rather than frustrate the multilateral trading system. It argued that regional trading groups could:

- reduce protectionists' pressures by acting as a model for multilateral trade and investment liberalisation—negotiations can be more easily and expeditiously managed where fewer parties are involved;
- encourage economies to be more competitive and better prepared to accept, economically and politically, multilateral liberalisations;
- contribute, through a greater awareness of interdependence, to a greater acceptance of international rules and more independent procedures for their enforcement; and
- act as a regional laboratory or test bed for multilateral agreements—regional trading groups could be seen as a preliminary step towards multilateral implementation of rules or procedures facilitating the synergy in negotiations

3 See R.J.L. Hawke, 'APEC or regional agreements—the real implications, *Australian Quarterly*, vol. 64, no. 4 Summer 1992, pp. 339–49; see also statement by P.J. Keating, House of Representatives Debates, 23 November 1993, p. 3380.

4 *A Vision for APEC: Towards an Asia Pacific Community*, Report of the Eminent Persons Group to APEC Ministers, APEC, October, 1993, pp. 16–17; see also comments Australian Pacific Economic Cooperation Committee, 6th Report to the Australian Government, 1992, p. 2.

5 WTO, *Regionalism and the World Trading System*, WTO, Geneva, April 1995, p. 1.

and the cross-fertilisation of ideas between regional and multilateral negotiations.⁶

9.8 Put simply by Mr Fred Bergsten:

As the urgency of competitive liberalization accelerated over the last decade or so, however, the regional approach has increasingly come to dominate the process. It simply turns out to be less time-consuming and less complicated to work out mutually agreeable arrangements with a few neighbours than with the full membership of well over 100 countries in the WTO. Moreover, regional groupings are demonstrably willing to proceed much more boldly: many of them have decided to adopt totally free trade...whereas none of the global conclaves to date have even considered such an ambitious goal.⁷

He further asserted that ‘the fears of some observers that regionalism would derail globalisation have been demonstrably overcome’.⁸

9.9 A number of witnesses appearing before the Committee shared the view that regional groups complement multilateralism. Professor Ravenhill told the Committee that there is little evidence that trading blocs have inhibited world trade. He argued that the emerging trend shows an overall movement on tariffs to be downward and that trading blocs are not encouraging foreign investors to come in behind high tariff walls. Put succinctly, the overall movement on tariffs has been downwards.⁹ Indeed, the MTIA submitted that regional trading groups are a supplement and not an alternative to multilateralism.¹⁰

Regional trading groups—stumbling blocks?

9.10 Despite the view that regional trading agreements tend to support the multilateral trading system, niggling doubts about possible long-term trends persist. There is a natural tendency for countries or economies excluded from a trading arrangement to be wary of such a group. Non-members may interpret the establishment of a trading group as an attempt to form an exclusive inward-looking body with the potential to implement discriminatory measures against them. Moves to form such trading groups could in turn erode the mutual trust necessary to underpin the maintenance of a healthy multilateral trading system and contaminate an environment conducive to free and open trade and investment.

6 OECD, *Regional Integration and the Multilateral Trading System: Synergy and Divergence*, OECD, Paris, 1995, pp. 14, 62–5.

7 C. Fred Bergsten, ‘Competitive Liberalization and Global Free Trade: A Vision for the Early 21st Century’, APEC Working Paper 96–15, Institute for International Economics, <http://www.iie.com/9615.htm> (12 September 1997).

8 *ibid.*

9 Professor John Ravenhill, Committee *Hansard*, APEC Inquiry, 2 February 1998, p. 298.

10 MTIA, submission no. 28, p. 138.

9.11 Members of a regional trading group may develop a ‘fortress mentality’ and come to regard their strengthened regional market as a substitute for participation in the multilateral system. Also, membership of a regional trading group may lead to a greater reliance on protectionism and ultimately come to be accepted as an alternative to the global trading system. This in turn may lead to escalation in global protection if other countries retaliate by erecting barriers to trade. Thus, some commentators believe that regional trading groups, with their potential to turn protectionist and discriminatory, create a climate of fear and uncertainty that inhibits the development of an open multilateral trading system and poses a threat to the global trading economy.

9.12 Mr Robert D. Hormans, Vice Chairman of Goldmans Sachs International (1994) stated:

Unless structured to complement the global thrust for open markets, regional free-trade groupings could turn inward and erect protectionist barriers that would cripple the potential growth of the world economy. In itself, parochialism could be a source of major friction and conflict, hence the need for strong countervailing leadership during the hiatus between multilateral negotiating rounds.¹¹

9.13 Mr Hormans noted that when competitive imports threaten a sensitive industry in a free-trade area, there is a tendency to protect that industry at the expense of outside imports. He also pointed out that foreign fears of losing regional markets may divert investment into those markets for defensive reasons; and that recessions and structural uncompetitiveness can ‘turn a trade region’s vision inward’.¹²

9.14 Moreover, Mr Renato Ruggiero, the Director-General of the WTO (1997), raised doubts about the motives behind the dramatic expansion of regional arrangements. He suggested that in some cases these initiatives are less about promoting regional economic efficiency or cooperation and more about securing regional preferences—‘even regional spheres of influence, in a world marked by growing competition for markets, for investments and for technology’.¹³ He stressed the importance of ensuring that the foundation of the trading system is non-discriminatory and regionalism and multilateralism ‘converge in their goals and aspirations’.¹⁴

9.15 An OECD workshop held in 1995 added a note of caution to the view that regional trading arrangements may support the multilateral system. It accepted the strong argument that regionalism has tended to nudge forward the multilateral

11 Robert D. Hormans, vice chairman of Goldmans Sach International, ‘Making regionalism safe’, *Global issues in transition*, No. 10, September 1994.

12 *ibid.*

13 Renato Ruggiero, Director-General of the WTO, ‘Regional Initiatives, Global Impact: Cooperation and the Multilateral System’, 7 November 1997, <http://www.WTO.org/WTO/speeches.rome2.htm>.

14 *ibid.*

process—that regionalism and multilateralism have been generally complementary. Nonetheless, some participants drew attention to the possibility that regional trading groups ‘may turn inward, whether for political or perceived economic reasons, and in such cases they may restrict the trade of third countries.’¹⁵ The workshop warned that a key challenge was ‘to seek to enhance and extend the mutually reinforcing nature of this complex relationship’ and that regionalism’s largely positive contribution to date should not go unquestioned for the future.¹⁶ Further, it highlighted the need for ‘continued vigilance on the impact of regional arrangements on the health of the multilateral trading system’. In summary it noted that:

multilateral surveillance of regional integration arrangements was a desirable objective, but that procedures for doing so needed refinement.¹⁷

9.16 This issue about the formation of regional trading groups and their implications for the global economy was also raised by the WTO. In its annual report for 1996, it expressed misgivings about the growth of regional trading arrangements and their compatibility with the multilateral trading system. It also took note of the emerging trend toward continent-wide free trade agreements and identified two main concerns:

- the fragmentation of the multilateral trading system; and
- the shifting of political momentum from multilateralism to regionalism.¹⁸

9.17 The WTO told its members that they were confronted with the problem of how to ensure the complementarity and mutual strengthening of regionalism and multilateralism. Accepting the irreversibility of the trend towards regionalism, the WTO established a Committee on Regional Trade Agreements in February 1996. The Committee is to ensure that regional trade agreements conform to WTO Rules and, in a wider sense, reinforce, not undermine, the multilateral system.¹⁹

9.18 Despite the force of the argument that regional trading arrangements tend to reinforce the objective of free and open trade; the underlying concern about their potential to weaken the multilateral system remains. Thus, while the debate over the impact of regionalism on the world global trading system has intensified since the 1990s, the findings, though positive, are not conclusive.²⁰

15 OECD, *Regionalism and its Place in the Multilateral Trading System*, OECD, Paris, 1996, p. 19.

16 *ibid.*, p. 3.

17 *ibid.*, p. 34.

18 World Trade Organization, *Annual Report 1996*, p. 141.

19 *ibid.*

20 Tan Kong Yam, ‘Regionalism in the Pacific Basin: ASEAN, APEC and Global Free Trade’, *The Journal of Contemporary Issues in Business and Government*, vol. 2, no. 2. 19096, p. 74.

APEC—part of the global trading system

9.19 The debate over whether regional trading arrangements help or hinder the multilateral trading system is relevant to APEC both in the context of where it stands in the global multilateral system; and whether subgroups among its own members support its commitment to open and free trade or complicate its place in the world trading system.

Commitment to free and open trade in the Asia Pacific region and in the global economy

9.20 The founding members of APEC made clear their understanding that APEC would not be a trading bloc. The Chairman in his summary of APEC's inaugural meeting in 1989 emphasised one of the core and enduring commitments undertaken by APEC members—that the continuing economic success of the region 'depends on preserving and improving the multilateral trading system through progressive enhancement of, and adherence to, the GATT framework'.²¹ From the outset, APEC was intended to encourage regional economic cooperation in a way that would foster an open multilateral trading system. This commitment remains rock solid.

9.21 Thus, in the Seoul Declaration of 1991, in which Ministers spelt out APEC's goals, each of the four key objectives related not only to the Asia Pacific region but to the world economy as well. The objectives were:

- a) to sustain the growth and development of the region for the common good of its people and, in this way, to contribute to the growth and development of the world economy;
- b) to enhance the positive gains, both for the region and the world economy, resulting from increasing economic interdependence, including by encouraging the flow of goods, services, capital and technology;
- c) to develop and strengthen the open multilateral trading system in the interest of Asia-Pacific and all other economies; and
- d) to reduce barriers to trade in goods and services and investment among participants in a manner consistent with GATT principles, where applicable, and without detriment to other economies.²²

9.22 In 1994, APEC leaders in a forthright statement again clearly placed their regional goals within the global setting. They said:

21 Ministerial-Level Meeting Joint Statement, November 1989, Documentation, Department of Foreign Affairs and trade, Canberra, 1989, p. 14.

22 Asia-Pacific Economic Cooperation, Third Ministerial Meeting, Seoul, 12–14 November 1991.

We, the economic leaders of APEC, came together at Bogor, Indonesia today, to chart the future course of our economic cooperation which will enhance the prospects of an accelerated, balanced and equitable economic growth not only in the Asia-Pacific region, but throughout the world as well.

...

We wish to emphasize our strong opposition to the creation of an inward-looking trading block that would divert from the pursuit of global free trade. We are determined to pursue free and open trade and investment in the Asia-Pacific in a manner that will encourage and strengthen trade and investment liberalization in the world as a whole. Thus, the outcome of trade and investment liberalization in the Asia-Pacific will not only be the actual reduction of barriers among APEC economies but also between APEC economies and non-APEC economies.²³

9.23 APEC members clearly felt that together they had, at various stages of difficulties during the long drawn out Uruguay Round of negotiations, assisted in securing a satisfactory conclusion to the Round.

9.24 Witnesses before the Committee agreed that APEC had helped to bring the Uruguay Round negotiations to a successful conclusion and has consistently promoted unilateral trade liberalisation and transparency in trade. They saw APEC not merely as a complementary subset of the WTO but as an effective lobby group able to assume a leadership role in the WTO and to accelerate the pace of global trade liberalisation and facilitation.

9.25 Their view was upheld by the Director-General of the WTO who acknowledged APEC's contribution to the global trading system. He told APEC Trade Ministers in 1997, 'APEC is well placed to play a leading and creative part. As a new configuration in international economic relations, APEC has played a very valuable energizing role, at the multilateral level as well as regional.'²⁴

9.26 ABAC representatives agreed that APEC has and could serve as a 'ginger group' for multilateral agreements. They felt that the way in which the links between APEC and the WTO develop will be important; that APEC and the WTO have great potential to feed off one another.

APEC has come to realise in its short history that we have considerable influence over developments within the WTO.

APEC's less formal structure allows it to take an ambitious position on multilateral liberalisation issues and APEC leaders and ministers have made

23 APEC, Economic Leaders' Declaration of Common Resolve, Bogor, Indonesia, 15 November 1994.

24 Renato Ruggiero, Director-General of the WTO, 'Implementing the WTO Singapore Declaration in 1997 and beyond', Address to APEC Trade Ministers, Montreal, 10 May 1997, <http://www.wto.org/wto/speeches/apec2.htm>.

good use of this in their agreement to increase the pace of multilateral liberalisation.²⁵

9.27 The Information Technology Agreement (ITA) stands as an example of APEC's ability to take a definite and successful part in developing regional agreements and in hastening the adoption of international standards. The agreement was nurtured in APEC but agreed to and implemented in the WTO.²⁶ As pointed out by the Director-General of the WTO 'no one should underestimate the role played by APEC in shaping the outcome of the Agreement.'²⁷ Alan Oxley simply remarked that APEC certainly gave the ITA a lot of horsepower in the WTO.²⁸ The WTO's Agreement on Basic Telecommunications Services provides another example of how APEC has successfully lobbied support in the WTO. Similarly, APEC initiatives in the area of customs procedures are having a much broader influence.

9.28 More recently the relationship between APEC and the WTO has been further reinforced. In 1998, APEC Ministers in Kuala Lumpur agreed to refer the early voluntary sectoral liberalisation initiative to the WTO. The push for APEC to take on a major role in developing the WTO's future agenda gathered momentum after this meeting.²⁹ The United States, in particular, throughout 1999 promoted APEC as a 'launching pad' for the new round of WTO negotiations due to commence soon after the APEC Leaders' meeting in Auckland.³⁰ The United States Ambassador Susan Esserman maintained that the Auckland 'will be a key meeting for helping to set the agenda for the WTO'.³¹

25 ABAC, *Committee Hansard*, 3 February 1998, p. 413.

26 Hadi Soesastro, submission no. 50, p. 7. See also Professor John Ravenhill, *Committee Hansard*, 2 February 1998, p. 303; Statement of the Chair, APEC Trade Ministers, Montreal, Canada, 8–10 May 1997; USIA: The United States and APEC, Transcript: Deputy USTR Fisher, 16 June, Worldnet Program on APEC, <http://www.usia.gov/regional/ea/apec/fishr616.htm> (23 July 1999); Professor Snape, *Committee Hansard*, 4 February 1998, p. 495; MTIA, submission no. 28, p. 9; Renato Ruggiero, Director-General of the WTO, 'Implementing the WTO Singapore Declaration in 1997 and beyond' Address to APEC Trade Ministers, Montreal, 10 May 1997, <http://www.wto.org/wto/speeches/apec2.htm> and also Chapter 1, para 1.96.

27 Address to APEC Trade Ministers, 'Implementing the WTO Singapore Declaration in 1997 and beyond', Montreal, Canada, 10 May 1997.

28 Alan Oxley, *Committee Hansard*, 4 February 1998, p. 514.

29 See Statement of PECC Chairman Roberto R. Romulo at the Meeting of APEC Ministers Responsible for Trade, Auckland, June 1999, <http://www.PECC.net/st990630.htm> (8 October 1999).

30 USIA Washington File, EPF406, 1 July 1999, Transcript: 'Fisher very pleased with APEC Trade Ministers' Meeting'.

31 USIA: The United States and APEC, Transcript of Press Conference, Ambassador Richard W. Fisher and Ambassador Susan G. Esserman, Herald Theater, Aotea Center, Auckland, APEC Trade Ministers' Meeting, 28 June 1999, <http://www.usia.gov/regional/ea/apec/fishessr.htm> (23 July 1999).

9.29 Within APEC there is also growing support for a number of their members China, Russia, Chinese Taipei and Vietnam, to become members of the WTO.³² The United States is particularly keen to see China a member of the WTO.³³

9.30 Having enunciated plainly their objectives to support the multilateral trade framework, APEC members are also conscious of the trading groups that have formed within their region and of the implications that such subregional arrangements have for APEC. The subregional trading arrangements that take in the Asia Pacific region include—the North American Free Trade Agreement (NAFTA) and the proposed Free Trade Area of the Americas (FTAA), ASEAN and AFTA, the East Asian Economic Caucus (EAEC), and the Closer Economic Cooperation (CER).³⁴ Some important linkages have also been forged between regional groups such as the AFTA-CER link and the Asia Europe Meeting (ASEM). Opinion is divided about whether they pose a threat to APEC's goal of free and open trade.

9.31 In 1994, APEC's Eminent Persons Group (EPG) identified a twofold risk in the growth of subregional trading arrangements in the Asia-Pacific region. It stated:

In the short run, it creates new trade discrimination within the broader region. Hence it could generate important economic costs to non-members of the groupings and new sources of divisiveness. In the longer run, it could create new entrenched interests that would resist broader liberalization and hence impede APEC-wide (or global) agreements.

Continued subregional proliferation could thus dim the prospects for APEC (and global) liberalization. This suggests that the organization may face a narrow window of time within which to bring the trade preferences maintained within the subregional arrangements into a broader framework.

Our recommendation that Leaders and Ministers move promptly to launch the APEC-wide initiatives proposed in this Report is reinforced by the need to accommodate the subregional groupings into broader APEC arrangements.³⁵

9.32 The EPG did recognise, however, a positive side to the emergence of subregional economic groups. It suggested that if these groups possessed an outward orientation, they could 'act as a powerful stimulus to move toward free trade in APEC as a whole'. It argued that this could be achieved by ensuring consistency between the

32 Statement of PECC Chairman Roberto R. Romulo at the Meeting of APEC Ministers Responsible for Trade, Auckland, June 1999.

33 USIA: The United States and APEC, 'The Public Consensus for Trade in the Pacific', Ambassador Richard Fisher, Deputy US Trade Representative, APEC Panel, Auckland, New Zealand, 28 June 1999, <http://www.usia.gov/regional/ea/apec/fisher28.htm> (23 July 1999).

34 Six APEC economies are not members of a STRA—Japan, Korea, China, Hong Kong, Papua New Guinea.

35 *Achieving the APEC Vision: free and open trade in the Asia Pacific*, Second Report of the Eminent Persons Group, APEC Secretariat, Singapore, August, 1994, p. 30.

subregional groupings and the APEC-wide process.³⁶ APEC Leaders asked the EPG to investigate further the interrelations between APEC and the existing subregional groupings and to explore options that would promote consistency in their relations and prevent any conflict between them.³⁷

9.33 In responding to this request, the EPG conducted further studies into subregional groupings in the APEC region. It concluded that APEC's goal of free and open trade in the region would ultimately eliminate all margins of preference that now existed between APEC economies and hence between subregional groups within APEC. The EPG, however, was concerned about the intervening period and the implications for APEC should the subregional trading arrangements (SRTAs) accelerate their own liberalisation program and should individual SRTAs establish links.

9.34 Again the underlying uncertainty about regional trading groups surfaced. The EPG accepted that the acceleration of liberalisation in SRTAs and linkages between individual SRTAs represented means through which the Bogor commitment to free trade could be pursued. It was also aware, however, that such arrangements could:

divert member economies from achieving APEC-wide free trade by offering an alternative that some might view as more comfortable and even as more desirable.³⁸

9.35 The EPG recognised that both the acceleration of liberalisation in SRTAs and coalitions of SRTAs posed the following fundamental question for APEC—would they be trade-creating or trade-diverting? It could see that:

Both SRTA acceleration and SRTA linkage would produce the usual conflicting effects on trade flows. On the one hand, they would increase margins of preferences between members and non-members. Some trade would be diverted from non-members to members as a result. On the other hand, further integration could be expected to increase economic growth among the members and thus create additional trade opportunities for non-members.³⁹

9.36 The APEC Economic Committee conducted a study on the impact of subregionalism on APEC in 1997. It found that SRTAs on balance have generated a net trade-creating effect, providing political momentum for the multilateral process

36 *ibid.*

37 APEC, Economic Leaders' Declaration of Common Resolve, Bogor, Indonesia, 15 November 1994.

38 *Implementing the APEC Vision*, Third Report of the Eminent Persons Group, APEC Secretariat, Singapore, August, 1995, p. 26.

39 *ibid.*, pp. 26–7.

and creating competitive pressures amongst each other for more rapid and deeper liberalisation.⁴⁰

9.37 Mr Darby Higgs, from the Australian APEC Study Centre, accepted that subregional groupings within APEC have the theoretical potential to cause trade diversion, and hence slow the pace of economic integration and the benefits that flow from it. Even so, he argued that, in practice, the influence of the subregional groupings reinforces the move towards trade liberalisation.⁴¹ This view was supported by the findings of Mr Satoru Okuda from the APEC Study Center in Japan. He found that the level of trade diversion created by NAFTA countries had levelled out after 1980 and remained the same after NAFTA's launch in 1992. In addition, he found that the effect calculated for AFTA and CER was positive 'which means that they did not radiate a trade diversion effect, but instead a trade creation effect against non-members'. He concluded, 'So the enhancement of sub-regional trade agreements in APEC proceeded quite well, in light of the "principle of Open Sub-Regionalism"'.⁴²

9.38 The second set of issues regarded as important by the EPG was the effect of SRTAs on the dynamics of trade policy. In considering whether SRTAs had the potential to either foster or inhibit the move for trade and investment liberalisation in the APEC region, the EPG concluded that there was:

no *a priori* basis on which to judge whether acceleration of SRTA liberalization and/or SRTA linkages would contribute to, or detract from, implementation of the Bogor commitment to achieve free and open trade and investment in the Asia Pacific region. Such steps could either promote or deter the process. The cardinal issue is how any such initiatives are pursued.⁴³

9.39 In order to determine whether SRTAs were to assist APEC's progress toward free and open trade, the EPG set down a minimum requirement. It stressed that any SRTA acceleration or linkage must be fully consistent with the WTO. To fulfil this requirement, the EPG pointed out SRTAs must:

- cover substantially all trade among the economies involved;
- include substantial sectoral coverage of services; set a target date for completing the process; and

40 APEC Economic Committee, *The Impact of Subregionalism on APEC*, APEC, November 1997, p. iii.

41 Submission no. 12, p. 6.

42 S. Okuda, 'Can a Sub-Regional Group Enhance the Tie?', in *The Deepening Economic Interdependence in the APEC Region*, K. Omura, ed., APEC Study Centre, Institute of Developing Economics, Tokyo, March 1998, pp. 67–68.

43 *Implementing the APEC Vision*, Third Report of the Eminent Persons Group, APEC Secretariat, Singapore, August 1995, p. 28.

- avoid the creation of any new barriers to non-members.⁴⁴

Subregional groupings within APEC

9.40 In the following section, the Committee looks at the subregional groups within APEC, their histories, objectives and the extent to which they support APEC's objectives. It establishes how firmly they have set themselves on the road to regional and global free and open trade and how willing they are to assist APEC along this route. The Committee has used as a reference the minimum requirements set down by the EPG to determine whether SRTAs complement APEC's progress toward an open trading system. Overall, though, the Committee was by evidence that showed the extent to which SRTAs are equipped or intend to minimise all sources of discrimination in trade and investment against outside economies and their endeavours to ensure that they keep in step with APEC's goals.

NAFTA

9.41 Negotiations for a free trade agreement between the United States, Canada and Mexico started in Toronto, Canada in June 1991 and were completed in August 1992 in Washington D.C. The agreement, which formally established a free trade zone between the United States, Canada and Mexico, was signed on 17 December 1992 and supplemented in 1993 by the negotiation of 'side agreements' on labour, the environment, and safeguards. The respective legislatures gave their approval and NAFTA and its side agreements came into effect on 1 January 1994.⁴⁵

9.42 The principal objectives of the agreement are:

- to eliminate barriers to trade in, and facilitate the cross-border movement of, goods and services among the three countries;
- to promote conditions of fair competition in the free trade area; and
- to increase substantially investment opportunities of the members.⁴⁶

9.43 The NAFTA is a detailed and complicated agreement that incorporates special arrangements for some sensitive sectors such as automobiles, clothing and textiles, electronics and agricultural products. Allowing for the differences in trade patterns among the member economies, NAFTA contains separate bilateral agreements on products such as automobiles, clothing and textiles, telecommunications and agriculture. The agreement provides for the progressive elimination of tariff and non-tariff barriers between the three countries over a period of up to 15 years although it

44 *ibid.*, p. 29.

45 Organisation of American States, 'Free Trade Agreements', <http://www.oas.org/EN/PROG/TRADE/free43e.htm> (8 November 1997)

46 Canada-Mexico-United States: North America Free Trade Agreement, Chapter One, Article 102: Objectives. Three other objectives are defined in this Article.

allows members to phase out these barriers according to different timetables. The phase-out period varies among sectors with some of the more sensitive sectors extending for the full period. NAFTA covers most products except some agricultural products. A product must satisfy the specified North American rules of origin before being eligible for tariff preference.

9.44 Professor Richard Snape described NAFTA as a very ambitious initiative, incorporating countries with markedly different living standards, legal systems and traditions. The agreement goes well beyond the traditional area of frontier barriers to goods, and draws in the deeper issues of integration. According to Professor Snape the agreement:

...attempts to lock in Mexican economic reforms, to manage trade in difficult products, to grant preferential access to each other's markets for goods, services and investment, to upgrade Mexico's intellectual property protection regime, and to secure enforcement of each country's environmental and labour laws—which in intent refers mainly to Mexico.⁴⁷

9.45 The agreement is also notable for its specific inclusion of a number of new issues such as investment, financial services, competition policy, labour and the environment.⁴⁸ These provisions exceed the level and scope of commitments reached in the Uruguay Round agreements and could provide an incentive for other regions to push the boundaries of trade reform beyond those set down in the Uruguay Round. Of particular note is the inclusion of dispute settlement procedures designed to provide expeditious and effective means to resolve disagreements. Ms Doble noted that, 'one immediate lesson which can be learned from NAFTA is that although gains or concessions may be difficult to come by, negotiations on a range of issues is, in fact, permissible within the context of trade discussion'.⁴⁹

9.46 Clearly, NAFTA is intended to promote and facilitate trade and investment flows among the three member countries. The members, however, also took cognizance of their place in the world trading system. In the preamble to the agreement they resolved:

- to contribute to the harmonious development and expansion of world trade and provide a catalyst to broader international cooperation; and
- to build on their respective rights and obligations under the *General Agreement on Tariffs and Trade* and other multilateral and bilateral instruments of cooperation.⁵⁰

47 Richard Snape, 'Which Regional Trade Agreement?', *Regional Integration and the Asia-Pacific*, Bijit Bora and Christopher Findlay, eds., Oxford University Press, 1996, pp. 55–56.

48 Bijit Bora, 'North American Free Trade Agreement', *Regional Integration and the Asia-Pacific*, Bijit Bora and Christopher Findlay, eds., Oxford University Press, 1996, p. 175.

49 Submission no. 10, p. 4.

50 Preamble to Canada–Mexico–United States: North America Free Trade Agreement.

One of their stated objectives was to ‘establish a framework for further trilateral, regional and multilateral cooperation to expand and enhance the benefits of this Agreement’.⁵¹ Despite this formal commitment to support the multilateral trading system and to extend the benefits of the agreement, some observers have expressed reservations about discrimination to non-members.

9.47 In 1994, DFAT acknowledged that doubts still lingered about the future impact of NAFTA. It stressed that a key determinant of NAFTA’s impact on outside countries would be what happens to its external barriers.⁵² Three years on, DFAT observed:

...there is only limited evidence that NAFTA members are extending the benefits of preferential arrangements. The increase in Canada’s foreign investment threshold review was a NAFTA initiative which was extended to all WTO members. Mexico has also extended NAFTA-initiated tariff cuts on machinery and electronic inputs to non-NAFTA members. However, were the MFN tariff rate for NAFTA member economies to remain at current levels of 7 percent for Canada, 13 percent for Mexico and 6 percent for the United States, there would be significant likelihood of trade diversion as tariffs are eliminated within the arrangement.⁵³

9.48 DFAT was particularly concerned about NAFTA’s rules of origin. It noted:

...restrictive rules of origin for a number of sectors, including motor vehicles and textiles, have the potential to divert trade and investment away from excluded countries. Expansion of NAFTA to the rest of Latin America could restrict external market access to the whole Western Hemisphere.⁵⁴

9.49 Similarly, the Pacific Economic Cooperation Council (PECC) accepted that one of the main potential limitations with regard to greater market access was NAFTA’s restrictive rules of origin of products, especially the specific rules for the automotive, textiles and high technology sectors. It pointed out that the difficulties of administering rules of origin could amount to administrative barriers.⁵⁵

9.50 Mr Bijit Bora supported this view. He noted that the process with respect to border measures ‘is extremely limited because of the restrictive rules defining the origin of products’. He suggested that the objective in applying these rules of origin

51 Chapter One, Article 102: Objectives, Canada-Mexico-United States: North America Free Trade Agreement.

52 East Asia Analytical Unit, DFAT, *ASEAN Free Trade Area: Trading Bloc or Building Bloc?*, AGPS, Canberra, 1994, p. 8.

53 Submission no. 19, p. 26.

54 East Asia Analytical Unit, DFAT, *ASEAN Free Trade Area: Trading Bloc or Building Bloc?*, AGPS, Canberra, 1994, p. 8.

55 PECC, *Milestones in APEC Liberalisation: A Map of Market Opening Measures by APEC Economies*, a Report by the Pacific Economic Cooperation Council for APEC, APEC Secretariat, Singapore, 1995, p. 119.

was not to liberalise trade but ‘to restrict incoming trade, to build national industries in sectors regarded as strategically important, and to encourage incoming investment’. In summary, he stated that the net effect of the rules of origin was to raise external barriers.⁵⁶ Mr Bora took account of the argument put forward by NAFTA members that their agreement is consistent with the GATT since it conforms to Article XXIV. Nevertheless, he argued that even those in agreement with the basic thrust of NAFTA draw attention to its rules of origin as a major flaw in the agreement. He warned that ‘a volatile political environment can alter specific provisions and even the intent of an agreement...rules of origin more than any other provision can be abused by protectionists’.⁵⁷

9.51 NAFTA’s complicated and, in some sectors, most restrictive rules of origin, are not compatible with the principles of free and open trade. A WTO study found that ‘rules of origin have been recognised as being more susceptible than other, more transparent, measures to influence by domestic protectionist interests. Moreover, the administration of rules of origin imposes additional transaction costs on traders seeking to document whether they satisfy rules of origin’.⁵⁸

9.52 The hub and spoke structure of NAFTA has also raised doubts about its potential to complement the world trading system. Some people see the possibility of it developing into a structure that will hinder rather than foster free and open trade.

9.53 Professor Richard Snape expressed his concern about the hub and spoke model of NAFTA and the likelihood that new members would be added by some form of ‘docking’ on to the existing agreement. He gave warning of ‘the possible development of a discriminatory hub and spoke system with the hub setting and interpreting the rules, and its subsequent evolution’.⁵⁹ He predicted:

The more discriminatory it becomes the greater the temptation for excluded countries to join—and the temptation could extend across the Pacific. If NAFTA is to be the hub for dockings by other countries, there will be a strong temptation for these other countries to have preferential and discriminatory trade agreements with each other also.⁶⁰

9.54 Adding weight to this argument, Professor David Robertson told the Committee that the hub and spoke system of some trading groups:

...does contain the threat that the big fellows—whether it is the US or the European Union—will, in fact, use their bargaining power to extract things

56 Bijit Bora, ‘North American Free Trade Agreement, *Regional Integration and the Asia-Pacific*, Bijit Bora and Christopher Findlay, eds., Oxford University Press, 1996, pp. 174–5.

57 *ibid.*, pp. 179–80.

58 WTO, *Regionalism and the World Trading System*, WTO, Geneva, April 1995, pp. 48–9.

59 Richard Snape, *NAFTA, the Americas, AFTA and CER: reinforcement or competition for APEC?*, Pacific Economic Paper No. 254, Australia-Japan Research Centre, April 1996, p. 11.

60 *ibid.*

from individual countries without forming an overall free trade area. They just have a centre and a lot of rays going out. So there are dangers that lurk in this hub and spoke approach to regionalism which is evident in the US.⁶¹

9.55 NAFTA has the potential to contribute to APEC's objectives of free and open trade. It is ambitious in scope and may offer leadership by providing prototypes such as its dispute settlement and environmental provisions. It has formally recognised the importance of the multilateral trading system and given a commitment to meet WTO obligations. NAFTA has set a definite timetable in which to achieve its objectives. Its complex and restrictive rules of origin, however, do not contribute to the climate of openness and cooperation conducive to building a free and open trading system and its hub and spoke structure does not fit comfortably with APEC's ethos of 'open regionalism'.

The Free Trade Area of the Americas (FTAA)

9.56 In December 1994, 34 leaders from countries in the Western Hemisphere met in Miami and resolved to start immediately to construct the 'Free Trade Area of the Americas' in which barriers to trade and investment would be eliminated.⁶² They were committed to bringing the negotiations to a conclusion by no later than 2005 and agreed that substantial progress toward meeting this objective would be made by the end of the century.

In their plan of action, the leaders agreed:

- to work toward balanced and comprehensive agreements that maximise market openness;
- to achieve concrete progress by the end of the century;
- to further secure the observance and promotion of workers' rights; and
- to make trade liberalisation policies and environmental policies mutually supportive.⁶³

9.57 Together with their commitment to pursue economic integration and free trade in the hemisphere, they also resolved to build on their strong commitment to multilateral rules and disciplines. They endorsed full and rapid implementation of the Uruguay Round and active multilateral negotiations in the WTO. They also included

61 Professor David Robertson, *Committee Hansard*, 6 March 1998, p. 740.

62 Antigua and Barbuda, Argentina, Bahamas, Barbados, Belize, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Dominica, Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, St. Vincent and the Grenadines, St. Lucia, St. Kitts and Nevis, Suriname, Trinidad and Tobago, Uruguay, the United States of America, and Venezuela. Canada, Chile, Mexico and the US are members of APEC, Peru was admitted to APEC in 1998.

63 Ambassador Richard Fisher, 'The FTAA; a Commitment to Fair and Open Trade', USIA Washington File, 11 March 1998.

in this endorsement the full and prompt implementation of bilateral and subregional trade agreements, and other trade arrangements that are consistent with the provisions of GATT/WTO and that do not raise barriers to other nations.⁶⁴

9.58 The extent of their commitment to WTO obligations is significant. All countries within the proposed FTAA, with the exception of the Bahamas, are members of the WTO. At the Denver Trade Ministerial Meeting in June 1995, the Ministers reiterated that the FTAA would be WTO-consistent; that it would apply WTO obligations as the baseline for negotiations.⁶⁵ Mr Miguel Rodriguez, Director of the Trade Unit, Organization of American States, explained that 'FTAA cannot contain measures that conflict with members' obligations to the World Trade Organization (WTO)'. In other words, he argued that 'while the FTAA should enhance the terms of trade between countries in the Americas, it cannot do so by erecting market barriers to other countries.'⁶⁶ His message that the FTAA was not to be an inward-looking bloc, designed to build barriers to non-participants was clear. He expected that the FTAA would endeavour to strive towards higher liberalisation that would move ahead of present global standards.⁶⁷ Moreover, he suggested that the FTAA could 'serve as a vehicle to "lock in" the market-opening measures of the 1990s and make a return to protectionism a less seductive option'.⁶⁸

9.59 His view that FTAA members would seek to go beyond WTO commitments had support. The Deputy United States Trade Representative, Ambassador Richard Fisher, suggested that the developing countries in the hemisphere, which had been given longer periods to meet their WTO commitments, should accelerate meeting these commitments by 2000. He stated that this would allow the FTAA to be built on a WTO 'floor'. He went further by stating: 'there is no reason to negotiate an FTAA if we stop at existing WTO provisions. The FTAA will thus build well beyond the WTO and be future oriented'.⁶⁹

9.60 Mr Cesar Gaviria, Secretary General, Organization of American States, argued in 1998 that the FTAA would send a strong signal to trading partners outside the region. He asserted:

64 Organization of American States, Trade Unit, Summit of the Americas, Part II, 'Promoting Prosperity Through Economic Integration and Free Trade', Section 9.1, Plan of Action, <http://www.sice.oas.org/root/ftaa/miami/sapoae.stm> (18 August 1997).

65 Ambassador Richard Fisher, 'The FTAA; a Commitment to Fair and Open Trade', USIA Washington File, 11 March 1998.

66 Miguel Rodriguez, 'Trade Liberalisation in the Americas: Challenges and Opportunities', in USIS Washington File, 11 March 1998.

67 *ibid.*

68 Miguel Rodriguez, 'Trade Liberalisation in the Americas: Challenges and Opportunities', in USIS Washington File, 11 March 1998.

69 Ambassador Richard Fisher, 'The FTAA; a Commitment to Fair and Open Trade', USIA Washington File, 11 March 1998.

Since last year we have clearly established that the Free Trade Area of the Americas will not raise barriers to trade or investment...Rather than closing markets, they contribute to maintaining an open trading environment. Rather than curtailing investment, they cultivate them. This is not an inward-orientated integration but an endeavour aimed in part towards increased trade with the rest of the world.⁷⁰

9.61 At the Santiago Summit in April 1998, the leaders of the countries of the Americas reaffirmed their determination to conclude the negotiations of the FTAA no later than 2005 and asserted that the agreement would be WTO-consistent. Mr Renato Ruggiero, Director-General of the WTO, saw promise in the development of the FTAA and was sure it would 'become a powerful force in favour of the global path when the time will be right'.⁷¹

9.62 FTAA has barely left the drawing board and it is too early to anticipate its final form. Nevertheless, its members' commitment to the WTO and to international economic cooperation suggests that as it takes shape, it will be well placed to contribute to the multilateral trading system. As with NAFTA, the FTAA is looking to address broader issues dealing with education, the environment and labour. Again it may provide innovative ideas for APEC and other regional trading groups looking to broaden their scope beyond trade and investment liberalisation.

ASEAN and AFTA

9.63 The Association of Southeast Asian Nations (ASEAN) was established on 8 August 1967 with the signing of the Bangkok Declaration. The five founding members were Indonesia, Malaysia, the Philippines, Singapore and Thailand. Brunei Darussalam joined in 1984, Vietnam in 1995, Laos and Myanmar in 1997, and Cambodia in 1999. ASEAN is a voluntary association with 'no requirement or intention to cede any powers or regulation or enforcement to any supra-national institution'. The principles underpinning ASEAN are 'openness, mutual respect, mutual benefit and evolution through encouraging a convergence of views in ways which reflect shared interests'.⁷²

9.64 In January 1992, at the fourth ASEAN Summit in Singapore, the ASEAN Heads of Government agreed to establish a free trade area. In doing so, they acknowledged that in part they were seeking to safeguard their 'collective interests in response to the formation of large and powerful economic groupings among the

70 Cesar Gaviria, Secretary General, Organization of American States, 'The FTAA and the Summit of the Americas Process', 18 March 1998, <http://www.oas.org/EN/PINFO/SG/318cre.htm> (10 October 1999).

71 Second Summit of the Americas, Santiago Declaration, 19 April 1998, http://www.sice.oas.org/ftaa/santiago/sapoa_el.stm (11 October 1999); Renato Ruggiero, Director-General, WTO, address to the Second Summit of the Americas, Santiago de Chile, <http://www.wto.org/wto/speeches/santiago.htm> (8 October 1999).

72 Andrew Elek, Hadi Soesastro, *ASEAN, APEC and ASEM: Concentric circles and 'open clubs'*, Institute of Strategic and International Studies, Kuala Lumpur, 1997, p. 3.

developed countries...’ The agreement sought to increase ASEAN’s competitiveness as a production base geared for the world market. At the same time, ASEAN ministers recognised that a critical step toward this goal would be the liberalisation of trade in the region through the elimination of intra-regional tariffs and the removal of non-tariff barriers. But rather than forming an inward-looking trading bloc, ASEAN leaders made clear that they would uphold the principles of free and open trade and work towards maintaining and strengthening an open multilateral trading system.⁷³

9.65 The ASEAN Free Trade Area (AFTA) officially came into operation in January 1993 and uses the Common Effective Preferential Tariff (CEPT) as the mechanism to reduce tariffs.⁷⁴ Under this scheme, the ASEAN countries received uniform preferential treatment in intra-ASEAN trade and were required to reduce tariffs, over a 15-year period, on all manufactured items.

9.66 The AFTA has been reviewed and renegotiated at subsequent meetings of ASEAN Economic Ministers. Most importantly, with the conclusion of the Uruguay Round, the emerging significance of APEC and the NAFTA arrangement, the original AFTA agreement had its time frame trimmed back and the scope of the agreement broadened. In September 1994, at the Fifth AFTA Council Meeting in Chiangmai, the Council decided to accelerate AFTA by reducing tariffs to 0–5 per cent within ASEAN by the year 2003 instead of 2008.⁷⁵ The protocol to amend the CEPT Scheme was signed in 1995. The product coverage of CEPT was broadened to include unprocessed agricultural products.⁷⁶

9.67 AFTA members do not see their trading group as a protective trading bloc. It is consistent with the GATT and is intended to be an outward-looking arrangement that does not raise trade barriers against non-ASEAN economies.⁷⁷ CEPT allows for an ASEAN country that reduces its tariffs to 0–5 per cent on a most-favoured nation basis to enjoy the CEPT concessions from other ASEAN members. This provision facilitates both intra-ASEAN liberalisation as well as liberalisation on a most favoured

73 Singapore Declaration of 1992, Fourth ASEAN Summit, Singapore, 28 January 1992. See also AFTA Reader, vol. 1, Questions and Answers on the CEPT for AFTA, ASEAN Secretariat, November 1993, <http://www.asean.or.id/reader/vol1/afv1q.htm>.

74 Singapore Declaration of 1992, Fourth ASEAN Summit, Singapore, 27–28 January 1992.

75 Joint Press Statement, the Fifth AFTA Council Meeting, Thailand, 21 September 1994.

76 See Protocol to Amend the Agreement on the Common Effective Preferential Tariff Scheme for the ASEAN Free Trade Area and the Protocol to Amend the Framework Agreement on Enhancing ASEAN Economic Cooperation both signed 15 December 1995 in Bangkok.

77 AFTA Reader, vol 1, Questions and Answers on the CEPT for AFTA, ASEAN Secretariat, November 1993; see also OECD, Apiradi Tantraporn, ‘ASEAN and Regional Economic Cooperation’, in *Regionalism and its place in the multilateral trade system*, OECD, Paris, 1996, pp. 49–52.

nation basis.⁷⁸ AFTA has a 40 per cent value-added rule of origin that allows cumulation between two or more countries within the ASEAN.⁷⁹

9.68 Some witnesses were concerned that AFTA would emerge as a preferential trading group that discriminated against non-members. The Queensland Government noted: ‘all evidence points towards organisations such as AFTA and NAFTA proceeding with trade liberalisation at a pace faster than that being achieved under APEC’.⁸⁰ Professor Robertson argued that AFTA is a conventional regional trading arrangement that depends on trade discrimination to raise economic welfare. He suggested that AFTA is not consistent with the APEC creed of ‘open regionalism’ and could lead to complications in the long run.⁸¹

9.69 Mr Mitchell Hooke, Chief Executive Officer, Australian Food Council, spelt out the implications of trade liberalisation within AFTA. He suggested that ‘AFTA will provide for tariffs of between zero and five per cent on nearly all intra-ASEAN trade by 2003 and will establish preferential margins in the order of 55 to 60 per cent to the detriment of non-AFTA suppliers, including Australia’.⁸² He stressed that these are ‘pretty substantial walls to be climbing over’.⁸³

9.70 On the other hand, Dr Soesastro argued that AFTA is never going to become a closed trading bloc—‘it just cannot afford to become one’. Rather, he observed that the trend over recent years is for AFTA to act as a training ground for ASEAN countries to open up their markets. He told the Committee:

If one looks at the schedule of tariff reductions that each of the ASEAN countries has introduced, at the same time that they are reducing their AFTA preferences—the tariffs that apply to the other ASEAN countries—they are doing it unilaterally for the rest of the world as well. It could either be done at the same time or with a lag time of around six months or one year. That has become the pattern.⁸⁴

9.71 Professor Ravenhill endorsed Dr Soesastro’s viewpoint—that as economies within ASEAN have attempted to meet their obligations under the AFTA, they have also tended to offer these trade concessions to non-member states as well. He noted, ‘it is not in their interests to create a closed trading bloc which accounts for only

78 See answers to questions nos 15 and 16, *AFTA Reader*, vol 1, Questions and Answers on the CEPT for AFTA, ASEAN Secretariat, November 1993.

79 William E James, ‘APEC and Preferential Rules of Origin: Stumbling Blocks for Liberalization of Trade?’, *Journal of World Trade*, vol. 31, no. 3, June 1997, p. 126.

80 Submission no. 47, pp. 12–13.

81 Professor David Robertson, Chapter 1, ‘AFTA-CER Linkages: a Beginning’ to be published in volume AFTA-CER, *A Way Forward*, Allen & Unwin, Singapore, in correspondence to the Committee, 10 February 1998.

82 Australian Food Council, *Committee Hansard*, 6 March 1998, p. 730.

83 *ibid.*, p. 737.

84 Dr Hadi Soesastro, *Committee Hansard*, 2 February 1998, p. 289.

20 per cent of their trade'.⁸⁵ Professor Snape agreed with this finding. He told the Committee that most of the liberalisation that has been done in AFTA has been extended to other countries as well, 'so it has not in fact been forming a markedly preferential bloc'.⁸⁶

9.72 Professor Garnaut further underlined the point that AFTA has in practice reinforced tendencies to externalise liberalisation. He maintained that 'Malaysia thoroughly and explicitly and others more or less implicitly, have minimised discrimination against outsiders as the external tariff has been reduced within AFTA'.⁸⁷ Thus, he asserts, AFTA can be accepted as a subset of APEC's open regionalism in the global context. DFAT also argued that, by and large, when ASEAN economies have removed or reduced their tariffs they have done so on a MFN basis. DFAT submitted:

Some AFTA economies are minimising or eliminating the preferential element of the arrangement by committing themselves to reduce their MFN tariffs at the same time as they cut preferential rates. The Philippines 1996 IAP outlines a tariff reduction scheme which will see its MFN tariff on most products fall to the preferential rate by 2004. Its intention is to have a single tariff rate for all products imported from anywhere in the world by 2005. Indonesia is committed to reducing its MFN tariff on most products to a maximum of 10 percent by 2003. Intentions in some other ASEAN economies are less clearly marked.⁸⁸

9.73 Ms Fayle from DFAT explained to the Committee that the degree of preferential treatment emerging at the moment is fairly minimal, and the greater impact 'has been on investment flows rather than trade flows in the sense that international investors have often been investing in ASEAN in order to get behind the perceived preferential walls that they expect to build up rather than investing in other locations, such as Australia'.⁸⁹

9.74 MTIA agreed. It argued, 'While barrier reductions under AFTA are undertaken on a preferential and reciprocal basis, it has been the case that AFTA members have in some instances also reduced external tariffs for selected items on a most favoured nation basis'. It added, however, the following qualification—'there is

85 Professor John Ravenhill, *Committee Hansard*, 2 February 1998, p. 300.

86 Professor Snape, *Committee Hansard*, 4 February 1998, p. 500. This view was expressed by writers such as Kunio Igusa and Hiromitsu Shimada, 'AFTA and Japan' in *AFTA in the Changing International Economy*, Institute of South East Asian Studies, Singapore, 1996, p. 161.

87 Ross Garnaut, *Open Regionalism and Trade Liberalisation*, Institute of South East Asian Studies, Singapore, 1996, p. 117. The Australian Telecommunications Industry Association also indicated that a number of ASEAN countries had significantly reduced their tariffs. See *Committee Hansard*, 27 October 1997, p. 108.

88 Submission no. 19, p. 26.

89 DFAT, *Committee Hansard*, 30 March 1998, p. 828.

no guarantee that non-discriminatory reductions in tariffs will keep pace with the preferential and reciprocal reduction in tariffs under AFTA'.⁹⁰

9.75 ASEAN and APEC principles are mutually reinforcing. ASEAN strongly influenced the formulation of the principles underpinning APEC and continues to support them. It made clear its understanding of APEC and of its own guiding principles when it set down terms for its participation in APEC. At the twenty-third ASEAN ministerial meeting in July 1990, ASEAN ministers asserted:

...APEC should continue to be a loose, exploratory and informal consultative process, that APEC process should not dilute ASEAN's identity and that it should not be directed towards the establishment of an economic trading bloc, as this would be contrary to ASEAN's support for the establishment of a more fair and freer multilateral trading system.⁹¹

9.76 AFTA has demonstrated that it is an effective and valuable subgroup of APEC and the world trading system by: actively promulgating its views on the benefits of free and open trade; providing leadership and support for international organisations such as the WTO; implementing practical measures that clearly demonstrate the benefits of free and open trade; and allowing some of the benefits of its agreement to extend to non-members. The AFTA agreement offers transparency and a degree of certainty that it will keep in step with APEC's progress. There is the potential for it to broaden its agenda to take up issues such as services and investment. Clearly some witnesses were unconvinced about the readiness of AFTA members to dismantle their barriers to trade but the trend so far is encouraging for free trade and investment in the region.

EAEC

9.77 In December 1990, the Malaysian Prime Minister, Dr Mahathir Mohamad, proposed the formation of an East Asian Trade Group. The group was intended to counter what it perceived as protectionist trends in the European Community and in the Americas. It was to include ASEAN countries, Hong Kong, China, South Korea, Taiwan, Japan and other countries in the Indochina area.⁹² According to Dr Mahathir, Australia and New Zealand are part of Australasia and not East Asia, and since EAEC was to be a geographical grouping they would not qualify for membership.⁹³ Although the US, Canada and Australia were to be excluded, EAEG was not envisaged as a trade bloc but rather:

90 MTIA, submission no. 28, p. 10.

91 Joint Communique of the Twenty-third ASEAN Ministerial Meeting, Jakarta, 24–25 July 1990, <http://www.asean.or.id/politics/pramm23htm> (23 March 1998).

92 Michael G. Plummer and Pearl Imada-Iboshi, 'AFTA, NAFTA and US Interests' in Mohamed Ariff et al., *AFTA in the Changing International Economy*, Institute of South East Asian Studies, 1996, pp. 120–121.

93 Transcript of press conference by Dr Mahathir Mohamad, Osaka, 19 November 1995, <http://mitinetra.miti.gov.my/apeck/yabpm.html>.

a low level economic alliance, a mutual protection society, a pressure group or a “megaphone to magnify” the group’s voice at the Uruguay Round for instance.⁹⁴

9.78 At the ASEAN Trade Ministers Meeting in Kuala Lumpur in October 1991, Ministers supported EAEC as an ASEAN initiative after Indonesia was successful in having the name changed to East Asian Economic Caucus.⁹⁵ In 1994, Dr Mahathir asserted that any East Asian scheme for economic cooperation, including the East Asian Economic Caucus, ‘must be wedded to this idea of open regionalism’.⁹⁶ He stated further, in November 1995, that EAEC ‘is merely a caucus, not a structured organisation. It will enable the countries of East Asia to discuss problems, which would then be brought to APEC’.⁹⁷ At the Thirtieth ASEAN Ministerial Meeting in July 1997, the Foreign Ministers approved of the increasing cooperation among ‘potential EAEC members and were hopeful that the Caucus would soon be formally instituted for the benefit of members’. It should be noted that DFAT underlined the point that EAEC has never met—‘it is a proposal that is around but there has never been a formal meeting of that particular grouping’.⁹⁸

9.79 Australia and the United States objected strongly to the suggested formation of such a group, and Japan has given the proposal lukewarm support.⁹⁹ Dr Hadi Soesastro argued that Indonesia and Japan, both influential members of any likely EAEC, are ‘never going to accept this grouping being turned into a trading bloc. It is more or less a club’.¹⁰⁰ Thus, to date EAEC has not taken a prominent role in the region, rather it remains a consultative body under the umbrella of APEC and discussions about its role continue within and outside APEC.¹⁰¹

94 Quote taken from Noordin Sophiee, ‘Misunderstanding and the East Asian Economic Group, the *New Straits Times*, 19 January 1991, reproduced in Tan Kong Yam et al., ‘ASEAN and Pacific Economic Cooperation’ in *ASEAN Economic Bulletin*, vol. 8, no. 3, p. 326.

95 Tan Kong Yam, ‘Regionalism in the Pacific Basin: ASEAN, APEC and Global Free Trade’, *The Journal of Contemporary Issues in Business and Government*, vol. 2, no. 2, 1996, p. 81.

96 Mahathir Bin Mohamad, ‘The Pacific Era—A Vision for the Future’, address 27th International General Meeting of the Pacific Basin Economic Council, Kuala Lumpur, 1994.

97 Transcript of press conference by Dr Mahathir Mohamad, Osaka, 19 November 1995, <http://mitinetra.miti.gov.my/apec/yabpm.html>. See chapter 2, ‘Asia Pacific Economic Cooperation: from Idea to 2020 Vision, paras, 2.50–2.52.

98 Joint Communique, the Thirtieth ASEAN Ministerial Meeting, 24–25 July 1997, <http://www.asean.or.id/politics/pramm30htm> (27 March 1998); *Committee Hansard*, 30 March 1998, p. 830.

99 Mari Pangestu, ‘The ASEAN: Economies; Economic and Trade Prospects in the 1990s, the *Sydney Papers Conference*, 1993, pp. 64–5; Yuichiro Nagatomi, ‘Economic Regionalism and the EAEC’, *Japan Review of International Affairs*, vol. 9, no. 3, Summer, 1995, pp. 208–9.

100 Hadi Soesastro, *Committee Hansard*, 2 February 1998, p. 290.

101 Richard Snape, Jan Adams and David Morgan, *Regional Trade Agreements: Implications and Options for Australia*, AGPS, Canberra, 1993.

9.80 A number of witnesses, however, looked warily upon the emergence of EAEC. Professor Ravenhill spoke of a fault line beginning to emerge in APEC ‘which brings on the one side the likes of the United States and Australia with a number of other countries on the other side, Malaysia in particular but...including the Philippines, and with a number of countries sitting on the sidelines and that includes Japan’.¹⁰² He suggested that should tensions and differences intensify, the East Asia group in due course will become more feasible.¹⁰³ He further drew attention to the intentions of Dr Mahathir who, as host of the thirtieth anniversary of ASEAN, took the opportunity to invite China, Korea and Japan to the meeting. Professor Ravenhill told the Committee:

My understanding is that there was a general sense, yet to be formalised, that that summit of those countries—ASEAN plus three—will be, in due course, institutionalised. In fact, I would be very surprised if they were not to meet again later this year in 1998. So it may well be that we may be seeing slowly an East Asian economic caucus emerging but by another name and with a less formal structure. That too will have very significant implications for APEC should that come to pass.¹⁰⁴

9.81 Professor Snape also raised concerns about tensions between some APEC members. He pointed out that should frustration grow in Asia with the trade tactics of the United States, or with a discriminatory expansion of an Americas trade bloc, North East Asia economies could show more interest in the East Asia Economic Caucus and AFTA could provide an existing trade agreement basis for development of the EAEC. A countervailing force, he pointed out, is the very concept of EAEC which may help to discourage unfriendly trade policies on the Eastern side of the Pacific.¹⁰⁵

9.82 Professor Peter Drysdale saw the problem in light of ‘reciprocitarianism’ in Washington trade politics and how that might affect the cohesion of APEC. He submitted:

The tendency of the United States to conduct aspects of its trade relations bilaterally, and to see bilateral reciprocity in its trade negotiations, is well known. It is also understandable. For a hegemonic power—which the United States still is—there is a natural temptation to use muscle to force market opening (in the name of both self-interest and the general good). APEC has been a useful forum in which tensions between the United States and Japan, resulting from such actions by the United States, can be diffused and calmed.¹⁰⁶

102 Professor John Ravenhill, *Committee Hansard*, 2 February 1998, pp. 307–8.

103 *ibid.*, p. 308.

104 *ibid.*

105 Richard H. Snape, *NAFTA, the Americas, AFTA and CER: reinforcement or competition for APEC?*, Australia–Japan Research Centre, Pacific Economic Paper no. 254, April 1996, p. 9.

106 Submission no. 29, p. 9.

Should the trade tactics of the United States get out of hand, he wondered whether the resulting friction would ‘tend to fracture that APEC process into the East Asian side, strengthening the idea of an East Asian economic caucus, or whether or not it could be managed within the framework of multilateral systems and negotiations’.¹⁰⁷

9.83 Professor Joe Camilleri argued that if EAEC were to gather momentum and attract institutional backing or infrastructure, then the world trading system would be approaching the three trade blocs idea—one based on NAFTA, one based in the European Union and one based in East Asia. He pointed out:

APEC was meant to be an answer to that question by locking in the NAFTA countries and this potential East Asian economic grouping into one where their differences and competing interests would somehow be negotiated and reconciled.¹⁰⁸

He maintained that APEC is ‘first and foremost an OECD edifice’; that APEC reflects the perspectives and priorities of advanced industrial economies. He stated that by contrast ASEAN bears very much the imprint of the newly industrialising and less developed societies of the region. He suggested that the friction that has arisen in response to the Malaysian proposal for an East Asia economic grouping is ‘but the symptom of a deeper but as yet poorly articulated fault line’.¹⁰⁹

9.84 At the moment EAEC does not pose a threat to APEC—it is not a formal trading group and it has not formally met. Even so, some witnesses view it as a storm cloud and a potential source of discord in APEC. But EAEC is more likely to react to shifts in the United States’ trade policy. Should NAFTA become a closed trading bloc or the United States favour a more protectionist policy, Asian economies, which view EAEC as an ‘insurance policy’, may look to EAEC as a ‘fall back option’.¹¹⁰ Thus, EAEC continues to be significant ‘conceptually if not in form’.¹¹¹

CER

9.85 The Closer Economic Relations Agreement between Australia and New Zealand (CER also known as ANZCERTA) came into effect on 1 January 1983. It replaced the New Zealand Australia Free Trade Agreement (NAFTA) which had been in operation since 1 January 1966. CER is a free trade area with a clearly stated

107 *Committee Hansard*, 6 March 1998, p. 752.

108 *Committee Hansard*, 2 February 1998, p. 317.

109 Professor Joseph Camilleri, submission no. 48, p. 3.

110 Mari Pangestu, ‘The ASEAN: Economies; Economic and Trade Prospects in the 1990s’, the *Sydney Papers Conference*, 1993, pp. 64–5.

111 Michael G. Plummer and Pearl Imada-Iboshi, ‘AFTA, NAFTA and US Interests’ in Mohamed Ariff et al., *AFTA in the Changing International Economy*, Institute of South East Asian Studies, 1996, pp. 120–121.

objective of removing all border restrictions on trade in goods. The objectives of CER as given in Article 1 are:

- to strengthen the broader relationship between Australia and New Zealand;
- to develop closer economic relations between the Member States through a mutually beneficial expansion of free trade between New Zealand and Australia ;
- to eliminate barriers to trade between Australia and New Zealand in a gradual and progressive manner under an agreed timetable and with a minimum of disruption; and
- to develop trade between New Zealand and Australia under conditions of fair competition.¹¹²

9.86 In the preamble to the agreement, both countries declared that the free trade provisions are part of a more fundamental desire to maintain closer economic relations and to strengthen and foster links and cooperation in fields such as investment, marketing, movement of people, tourism and transport. They believed that a closer economic relationship would lead ‘to a more effective use of resources and an increased capacity to contribute to the development of the region through closer economic and trading links with other countries, particularly those of the South Pacific and South East Asia’. Both countries also acknowledged their rights and obligations under the GATT.¹¹³

9.87 In a joint communique issued in 1985 after a CER ministerial meeting, ministers emphasised that the agreement was outward-looking and established a basis from which closer economic relationship could be advanced to the benefit of both countries and the region.¹¹⁴

9.88 Although some areas of the agreement could be further improved, CER has been a notable success and provides a model which others may wish to follow. A study undertaken for the Committee for Economic Development of Australia detailed the progress made to date as follows:

112 Article 1, Objectives, Australia and New Zealand Closer Economic Relations—Trade Agreement, AGPS, Canberra, 1983.

113 Preamble, Australia and New Zealand Closer Economic Relations—Trade Agreement, AGPS, Canberra, 1983, pp. 5–6.

114 Australia New Zealand Closer Economic Relations Ministerial Meeting, Canberra, 15–16 August 1985; Joint Communique in *CER Future Progress*, Papers relating to the Australia-New Zealand Closer Economic Relations Ministerial Meeting, Canberra, 15–16 August, Office of New Zealand Relations, Australian Department of Trade, p. 3.

Free trade in goods	Achieved by CER in 1990
Free trade in services	Promising beginning made in 1990, and much progress since then, though serious difficulties now being experienced in a small number of sensitive service sectors
Free movement of labour	Traditional feature of trans-Tasman relations covered by the Trans-Tasman Travel Arrangements
Free movement of capital	Significant reduction in impediments resulting from unilateral liberalisation by each partner, but no specific bilateral agreement to remove remaining impediments. ¹¹⁵

9.89 In addition, CER has made significant headway in removing non-tariff barriers to trade and investment flows. Marked progress has also been made in areas such as liberalisation and integration of government purchasing procedures, harmonisation of standards, conformance procedures and aspects of business law; streamlining and harmonisation of customs procedures; and agreement to refrain from direct government supports. The replacement of anti-dumping regulations by harmonised provisions in relevant sections of the two countries' competition laws was an innovative move.¹¹⁶ CER applies rules of origin which require a 50 per cent domestic content test.¹¹⁷

9.90 Another feature that marks CER as a progressive regional trading arrangement is the tendency whereby bilateral liberalisation within CER has been accompanied in both Australia and New Zealand by progressive unilateral reduction of trade impediments against third countries. According to Professor Lloyd:

CER is the most outstanding example of an open regional trading arrangement. The success of CER prepared the way for unilateral liberalisation of trade in goods and services with third countries on a most favoured nation (MFN) basis.

115 P.J. Lloyd, *Completing CER*, Report of a CEDA/Australian APEC Study Centre Round-table on the Closer Economic Relations Trade Agreement, CEDA Information Paper No. 52, CEDA, Melbourne, August 1997, p. 1. Alan Oxley noted that free movement of labour had been achieved in CER but not in the areas of the free movement of capital and services. Submission no. 12, pp. 6–7.

116 *ibid.*, p. 2.

117 William E. James, 'APEC and Preferential Rules of Origin: Stumbling Blocks for Liberalization of Trade?', *Journal of World Trade*, vol. 3, no. 3, June 1997, p. 126. PECC, *Milestones in APEC Liberalisation: A Map of Market Opening Measures by APEC Economies*, a Report by the Pacific Economic Cooperation Council for APEC, APEC Secretariat, Singapore, 1995, p. 107 stated: '...goods partly manufactured in either Australia or New Zealand are exempt from import duties if the last process of manufacture is performed in one of the two members and the expenditure on materials, labour and overhead is not less than 50 per cent of the factory or works cost of goods in their final stage. The definition of expenditures and costs are clearly specified'.

9.91 In 1999, Australia and New Zealand established a Joint Prime Ministerial Task Force on Bilateral Economic Relations to examine ways to build on the strong economic foundation already existing through CER. In August 1999, both countries discussed broadening the scope of the agreement and agreed to consider extending the agreement to other countries or regional groups.¹¹⁸

9.92 CER has also created a climate that has generated within business a sound appreciation of the benefits to be obtained from free and open trade. PECC concluded that ‘the demonstrated success of ANZCERTA and of the ability of firms to gain export experience and to compete in export markets through expansion of trans-Tasman trade has had a significant effect in shifting the balance of business opinion in both economies to take a more favourable view of trade liberalisation and deregulation’.¹¹⁹

9.93 CER supports APEC objectives:

- it covers a comprehensive range of products and services;
- its rules of origin are straightforward; it does not seek to create any new forms of discrimination against a third country,
- it has demonstrated a preparedness to break down existing barriers to trade and investment for non-members; and
- it has established a clear schedule for trade liberalisation which allows for scrutiny and transparency.

SRTA linkages

9.94 Two major linkages involving APEC SRTAs have been initiated—the AFTA-CER linkage and the Asia-Europe Meeting (ASEM). One of the main objectives for establishing linkages between regions would be to find ways of tapping into the differing strengths and comparative advantages of both regions for their mutual benefit. Such an association enables the two regions to promote themselves as a cohesive and dynamic economic force, and to boost their economic growth and development. Regional linkages provide an ideal training ground on which to trial an initiative.

118 P.J. Lloyd, *Completing CER*, Report of a CEDA/Australian APEC Study Centre Round-table on the Closer Economic Relations Trade Agreement, CEDA Information Paper No. 52, CEDA, Melbourne, August 1997, pp. 2–3. See also PECC, *Milestones in APEC Liberalisation: A Map of Market Opening Measures by APEC Economies*, a Report by the Pacific Economic Cooperation Council for APEC, APEC Secretariat, Singapore, 1995, p. 110; Australia/New Zealand Communiqué on the CER Task Force, New Zealand Executive Government News Release Archive, 4 August 1999; and, Trade Minister Welcomes Constructive Approach to CER Extension, New Zealand Executive Government News Release Archive, 4 August 1999, <http://www.executive.govt.nz/> (24 September 1999).

119 PECC, *Milestones in APEC Liberalisation: A Map of Market Opening Measures by APEC Economies*, a Report by the Pacific Economic Cooperation Council for APEC, APEC Secretariat, Singapore, 1995, p. 110.

9.95 Dr Elek recognised that linking the preferential trading arrangements contained in existing subregional agreements would require substantial and difficult negotiations and create new sources of discrimination, division and tension among APEC members. Nevertheless he could see the potential in initiating fruitful links between existing groups. He maintained:

...such links could extend the understandings reached in each sub-regional arrangement on issues such as international investment, dispute settlements and some product standards. Correspondingly, it is feasible to consider the extension of such understandings to the whole region, based on those already contained in some current agreements, adapting them as necessary to conform to the principles of transparency, non-discrimination and national treatment.¹²⁰

AFTA-CER

9.96 The proposal for an AFTA-CER link has recently been explored. On 9 September 1995 at an informal consultation between the ASEAN Economic Ministers and Ministers from the CER countries, Ministers reaffirmed their commitment to the multilateral trading system. They also agreed on the need for both regional arrangements to reinforce the process of liberalisation within the WTO framework. They agreed to establish a link between the two regions promoting the 'open regionalism' concept of AFTA and CER. The Ministers anticipated that the ASEAN-CER linkage should 'provide tangible benefits to their business communities and would build upon existing complementarities between the two free trade areas'. It was intended that the linkage would focus on practical, business-oriented ways to remove impediments to doing trade and business between the two regions and lead to greater trade and investment flows between them.¹²¹

9.97 The ministerial consultations are the nucleus of the AFTA-CER linkage. They provide a valuable opportunity for the Ministers to exchange views on a range of regional and global issues, to establish priorities for their association and to determine the future direction of the linkage. At the second informal consultations between Economic Ministers from AFTA and CER countries held in Jakarta in September 1996, Ministers signed a Memorandum of Understanding to promote cooperation on standards and conformance between ASEAN and CER countries.¹²² The Ministers

120 Andrew Elek, 'APEC: An Open Economic Association in the Asia-Pacific Region', in Bijit Bora and Christopher Findlay, *Regional Integration and the Asia-Pacific*, Oxford, 1996, p. 233.

121 Informal Consultation between AEM and the Ministers from the CER Countries, 9 September 1995, Brunei, Darussalam, <http://www.asean.or.id/CER/cer1.htm> (23 March 1998); and, P.J. Keating, Address to the Chinese Chamber of Commerce, 'Australia and Asia: the next steps', Perth, 15 February 1995. Mr Keating states that early discussions were undertaken on the suggestion of the Thai Deputy Prime Minister, Dr Supachai, in April 1994.

122 Joint Press Release, the Second Informal AEM-CER Consultations, 13 September 1996, Jakarta, <http://www.asean.or.id/CER/cer2.htm> (23 March 1998). See also Department of Foreign Affairs and Trade, *The New ASEANs: Vietnam, Burma, Cambodia and Laos*, Canberra, 1997, p. 352; and Australian Telecommunications Industry Association, submission no. 21.

underlined the value of such arrangements as the foundation for future collaborative work under the AFTA-CER linkage.

9.98 The communique from that meeting called on the private sector to identify constraints on business that hinder trade in goods and services and investment flows in order to ‘enhance understanding and to create a climate for a more liberal and freer trade and investment access between both regions’.¹²³ Cooperation between AFTA and CER has focused on trade facilitation rather than liberalisation and has generally involved technical assistance and information sharing.¹²⁴

9.99 Mr Peter Walsh, General Manager, Standardisation Policy and Development, Standards Australia, saw great value in strengthening regional alliances, such as a linkage between Australasia and ASEAN. He told the Committee:

We think that there would be some increased value in that [alliance] perhaps as a mechanism for regional alignment of standards based on international standards rather than necessarily through the total APEC environment because of the differences of the big players...¹²⁵

9.100 MTIA also appreciated that benefits would come from an AFTA and CER association including higher levels of economic activity, exports and real consumption. It maintained that these benefits would result from:

- expansion of trade as a result of the removal of tariff and non-tariff barriers;
- improvement in productivity as a result of dynamic effects including more competition, and the exploitation of economies of scale;
- fostering of closer business links, cultural exchange and business networks;
- increased investment; and
- complementary effect of an AFTA-CER free trade area on trade liberalisation under APEC and the World Trade Organisation.¹²⁶

9.101 It believed that an AFTA-CER free trade area would ‘present the opportunity to AFTA members to implement trade reforms in some sensitive sectors of the economy in preparation for the processes of wider liberalisation under APEC and the WTO’. Further, it stated that the manner in which AFTA is being implemented and

123 Joint Press Release, the Second Informal AEM-CER Consultations, 13 September 1996, Jakarta, <http://www.asean.or.id/cer/cer2.htm>; Professor David Robertson, Chapter 1, ‘AFTA-CER Linkages: a Beginning’ to be published in volume AFTA-CER, *A Way Forward*, Allen & Unwin, Singapore, in Correspondence to the Committee, 10 February 1998.

124 P.J. Lloyd, Completing CER, Report of a CEDA/Australian APEC Study Centre Round-table on the Closer Economic Relations Trade Agreement, CEDA Information Paper No. 52, CEDA, Melbourne, August 1997, p. 4.

125 *Committee Hansard*, 3 February 1998, p. 426.

126 Submission no. 28, pp. 11–12.

the way in which CER operates, complements and facilitates multilateral trade. It submitted:

An AFTA-CER free trade area, by encouraging members of the respective arrangements to build institutional arrangements for addressing regional trade issues, has the potential to provide an important stimulus to APEC liberalisation and the 1999 WTO negotiations.¹²⁷

9.102 Professor Robertson pointed out that one of the serious confusions in the AFTA-CER discussion is the absence of a clear definition of the type of institutional linkage under consideration. He noted:

When ASEAN industrialisation and growth were rampant and when preferences among AFTA members threatened market access for Australian and New Zealand producers, business organisations in the CER countries showed strong interest in the formation of closer links with AFTA. However, the nature of these proposed 'links' was never defined. ASEAN ministers were reluctant to go beyond trade facilitation.¹²⁸

9.103 Ms Pamela Fayle, DFAT, agreed that the agenda had focused on trade facilitation issues more than the liberalisation issues. She thought that that was partly due to a desire not to overlap with activities in APEC and WTO and other forums and not necessarily because of a reluctance or a resistance on the part of ASEAN Ministers.¹²⁹

9.104 Although the AFTA-CER link, to the moment, has concentrated on trade facilitation measures, particularly standards and conformance, it nonetheless is laying solid foundations on which to build and expand cooperation into other areas covered by the APEC agenda. In October 1999, the association moved to deepen their economic relationship and to develop a clearer understanding of their objectives with an agreement to establish a high-level AFTA/CER Task Force to look into the feasibility of establishing a free trade area by 2010. Without qualification, the Ministers asserted that the proposed free trade area should be WTO-consistent.¹³⁰ As both AFTA and CER are committed to free and open trade, they form a substantial supporting base from which APEC can push ahead with trade reform.

127 *ibid.*, p. 13.

128 Professor David Robertson, Chapter 1, 'AFTA-CER Linkages: a Beginning' to be published in volume AFTA-CER, *A Way Forward*, Allen & Unwin, Singapore, in Correspondence to the Committee, 10 February 1998.

129 DFAT, *Committee Hansard*, 30 March 1998, p. 829.

130 Joint Press Statement, the Fourth Informal Consultation between the ASEAN Economic Ministers and the Ministers from the CER Countries, 1 October 1999, Singapore, <http://www.asean.or.id/economic/aem/31/jpscerc04.htm> (14 October 1999); AFTA & CER to Investigate free Trade Area, New Zealand Executive News Release Archive, 1 October 1999, <http://www.executive.govt.nz/> (14 October 1999); and, Trade Minister Announces AFTA-CER Free Trade Taskforce, Media Release, Australian Minister for Trade, Mark Vaile, 5 October 1999, http://www.dfat.gov.au/media/releases/vaile/mvt029_99.html (14 October 1999).

ASEM

9.105 In March 1996, the inaugural Asia-Europe Meeting (ASEM) was held in Bangkok. The heads of state and government from ten Asian and 15 European nations attended the gathering. The meeting recognised ‘the need to strive for a common goal of maintaining and enhancing peace and stability, as well as creating conditions conducive for economic and social development’. The meeting forged a new comprehensive Asia-Europe Partnership for Greater Growth which aimed at strengthening links between Asia and Europe.

9.106 The meeting recognised that the economic dynamism and diversity of Asia and Europe offered great potential for synergy between the two regions. It noted that opportunities exist for the regions to expand the market for goods, capital equipment and infrastructure development projects, and to increase the flow of capital, expertise and technology.¹³¹

9.107 As well as stating its resolve to generate greater two-way trade and investment flows between Asia and Europe, the meeting agreed that the ASEM process should complement and reinforce efforts to strengthen the open and rules-based trading system embodied in the WTO. Furthermore, it agreed to undertake facilitation and improvement of customs procedures and standards conformance to promote greater trade and investment between Asia and Europe.¹³²

9.108 The meeting stressed the need to improve development cooperation between the two regions, giving priority to poverty alleviation, promoting the role of women and cooperating in the public health sector.¹³³ As stated by the Commission of the European Communities:

ASEM should primarily function as a political catalyst for achieving mutual understanding and enhanced awareness through dialogue. The key characteristics of the ASEM process include its informal nature, its high-level participation and its multi-dimensionality, and it is these which will define the added value which ASEM can offer, and on which its unique potential for reinforcing Asia-Pacific links will be based.¹³⁴

9.109 At the ASEM Economic Ministers’ Meeting in September 1997, ministers reiterated their commitment to the primacy of the multilateral trading system and emphasised its importance in meeting the twin objectives of ASEM business and economic dialogue and cooperation.¹³⁵ Seven months later, at the second Asia-Europe

131 Chairman’s Statement of the Asia-Europe Meeting, Bangkok, 2 March 1996.

132 *ibid.*

133 *ibid.*

134 Executive Summary, Commission of the European Communities, Commission Working Document, ‘Perspectives and Priorities for the ASEM Process’, Brussels, 26 June 1997.

135 Chairman’s Statement, Asia-Europe Meeting (ASEM) Economic Ministers’ Meeting, Makuhari, Japan, 27–28 September 1997, <http://www.asean.or.id/world/asemem1.htm> (21 November 1997).

Meeting in London, ASEM Leaders reaffirmed their early agreement that the ASEM process should be ‘an open and evolutionary process; enlargement should be conducted on the basis of consensus by the Heads of State and Government’.¹³⁶ They agreed to strengthen the WTO ‘as the main forum for negotiation and to provide the means for further global liberalisation of trade with the multilateral framework’.¹³⁷

9.110 Dr Elek acknowledged that ASEM could help Europe and the Asia Pacific identify their shared economic interests and to promote practical initiatives to facilitate trade and investment between and within the two regions. He suggested that it could also serve as a means to promote cooperation in the WTO to dismantle remaining border barriers to trade and investment.¹³⁸ Traditional restrictions on trade, such as tariffs or quotas are not the only strategic obstacles to economic integration and he sees ASEM as an excellent initiative by Asia to tackle some of the non-traditional barriers to trade. He envisages ASEM as evolving into a forum where the two regions can start to harmonise European standards with Asian standards in a more pragmatic, sensible way.¹³⁹ Dr Soesastro maintained that ASEM is ‘more or less an attempt to build bridges across two regions, whereas APEC is the creation of a new region’.¹⁴⁰

9.111 Dr Rikki Kersten had strong concerns about the exclusive membership on the Asian side of the linkage. She pointed out that although the overlapping and interlocking membership of ASEAN, NAFTA and CER with APEC has ‘the potential to strengthen the integration of the larger Asia-Pacific region and influence the region’s collective commitment to open multilateralism, subregional groupings like the EAEC and ASEM tend to reinforce what are essentially fading divisions between Asia and Western communities’. She submitted:

The thrust of the East Asia Economic Caucus (EAEC) and the exclusion of Australia from the Asia-Europe Meeting (ASEM) summit is that culture is a criterion for exclusion and by extension, that a functional, meaningful regional entity must be designed along the lines of race/ethnicity. This clearly goes against all that APEC stands for. APEC is a pioneering regional and multilateral entity in that it is the only one that combines geographical regions and economies in different stages of development in a forum based on equality of status and consensus.¹⁴¹

9.112 The ASEM process is significant; it is of value to East Asia in developing and maintaining open trading links with Europe. As with the AFTA-CER linkage, ASEM provides ideal opportunities for the two regions to work through and enter into

136 Chairman’s Statement, ASEM 2, The Second Asia-Europe Meeting, London, 4 April 1998.

137 *ibid.*, p. 4.

138 Dr Andrew Elek, submission no. 55, p. 8.

139 Dr Andrew Elek, *Committee Hansard*, 5 February 1998, p. 585.

140 *Committee Hansard*, 2 February 1998, p. 290.

141 Submission no. 17, p. 4.

cooperative agreements that may in turn pave the way for the steady evolution of region-wide or global agreements. The work being done in ASEM supports the commitment of APEC to build a more open and freer trading system. The issue of Australian membership is taken up later in this chapter.

9.113 The Committee has found that in the main SRTAs have supported APEC's objectives both for the region and the world economy. To date they have:

- cultivated a climate in which members are encouraged to pursue the goal of free and open trade and to participate actively in implementing measures that will further this goal;
- adopted and strengthened the rhetoric and policy agendas of trade liberalisation and have issued joint statements that instil confidence about the future development of world trade—such actions and statements lessen the fears about fragmentation and foster a general acceptance of free and open trade as a worthy goal;
- established a timetable for implementing trade reform and disseminated information about their short and long-term goals which has provided greater transparency and certainty about the direction of trade policy within the group—this works against economies renegeing on commitments and encourages other trading groups to support the multilateral trading system;
- pioneered agreements and set new benchmarks which could pave the way for other regions to follow suit;
- built on the momentum generated by the Uruguay Round and offered leadership by breaking new ground—SRTAs not only support the WTO but could also push the ambitions and the work of the WTO beyond its current boundaries; and
- implemented practical measures, particularly in trade facilitation, that showcase the real benefits to be gained from removing barriers to trade and investment.

9.114 Linkages between subregional groupings have also tended to reinforce APEC's commitment to free and open trade. Their emphasis to date on achieving mutual understanding, on consensus-building and on promoting cooperation suggest that they are preparing the groundwork that will encourage the work of SRTAs, of SRTA linkages and APEC to complement one another.

9.115 Nonetheless, the Committee feels that there is no room for complacency and recommends that the government maintain its endeavours both bilaterally and multilaterally to encourage all countries and groups of countries to pursue the APEC goal of free and open trade.

9.116 Dr Elek suggested that managing cohesion would be one of the major challenges facing APEC. He argued that subregional groupings within APEC, such as ASEAN, are likely to deepen and broaden their cooperation and that new clubs will also form in response to shared interests. He argued that the emergence of such clubs

can help accelerate the progress of region-wide cooperative arrangements as long as they take account of the interests of all participants.¹⁴²

9.117 The Committee paid close attention to Dr Elek's views and agree that members of any new regional trade agreement must act carefully to avoid harming the interests of non-members. Nevertheless, the Committee is aware of the potential of SRTAs to turn inward-looking should tensions between trading nations develop and agrees that new arrangements should be transparent, should not lead to any new forms of discrimination and should allow, if not encourage, others to join.

Australia: 'a natural partner'

9.118 The debate about the role of subregional groupings has direct relevance for Australia. As a medium sized country, geographically separate and culturally distinct from its neighbours, Australia is politically and economically sensitive to shifts in the world trading system particularly the emergence of trading arrangements in the Asia Pacific region. This report examines in particular the importance that AFTA and ASEM have for Australia.

Membership of AFTA or AFTA-CER

9.119 A number of submitters considered that the trade liberalisation process within AFTA could seriously disadvantage Australian traders. MTIA stated that Australian business people are concerned about the gap between tariffs levelled for ASEAN members and for non-members and that a priority of Australia's foreign and trade policy must be for Australia and New Zealand to obtain membership of AFTA.¹⁴³

9.120 The Department of Industry, Science and Tourism also noted that it would be an advantage for Australia to be a member of AFTA because:

...it would place Australian industry on an equal footing in competing for investment and market opportunities in the region. It would also form the basis for a strong negotiating position in persuading other countries to enter into mutually beneficial trade agreements.¹⁴⁴

9.121 Ms Fayle, DFAT, however, believed that members of ASEAN would not reach consensus and agreement on inviting Australia and New Zealand to join and that Australia is not pursuing membership at this stage. She suggested that the AFTA-CER dialogue is 'a way to keep Australia's options open in this regard'. Further, that this

142 Dr Andrew Elek, submission no. 55, p. 7.

143 Ms Vivienne Filling, *Committee Hansard*, 17 November 1997, p. 148.

144 Department of Industry, Science and Tourism, submission no. 41, p. 8.

additional layer of dialogue that Australia has with the AFTA members is quite useful in pursuing the broader aims Australia has in APEC.¹⁴⁵

9.122 Dr Soesastro, a visiting fellow to the ANU and Director, Centre for Strategic and International Studies, Jakarta, agreed. He maintained that Australia need not be concerned about being left out of ASEAN and AFTA, because AFTA 'is really becoming a very open arrangement'.¹⁴⁶ Instead, he sees the AFTA-CER association as a niche for Australia to come into the economic realm of South East Asia in a significant and important way. He thinks that from a South-East Asian perspective:

Australia is a very natural partner through which we can learn, and your experiences can also be transferred to us more readily. On the other hand, from Australia's point of view, it should be very important from a medium and longer term perspective if we can begin to harmonise our rules, regulations and so on. That is the most natural way to bring economies together.¹⁴⁷

He maintained that there is real substance to the cooperation between ASEAN and CER because of the great need on the part of South East Asian countries to 'go into areas beyond liberalisation...and to move to more essential areas of managing economies and formulating regional cooperation schemes'.¹⁴⁸

9.123 Although the Department of Industry, Science and tourism would prefer Australia to be a member of AFTA, it could see the advantages to be gained in cultivating a closer AFTA-CER association. It pointed out:

AFTA's target date for free trade is well ahead of that set by APEC. The different time frames mean that the ASEAN trading bloc countries will have a strong impact on trade and investment within the region. Countries outside the AFTA agreement (including Australia) may be disadvantaged in terms of market access and investment opportunity. Australia is looking to strengthen its ties with AFTA through the AFTA-CER dialogue process to be in a better position to access the ASEAN market. The AFTA-CER link is, therefore, an important contribution to Australia's broader APEC agenda.¹⁴⁹

9.124 MTIA, which also canvassed Australian membership of AFTA, approved of strengthening the ties between AFTA and CER. It pointed out that the most immediate threat and opportunity to market access for Australia is AFTA, and thus argued that it

145 DFAT, *Committee Hansard*, 30 March 1998, pp. 828–829.

146 Dr Hadi Soesastro, *Committee Hansard*, 2 February 1998 p. 289.

147 *ibid.*, pp. 289–90.

148 *ibid.*, p. 290.

149 Submission no. 41, p. 9.

is critical for Australia to give ‘urgent priority in its trade, foreign and economic policy to forging a link between CER and AFTA.’¹⁵⁰ It stated:

An AFTA-CER link would serve to more closely integrate Australia with a market region of primary importance in the global economy and reinforce perceptions of Australia as an integral part of the region. It would further strengthen the influence of the region on international trade and economic issues and importantly, could be expected to counter the investment flows away from Australia as a result of preferential trade liberalisation within AFTA.¹⁵¹

9.125 MTIA stressed that the private sector must take responsibility to drive an AFTA-CER free trade area and that the success of the private sector initiative depends on supportive government policy.¹⁵² It noted that the process to move ahead has already begun with the establishment of two working committees at the March 1997 meeting of ASEAN and CER business leaders.¹⁵³ MTIA has also established the ASEAN-CER Liaison Secretariat which will coordinate, under the specific ASEAN (AFTA)/CER linkages program, Australian industries’ interface with the Australian Government and the New Zealand business sector.

9.126 Professor Robertson was less enthusiastic than industry bodies about the AFTA-CER association and suggested that the AFTA-CER link offers small returns and that ASEAN concerns about political solidarity and the uncertainties about the financial crisis seem to have closed this option for the present. He acknowledged that Australia had a brief opportunity to establish economic links with South East Asia and that APEC offered a formal bridge between South East Asia and the western Pacific economies. An AFTA-CER link could be a formal foundation for that bridge.¹⁵⁴

9.127 Professor Robertson tied the importance of an AFTA-CER linkage with the geographical expansion of APEC membership in 1997 to include Russia, Peru and Vietnam. He argued that the increased membership diluted the focus of the forum in East Asia and that CER countries are becoming more isolated. Furthermore, he pointed out that ‘excluded from ASEM and likely to become a smaller voice at APEC’, AFTA-CER may well become the subject of more attention.¹⁵⁵

150 MTIA, submission no. 28, p. 10.

151 MTIA, submission to the White Paper on Foreign and Trade Policy, November 1996 in submission no. 28, p. 23.

152 MTIA, submission no. 28, p. 13.

153 *ibid.*, p. 14.

154 Professor David Robertson, A post script to ‘An APEC Postscript in *East Asian Trade after the Uruguay Round*, Cambridge University Press, 1997; Correspondence to Committee, 10 February 1998, p. 5.

155 Professor David Robertson, Chapter 1, ‘AFTA-CER Linkages: A Beginning’ to be published for volume ‘A Way Forward, ISEAS’, Allen & Unwin, Singapore in correspondence to Committee, 10 February 1998, p. 12.

9.128 The AFTA-CER linkage offers Australia and ASEAN countries practical means to improve the trading environment for business in the region, especially in the nuts and bolts area of standards and conformance, customs and quarantine and transport infrastructure. It also provides many opportunities for Australia to participate in projects that will deepen and broaden economic and technical cooperation not only between the two groups but throughout the region. It is yet another means for Australia to strengthen its credentials as a valuable partner the Asia Pacific region. The agreement reached in October 1999 to establish a taskforce to explore the feasibility of an AFTA/CER free trade area by 2010 is an encouraging indication of the commitment of both groups to build stronger economic cooperation and to support each other in achieving free and open trade and investment in the wider region.

Membership of ASEM

9.129 The Queensland Government warned that should momentum within APEC falter, Australia risks being excluded from what may emerge as the most important regional grouping—ASEM. It argued that ‘as ASEM offers opportunities for Australia to maintain engagement with key regional trading partners, efforts should be directed to seeking Australian involvement in the forum’.¹⁵⁶ Mr Matt Ngui also believed that ASEM could be the means for Australia to forge constructive ties with Europe. He stated that ASEM would allow Australia ‘to link some of the benefits of APEC to the European Community not only in terms of trade but also in terms of links in technology, education and training’.¹⁵⁷ To date, however, Australia has not been invited to join ASEM despite showing a keenness to do so.

9.130 Dr Elek suggested that our ‘grovelling and begging to be allowed in’ to ASEM was counterproductive and that Australia should be looking to rebuild its reputation as a natural member who would be ‘an asset to have in those discussions’.¹⁵⁸ DFAT pointed out that a number of the existing members of ASEM have pursued Australian membership on Australia’s behalf. Ms Fayle told the Committee:

They are very supportive of Australia joining. So it is not so much a matter of Australia grovelling or banging on the door to be let in; it is rather a number of other members of ASEM seeing benefit in Australia participating and being a member and supporting that view on our behalf.

9.131 She acknowledged that part of the strategy in convincing Asian members to allow Australia to join ASEM is for Australia to demonstrate its credentials for belonging to such regional organisations.¹⁵⁹ The next opportunity for Australia to be considered for membership of ASEM will be at the ASEM Leaders’ meeting in Seoul

156 Queensland Government, submission no. 47, p. 14.

157 *Committee Hansard*, 3 February 1998, p. 399.

158 Andrew Elek, *Committee Hansard*, 5 February 1998, p. 587.

159 DFAT, *Committee Hansard*, 30 March 1998, p. 831.

in 2000. During the Senate estimates hearings in June 1998, Mr Warner from DFAT stated that for the immediate future the department has no plans to talk to anyone in any detail about ASEM and Australia's membership. He told that Committee, 'for the moment we would be happy to sit back and look at the situation and see how views develop, then some time in the next six months or in the next year to 18 months look again at how we would approach the membership issue'.¹⁶⁰

9.132 The Committee agrees that Australian membership of ASEM is an important objective; that Australia has strong claims for membership; and that its exclusion from the group is disappointing. The Committee accepts the view that Australia should continue to demonstrate its worth as a potentially valuable participant in ASEM.

Recommendation

The Committee recommends that every endeavour should be made to build on Australia's strong reputation in the region and to further develop its standing as 'a natural partner' in the Asia Pacific basin.

Conclusion

9.133 Overall, the Committee is confident that the subregional groupings in APEC are moving in the same direction toward the promotion of free and open trade and investment. It appreciates that there are tensions between groupings and between trading partners within groups and within APEC itself that could undermine the cohesion of APEC.

160 Senate Foreign Affairs, Defence and Trade Legislation Committee, Consideration of Estimates, 10 June 1998, p. 128.

CHAPTER 10

AUSTRALIA AND APEC

Australia—not an isolated island

10.1 As a relatively small nation, Australia can best protect and promote its national interests by forming coalitions or partnerships with countries that have shared interests and common goals. To a large measure, APEC provides the ideal trading group in which Australia can pursue its economic objectives. APEC's driving principle of free and open trade complements Australia's goals. APEC embraces a trading community in which Australian businesses have already established strong links and which look to government to facilitate trade and investment. Finally, APEC also draws Australia together with like-minded economies under the one regional umbrella to advance common interests.

Australians doing business in APEC

10.2 In an era of globalisation, small and medium-sized economies, such as Australia, benefit from being part of a stable, non-discriminatory and open trading system. APEC gives Australian businesses a voice in the region and one that is helping to develop a trading network in which their businesses can grow.

10.3 In this report, the Committee has highlighted the contribution that APEC has made to the creation of a trading environment that encourages the free flow of goods, services and capital throughout the region as well as fostering a spirit of community. It has shown that APEC has an agenda and a master plan that should lead to lower tariffs; that it has implemented nuts and bolts reform in trade facilitation that are delivering real benefits to business; and that it has prepared the groundwork for further cooperative efforts in developing the regional economy.

10.4 APEC's efforts to create a free and open trading system holds great promise for Australia's economic future. The Research Institute for Asia and the Pacific argued:

APEC's steady and gradual progress in liberalising trade and facilitating investment in the region is fundamentally helping Australia improve its trade and cross-cultural relations with economies in the region. The APEC process is also strengthening Australia's economic integration into what is a dynamic growth area. The work that is currently in progress under APEC auspices will create commercial opportunities for Australia's business sector and will improve entrepreneurial skills within this culturally-diverse region.¹

1 Submission no. 17, p. 3.

10.5 A number of Australian businesses look upon APEC in particular as the most effective body able to facilitate free and open trade throughout the region. The MTIA asserted that APEC is the predominant Asia Pacific regional grouping and a major forum for advancing Australia's trade liberalisation agenda.² The Plastics and Chemicals Industries Association, looking at their specific sector, believed that 'APEC is the only game in town that allows us to get together, to discuss market liberalisation'. Mr Bryce went on to say:

If we did not have APEC...we would be still carrying on about market access, the chances of getting tariffs down and non-tariff barriers in the countries we are talking about would be negligible. This is a mechanism, and we must have it; we support it and have used it.³

10.6 Indeed, APEC is of direct and growing importance to Australia's business community. The APEC region is increasingly becoming the centre of Australian economic activity.⁴ The National Farmers Federation pointed out that APEC countries are the main destination for Australian agricultural exports but that there is much scope for future growth.⁵ Thus many of Australia's trading interests look to APEC to remove impediments to trade and investment in the region.

10.7 There also exists substantial complementarity in the economic structure and export products between North America and Australasia as one cluster, and the East Asian countries as the other. This complementarity produces a network of economic and trade links across the Pacific that are beneficial to both groups.⁶ Professor Jayasuriya pointed out:

Here is Asia basically hungry for resources and here is Australia well endowed with resources, and that underlying complementarity was always going to create a situation where our ties with Asia were going to be stronger.⁷

Australia is, of course, not just a source of raw materials but also a producer of elaborately transformed manufactures and a provider of sophisticated services in a wide range of fields.

2 MTIA, submission no. 28, p. 6.

3 *Committee Hansard*, 4 February 1998, p. 473.

4 Government of Victoria, submission no. 13, p. 1.

5 John Watson, National Farmers Federation, *Committee Hansard*, 2 February 1998, p. 330.

6 Tan Kong Yam, 'Regionalism in the Pacific Basin: ASEAN, APEC and Global Free Trade', *The Journal of Contemporary Issues in Business and Government*, vol. 2, no. 2 1996, p. 82.

7 *Committee Hansard*, 4 February 1998, p. 483.

APEC—beyond trade and investment

10.8 APEC is not only promoting the idea of free and open trade and putting in place practical measures to liberalise and facilitate trade but it also brings together diverse economies in a cooperative and consensus-building forum to discuss and work through issues of importance not only to the region but globally.

10.9 The Australian APEC Study Centre argued that APEC is the only organisation that offers Australia an institutional linkage with other countries in the Asia Pacific region. It submitted that ‘In the long run, it is essential for Australia to have itself accepted as a partner country in the wider region’.⁸ It also pointed out that APEC provides a forum for discussion—that APEC has ‘provided a way for the smaller and medium sized powers within the region to talk to each other in a way that I do not think they had done before’. Professor McKay told the Committee that APEC:

...goes further than any other organisation that I know of to overcome the problem of domination by one or two leading players.⁹

10.10 Professor Elek agreed. He regarded APEC as a very important coalition through which Australia could project its interests much more effectively than it could by itself or in combination with New Zealand.¹⁰ He pointed out that, while APEC remains a consensus-based organisation, Australia can place its ideas or proposals on the agenda without them being swamped by three or four economic giants who would otherwise make all the decisions and set the agenda.¹¹

10.11 APEC not only gives Australia a voice in the region but it helps to promote a stable and secure climate of mutual cooperation among APEC members. According to Professor Drysdale, APEC fosters political cooperation among countries of the Asia Pacific region. He argued that APEC is an umbrella under which trade, and to a lesser extent, political tensions within the Asia Pacific region are managed; that it has special potential to help improve trans-Pacific relations.¹²

10.12 Professor Jayasuriya agreed that APEC has an important role in drawing together the diverse economies in the region. He stated that ‘APEC provides a mechanism where the US at least may feel that they have a foot in this camp as well, so that Asia is not seen as a competitor but more as a partner, even though there will always be some tensions...’¹³ Mr Bijit Bora observed, ‘you cannot ignore the fact that

8 Submission no. 12, p. 4.

9 *Committee Hansard*, 4 February 1998, p. 508.

10 *Committee Hansard*, 5 February 1998, p. 583.

11 *ibid.*, p. 589.

12 Peter Drysdale ‘APEC and the WTO: Complementary or Competing?’ Paper presented to ISEAS APEC Round-table 1997, 6 August 1997, in submission no. 29, p. 236.

13 *Committee Hansard*, 4 February 1998, p. 482.

you have got leaders meeting from the largest trading countries and much of what is discussed there is not necessarily focused specifically on APEC'.¹⁴

10.13 Rodney Maddock regarded APEC's ability to ease tensions between trading partners in the Asia Pacific area as of fundamental significance to Australia's interests. He observed that APEC creates a group that meets all of Australia's basic needs in terms of trade and perceived interest. According to him:

The formation of APEC is thus good politics for Australia. It ties us more closely to our major trading partners and also develops a framework to keep the three big powers of the region talking about reducing the barriers between them. If they continue to move cooperatively to closer economic integration, the chance of economic or military confrontation between them, which would be catastrophic for Australia, is lessened. The push for free trade by the year 2020 has metaphoric rather than practical interest. It is more a symbol of what the group stands for than an explicit goal.

The APEC strategy has the effect of deepening Australian relations with Japan and China, without necessarily creating political difficulties within Australia.¹⁵

10.14 The Department of Industry, Science and Tourism also appreciated the strategic value of APEC and contended that, without APEC, Australia could be left outside the regional forums. It stated:

APEC could also act as our insurance policy against the world turning into three or four trading blocs (eg American, European and Asian) from which Australia could be excluded. APEC is unique in the sense that it gives Australia a seat in a forum which brings together the leading economies (such as the USA and Japan) and the dynamic industrialising Asian economies (such as South Korea, the ASEANs, and the 'three Chinas'). APEC is also useful in ensuring that the US remains engaged in the region on economic and trade issues.¹⁶

10.15 Alan Oxley stated succinctly, 'APEC is the key institution which binds Australia to the Asia Pacific economy'.¹⁷ In summary, Australia's then representative

14 *Committee Hansard*, 6 February 1998, p. 605.

15 Rodney Maddock, 'Trade and Trade Blocs: NAFTA, APEC and the rest', *Arena* journal, no. 4, 1994/5, pp. 31-9.

16 Department of Industry, Science and Tourism, submission No. 41, p. 11. See also comments by the Government of Victoria which argued: that 'APEC can be viewed as an important mechanism to promote regional integration of markets, given its wide and diverse membership and is potentially a significant counterweight to any resurgent protectionism in other parts of the world. Together APEC countries account for approximately 55% of total world income and 46% of global trade.' Government of Victoria, submission no. 13, p. 1.

17 *Committee Hansard*, 4 February 1998, p. 505.

on ABAC, Dr Roche, declared that APEC is central to Australia's future regional trade policy and is pivotal to Australia's global trade policy'.¹⁸ She went on to say:

APEC warrants continued high priority in view of Australia's strong and enduring national interest in a stable and prosperous Asia-Pacific region.¹⁹

Australia relies on a stable non-discriminatory multilateral trading system

10.16 Clearly, APEC is of central importance to Australia's economic development. On the practical day-to-day business level, it seeks to remove impediments to trade and investment in a region of vital importance to Australian business. As a consensus-based organisation, APEC allows the smaller economies, such as Australia, to have a say in its future and the direction of trade and investment in the region. But APEC's influence extends beyond the region.

10.17 A number of witnesses reminded the Committee that the smaller and medium-sized economies of the Asia Pacific region benefit from a global, rules-based non-discriminatory system which encourages free and open trade. Professor David Robertson noted that, as a medium-sized economy with dispersed trading concerns, Australia's interests rely on a stable system of multilateral trade agreements.²⁰ He warned that 'no regional institutional arrangement can really be a substitute for strengthening the structure of the Australian economy and maintaining its targets within the WTO'.²¹

10.18 In summing up Australia's position he stated:

Australia is being forced back on to its own resources. Unilateral liberalisation and deregulation, based on strengthening the WTO rules and disciplines, and pursuing multilateral negotiations still offers opportunities.²²

10.19 Professor Drysdale also saw Australia's economic well-being dependent on a healthy free and open world trading system.²³ MTIA agreed, it submitted:

Australia's trade policy must continue to pursue implementation of the GATT agreement through the World Trade Organisation (WTO) as a priority. Not only will failure to fully implement the Uruguay Round outcomes result in the non-materialisation of important potential gains to

18 *Committee Hansard*, 3 February 1998, p. 412.

19 *ibid.*, p. 414.

20 *Committee Hansard*, 6 March 1998, p. 741.

21 *ibid.*, p. 742.

22 Professor Robertson, 'Can the Mystery Last?', 2 February 1998, pp. 5–6. Paper received by the Committee.

23 Peter Drysdale, submission no. 29 and *Committee Hansard*, 6 March 1998, pp. 762–3.

Australia, it would effectively weaken the multilateral trading system making further liberalisation more difficult.²⁴

10.20 Professor Drysdale also recognised that Australia should 'keep focused on the big game of protecting our interest in a multilateral system and to be active in the prosecution of a new round down the track, which will help to constrain those pressures, and not to be sidelined in that process'.²⁵ He emphasised that 'our interest is to press through our role in APEC and through our positioning to develop a role in the ASEM dialogues and to develop those broader interests in those frameworks and as we can bilaterally'.²⁶

10.21 With the re-emergence of very large trans-Pacific imbalances, Professor Garnaut saw a strong WTO as Australia's safeguard. He argued that there is a danger that power and not rules would come to dominate in allocating trade shares. He went on to say:

It is a time when medium sized economic powers like Australia need rules and principles. We need the WTO to hold together, and we need to be able to go to the WTO to use the dispute processes if an outcome of confrontation and then agreement between western Pacific economies and the United States results in discriminatory arrangements. It is a time when we need more than ever the regional as well as the multilateral cooperative framework.²⁷

APEC complements the WTO

10.22 APEC is important for Australia not only in promoting free and open trade in the Asia Pacific region, but also as a force in influencing the WTO agenda and in pushing and prodding it to reach agreements. APEC had a significant role in bringing the GATT Uruguay Round to a successful conclusion and in fostering the WTO Agreement on Information Technology. The WTO's Agreement on Basic Telecommunications Services provides another example of APEC's success in mustering support in the WTO. The agreement was concluded in February 1997. Sixty-nine countries, representing 90% of international telecommunications traffic, agreed on substantial liberalisation of markets to allow service providers and investors to operate across national borders. APEC Telecommunications Working Group activities helped to garner regional support for the agreement and current APEC work is monitoring implementation of the agreement in the region. This is particularly useful in involving non-WTO members (China and Taiwan) in the WTO agenda.²⁸

24 MTIA, submission no. 28, p. 5.

25 Professor Drysdale, *Committee Hansard*, 6 March 1998, p. 763.

26 *ibid.*

27 Professor Garnaut, *Committee Hansard*, 6 March 1998, p. 762. See also Professor David Robertson, *Committee Hansard*, 6 March 1998, p. 738.

28 Department of Communications and the Arts, submission no. 42, p. 6.

10.23 APEC played a pivotal role in the successful conclusion of the Uruguay Round of GATT talks that established the WTO and a new rules-based global trading system. Unfortunately, APEC has not played a similar role in preparing for a new WTO negotiating round of trade negotiations. The absence of a strong APEC lobby at the WTO Ministerial Meeting in Seattle in November 1999 made it more difficult to avert the inconclusive outcome of the meeting, which failed to agree on the launch of a new round.

Australian leadership in APEC

10.24 Australia took a prominent role in the establishment of APEC and in its development. As APEC's objectives largely mirrored those of Australia, Australia's significant contribution to APEC's development has in turn brought its own rewards for Australia. The Australian APEC Study Centre submitted that Australia's participation in APEC offers the best chance for Australia to help shape regional development and to share the benefits of economic growth.²⁹

10.25 Dr Rikki Kirsten felt it was important for Australia to build on its contribution to APEC's development. She told the Committee:

Australia can showcase its expertise in a lot of areas in APEC. It can be technology transfer, our expertise in services, intellectual property and IT. Our capacity to train, to make a contribution to human resources development is constantly highlighted and called upon in the APEC forum. APEC opens doors for Australia that policy makers ought to walk through and activate to the greatest extent possible. For all those reasons, Australia has to date been able to have a disproportionate influence in APEC as a middle power that is Asia literate.³⁰

10.26 Mr Brent Davis, Head of International Affairs, ACCI, spoke of Australian initiative and of its involvement in APEC. He reminded the Committee that Australia is recognised as the founder of APEC:

I think we have probably got a greater responsibility to APEC than most other countries certainly than some of the smaller countries or some of the less central countries like Papua New Guinea or Chile who can see benefit in it, but they do not have our primary responsibility. I think our role in APEC is to make sure that it continues to go forward and that we show some leadership by example in some of the liberalisations.³¹

10.27 In looking to Australia's future role, Mr Matt Ngui suggested that Australia will 'increasingly have to redefine its role in APEC, because it is a major instrument in which we can express our own self-interests in the region, and also participate

29 Australian APEC Study Centre, submission no. 12, p. 3.

30 *Committee Hansard*, 6 March 1998, p. 704.

31 *Committee Hansard*, 29 September 1997, pp. 34-5.

actively in the development of the region so that we are not seen just as temporary residents of the area.³² He went on to explain:

There are lots of problems. We can see that a huge and diverse region like the Asia-Pacific obviously has very different needs and challenges, but I think we need to be there with them to actually help them resolve them. This is not only in their interest but also in our interest because we have expertise in terms of people, resources and technology which could be put at the disposal of people in the region.³³

Australia must have a clear vision

10.28 Looking at its own interests, Australia, if it is to take full advantage of its membership of APEC, must have a clear understanding of its own expectations and goals and of APEC's potential to further them. More broadly, for the mutual benefit of APEC and the nation, Australia must have a sound appreciation of, and effectively exercise, its ability to assist and to influence economies in the region.

10.29 As stated, in February 1998, by Mr Crouch, one of the Australian ABAC representatives, 'We cannot be an isolated island at the bottom of the world'.³⁴ He pointed out that the role of government of Australia is to look ahead and consider the nation's future. He told the Committee that, 'We now exist in this marketplace with 17 other nations in Asia and there will be more coming in. Therefore, for Australia to sustain a standard of living, it is necessary for us to try and identify the areas in which we are strong.' He went further:

Australia has a most wonderful manufacturing base. We have abundant energy. We have sulfur-fuel. We have a wonderful climate. We have a wonderful depth of resource in our middle management, far superior to Asian nations. We have land. We really have water. What if you said, what can government be doing to further the APEC process? The development of those individual plans for underdeveloped countries is 2020—that is 22 years away—and we should be trying to identify where this country is going over the next 20 years, regardless of who is leading it, what we can do and what resources we can give to the development of Australia to make Australia take its place as a leader in those current 18 nations.³⁵

10.30 Further underlining the argument that Australia must actively and deliberately decide upon its future place in APEC, Mr Ngui stressed the importance for Australia to establish a sharp understanding of its needs and objectives. He stated:

32 *Committee Hansard*, 3 February 1998, p. 399.

33 *ibid.*

34 *Committee Hansard*, 3 February 1998, p. 422.

35 *ibid.*, p. 423.

You cannot sit back and ask APEC what APEC can do for you...APEC is an organisation where you have to decide what you want to do and you have to get it through APEC...Whatever it is, we have to decide what we want out of the organisation before we can ask it to respond.³⁶

10.31 Highlighting this point even further, the National Farmers Federation argued that Australia needs coherent and consistent ideas but most of all leadership to keep its trade policy on track. It stated that, 'Government policy needs to be supported by a domestic consensus and then by an international consensus for good policy to be implemented.'³⁷

10.32 Professor Elek agreed with this view that Australia cannot afford to be inconsistent or indecisive. He stated, 'We are a small player in these games that it is only by having a clear headed view of what our real interests are, rather than responding to pressures, that we are going to have any credibility at all'.³⁸ With the same force as Mr Ngui and almost in the same words, he added:

We cannot just sit back and watch, otherwise we will be ignored. We are too small to just sit and watch, we need to be proactive and try to think about where APEC is going to be in four or five years time.³⁹

Dr Bora stressed that Australia 'need not be dominant, but it certainly needs to be effective'.⁴⁰

10.33 The overriding message presented by witnesses was that APEC offers Australia great opportunities for future expansion and that Australia has an important leadership role in APEC. It warned, however, that Australia needs to identify, clearly and definitely, its own needs and priorities and to set them within the overarching framework of APEC's agenda.

PBEC and PECC—the second track

10.34 If Australians are to make sound and wise decisions about what APEC can do for them and for the nation, such decisions must be well informed and well considered. Comprehensive and substantial research is fundamental to obtaining a better understanding of APEC and the potential that this forum has to advance Australia's interests and long term goals. Such knowledge is also vital in assessing the ways in which Australia can promote economic cooperation among APEC members. Without doubt, the Australian Government and business must make decisions based on a full and comprehensive understanding of Australia's interests and of APEC's

36 *ibid.*, p. 403.

37 Mr John Watson, *Committee Hansard*, 2 February 1998, p. 331.

38 *Committee Hansard*, 5 February 1998, p. 582.

39 *ibid.*, p. 589.

40 *Committee Hansard*, 6 February 1998, p. 632.

potential as a regional forum. Two of the most important institutions with an established reputation for producing high quality research are the Pacific Basin Economic Council (PBEC) and the Pacific Economic Cooperation Council (PECC).

10.35 Australia is a member of both PBEC (the PBEC Australian Committee) and PECC (AUSPECC). Four years ago AUSPECC and the PBEC Australian Committee formed a strategic alliance when the secretariats of the two bodies co-located within the Australian National University. PBEC sees itself as the 'voice of business in the Pacific' and 'stands ready to work with APEC and its individual member economies, both directly and with the APEC Business Advisory Council, to ensure that the APEC process is focused on achieving results of tangible benefit to business and all peoples of the region'.⁴¹ It is an association of senior business leaders from throughout the Pacific Basin determined to expand trade and investment through the promotion of open markets. Australia was a founding member of PBEC and is an active participant on its working committees. PBEC Australia currently has fifty members.

10.36 PECC is a tripartite organisation of academics, officials and business people. It greatly influenced the establishment and development of APEC and continues to offer substantial support. All APEC economies are members of PECC and it has observer status in APEC. PECC provides an important link through which the academic and business community feed their ideas into APEC and now forms what is termed a process of 'second track diplomacy'. It assists APEC to establish priorities and to find answers to many of the challenges facing the Asia Pacific region. For example, in 1997, one of the ABAC subcommittees, which was working on an assessment of the Manila Action Plan (MAPA), came to PECC for assistance. PECC prepared a series of briefing notes based on their analysis on MAPA contained in a book, *Perspectives on the Manila Action Plan for APEC*.

10.37 In 1995, PECC produced a comprehensive study of the liberalisation process in APEC economies and a thorough survey of impediments to trade and investment in the APEC region.⁴² In May 1998, at the APEC Finance Ministers Meeting in Canada, Ministers had constructive discussions with PECC on measures to encourage the resumption of private capital flows to countries experiencing financial difficulties in the APEC region.⁴³ During 1999, PECC completed a set of Competition Principles for the APEC region and updated its 1995 survey of impediments to trade and investment

41 Pacific Basin Economic Council, Policy Statement, 'APEC: Sharpening the Focus, Sustaining the Momentum', 1997, <http://www.pbec.org/policy/1997/endorse2.htm> (15 October 1999).

42 PECC, Bookstore I, II and III for list of publications, http://www.PECC.net/bookstore_i.htm (15 October 1999); PECC, *Milestones in APEC liberalisation: A Map of Market Opening Measures by APEC Economies*, A Report by the Pacific Economic Cooperation Council for APEC, Singapore, 1995; PECC, *Survey of Impediments to Trade and Investment in the APEC Region*, A Report by the Pacific Economic Cooperation Council for APEC, Singapore, 1995.

43 APEC, Fifth APEC Finance Ministers Meeting, 23–24 May 1998, Kananaskis, Canada.

in the APEC region. PECC also holds a number of seminars and workshops throughout the year directly connected to APEC activities.⁴⁴

10.38 In 1998, Dr Elek pointed out that PECC provides a relatively risk free venue in which to test, refine and promote ideas. He cited the following examples:

...on aviation, which is a very hard one to crack yet, very detailed discussions are going on in PECC, because we know that a much more intelligent international aviation system has to come, spelling out the nuts and bolts of it, and at least when it is politically ready we will have the framework there. Similarly with the investment agreement which was designed in the PECC, because that enabled it to have a draft to work from which did not come from any particular country.⁴⁵

10.39 Of more direct interest to the Committee is AUSPECC, because it operates under the terms of reference provided by the Australian Minister for Foreign Affairs and receives funding from DFAT. AUSPECC has an important role in supporting the work of PECC and ensuring that Australian ideas and views are taken into account. Within Australia, AUSPECC provides a valuable service in producing research material and in holding conferences. It is particularly important in bringing together representatives from business, government and academia to collaborate in research programs. Despite its reputation as a valued research organisation, AUSPECC's 1996-97 budget projections were severely reduced in the level of grant funds provided by DFAT. During 1997, AUSPECC lost its annual recurrent funding grant, which has posed a major challenge to the organisation.

10.40 Dr Findlay explained to the Committee the nature of government funding and the impact that its withdrawal will have on the organisation:

At its inception there was a grant of money which came from Foreign Affairs and Trade to support the secretariat functions and to provide a bit of support for, in particular, participants who could not easily organise their own funding to attend meetings. So we were operating on a budget of about \$100,000-plus a year for those purposes. That covered office infrastructure, staff time, travel and participation in the key PECC management meetings, and the contribution to what is called the PECC central fund which PECC itself uses to support its regional activities...as from next year there is going to be no funding at all for the AUSPECC secretariat.⁴⁶

He pointed out that DFAT would welcome proposals from AUSPECC for particular projects for which DFAT would consider funding. According to Dr Findlay, however, in the process of shifting to this alternative funding formula, it would be difficult for

44 See Pacific Economic Cooperation Council, PECC Statement to the APEC SOM II, 6-7 May 1999, Christchurch, New Zealand.

45 *Committee Hansard*, 5 February 1998, p. 600.

46 *Committee Hansard*, 6 February 1998, p. 607.

AUSPECC to maintain the overall infrastructure, and ‘that is a real struggle for us at the moment’.⁴⁷

10.41 In explaining the new financial arrangements, DFAT pointed out that the reduction in funding for AUSPECC was simply part of cutbacks taken in a general budgetary context. Mr Sparkes, Assistant Secretary, APEC Branch, DFAT conceded that members of AUSPECC were not happy about the reduced funding but added:

The point is that it has survived that withdrawal of funds and is continuing to operate, as far as we know, successfully...

In terms of a threat to its ongoing work of relevance and importance to APEC, this is a very active group of academics and a very active network, and they keep coming and talking to us about particular projects they are interested in. Where we can, we support those individual projects and, as far as we are aware, there is no immediate threat of that useful activity declining as a result of our decision to remove funding of the AUSPECC secretariat.⁴⁸

10.42 This view is not held by people directly involved in the work of AUSPECC. Dr Elek pointed out that its work was being constrained by the lack of funding. He argued that it was ‘very badly funded’ and deserved more support than it currently got.⁴⁹ According to AUSPECC’s Executive Director, ‘Our changed circumstances necessitated abruptly curtailing several activities, not because they were viewed as unimportant for our role and objectives, but simply because funding was unavailable’. In 1997, Mr Peter Jollie, the Chairman of AUSPECC, noted:

During the year, AUSPECC moved even closer in its relations with the Australian Committee of the all-business organisation PBEC. Although close relations have already existed, the vacuum left by the government’s withdrawal of funding will have serious ramifications for AUSPECC’s continued existence as an independent body.⁵⁰

10.43 Dr Findlay pointed out that the cut to funding was sending an extraordinary signal out to the region about Australia’s degree of interest in regional economic cooperation. He pointed out that the loss of core government funding makes it difficult for AUSPECC to enlist the help of the private sector:

Without that component of funding from the government, and thereby an indication of the significance to the process that we are involved in, it makes it very difficult to be credible when you go to the private sector and ask for support because the officials’ response is to say ‘Well if it’s that important

47 *ibid.*, p. 608.

48 *Committee Hansard*, 30 March 1998, p. 835.

49 *Committee Hansard*, 5 February 1998, p. 600.

50 Executive Director’s Report, Australian Pacific Economic Cooperation Committee, 10th Annual Report, 1997 Annual Report, p. 3.

the private sector will fund it.’...but they need some indication that this is a significant channel for influence and advice, and we are not getting that through this withdrawal of funding.⁵¹

10.44 Witnesses before the Committee held the view that Australia must have a clear idea of what it wants to achieve through APEC if it is to realise its ambitions in the region. To do so, government must be able to tap into high quality research which relates directly to Australia’s needs and goals in the region. At a time when there are many challenges facing the region and when Australians are uncertain and uneasy about the country’s economic future, governments and business should be able to draw on comprehensive and reliable research in mapping out strategies that will help them move ahead in the region. Government support of institutions such as AUSPECC would seem to be both an economical and wise way to produce the type of research needed for sound decision-making about Australia’s future in the region. The Committee agrees with Dr Findlay that the funding cuts to AUSPECC may discourage the involvement of business in joint research activities with PECC and that it depletes the pool of research available to government and business.

10.45 Australia has made a valuable contribution to creating a free and open trading environment in the region. Australian authorities and organisations have been able to play a prominent and important role in APEC because over the years they have built up an understanding of regional developments and of the interests of economies in the region as well as the region as a whole. Australia’s leadership role in the birth of APEC stands as a testament to the creative and constructive part Australia has taken in laying the foundations for a healthy and cooperative economic and trading system in the region.

10.46 In light of Australia’s role in APEC, and of the potential that exists for Australia to continue that role, the Committee makes a number of recommendations concerned with placing Australian decision makers in the best possible position to make informed and constructive decisions that will be of benefit to Australia and to its partners in APEC.

Recommendation

The Committee endorses the APEC Study Centre’s recommendation that ‘the Australian Parliament give priority to promoting research and international exchange activities in the academic sector to improve understanding of APEC issues’.

Recommendation

The Committee recommends that Government review the funding arrangement for AUSPECC to ensure its viability as a dynamic research organisation with an extensive network reaching into both the academic and business community and

51 *Committee Hansard*, 6 February 1998, p. 608.

to maintain and further enhance its status as a leading research body in the region.

Public education

10.47 Public education is a vital part of this overall strategy to both gather and disseminate knowledge about APEC and our region. Clearly, any decision about Australia's role in APEC should be based on a solid understanding of the community's views on and attitudes toward APEC. To formulate policy and work out strategic plans for Australia's economic future, government and business, including small business, should be able to draw on the broader community support. But as this report has shown, particularly in the section dealing with trade facilitation, knowledge about APEC varies widely throughout the country. Indeed, it would seem that many Australians are poorly informed about APEC, its objectives and how its activities are likely to affect the nation.⁵² Mr Ngui stated:

...there is not...a whole of government approach to the whole issue of educating, informing and sharing ideas about APEC, its organisations and its issues with the general public right across the spectrum. Foreign Affairs has its own responsibilities, DEETYA, has its own and Primary Industries has its own. They are all split up...

Somebody has to coordinate a program in which we can use whatever existing resources we have to get the information, to get the knowledge out a bit further than we have today.⁵³

10.48 Ms Ranald from the Public Sector Research Centre, University of New South Wales, stressed that Australia needed to accept that the WTO and APEC processes have moved beyond tariff reductions into areas of policy such as privatisation of infrastructure, investment and regulation and financial services liberalisation, and that 'these have major policy implications which largely have not been publicly debated or scrutinised before governments make commitments'.⁵⁴

10.49 Dr Roche, then an Australian representative on ABAC, believed that the general public were not interested in APEC. She maintained:

...we do not address our trade issues and our export-import issues anywhere near effectively enough in our education system. Maybe we do with those few who may make a detailed study of economics but, as a general principle, we do not do so. We need to consider a way in which we can

52 In addition to the witnesses referred to directly in this report also see comments by the following submitters indicating that APEC is poorly understood in Australia: Mr A. T. Kenos, Managing Director, Australia House Consultancy Training, submission no. 1, p. 3; Ms M. J. Doble, submission no. 10, p. 4.

53 *Committee Hansard*, 3 February 1998, p. 407.

54 *ibid.*, p. 357

integrate an understanding of Australia's place in the world, vis-à-vis our need to trade...

Much as we try, I really do not think, unless we do something outrageous, that we are attractive enough to the press to want to write regularly about APEC or about the people who represent APEC. In some ways it is a challenge to be able to find a lever to make us interesting enough for the press to write about.⁵⁵

10.50 In October 1997, DFAT conceded that it was difficult explaining an organisation like APEC to people. Ms Fayle informed the Committee that DFAT had produced and distributed widely a brochure that 'fairly simply explains the positive benefits of trade liberalisation'.⁵⁶ This brochure forms only one part of a government communication strategy. Nevertheless, Mr Peter Grey, then Australia's Ambassador to APEC, appreciated the task ahead:

There is an ongoing effort, and probably an expanding effort, to try to get out into the broader community the message about what APEC means and why it is important for Australia's future and the future of all Australians, right down to the level of schoolchildren. It is a difficult task, but quite a lot of effort is being made.⁵⁷

10.51 In 1997, the Australian APEC Study Centre⁵⁸ produced a CD-ROM teacher resource kit that was commercially marketed by RMIT Publishing. According to the Centre, they sought 'to provide accessible material which tries to explain APEC in plain language to a plain language reader'. Mr Alan Oxley, Chairman of the APEC Study Centre, pointed out that this production was only just the beginning. He went on to state that 'the community at large, despite all the high level publicity, really do not quite know what APEC is'.⁵⁹

10.52 In turning more particularly to the issue of tariffs and employment, Mr Oxley expressed concern about the confusion in the public mind over the impact of trade liberalisation on Australian jobs. He argued that the debate about tariffs and the automobile industry was something of a public policy deception; that there was a lot of nostalgia in the debate. In his view, there 'is now fair ground to suspect that the job losses were actually caused by technology rather than tariffs cuts, and if we had not had the tariff cuts to the same extent we probably would still have had the same

55 *ibid.*, p. 422.

56 Ms Pamela Fayle, *Committee Hansard*, 20 October 1997, p. 66.

57 *Committee Hansard*, 20 October 1997, p. 65.

58 The Australian APEC Study Centre is funded by the Australian Government, through the Department of Employment, Education, Training and Youth Affairs, and Monash University. APEC Leaders, at their first Meeting in 1993, adopted the Leaders' Education Initiative which aimed to create links between government, academic, private sector and broader community activity to promote awareness of the significance of APEC. APEC study centres have been established in most APEC economies.

59 *Committee Hansard*, 4 February 1998, p. 515.

degree of job losses in manufacturing because it is a world wide trend'. He went on to state:

...it does make you wonder why we are where we are with the public debate. Given the fact it is basically all in the past and I think it is about insecurity rather than unemployment, we will do what we can within our resources to try and sell to the community what APEC is about and all the processes of it, but frankly there is also a bit of a job for national leadership right now.⁶⁰

10.53 In further explaining public perceptions about APEC, Professor McKay from the APEC Study Centre suggested that there was a danger that the APEC message had been oversold, and that the 'cruder economic rationalists almost see the process as a win/win process in which everybody gains'. He maintained that the message being promoted was that there must be some short-term pain in terms of job losses, but this would eventually result in more jobs. He argued that, within the time frame relevant to most people, this was not the case. He observed bluntly:

There are winners and there are losers.

One of the things I have been trying to do in the regular meetings of the APEC centres is to put forward the idea of a regional wide project on winners and losers, and a little bit more detail about how these processes operate, who did win and who did lose and how, and what were the interactions between tariffs and technology and all those more complex kinds of things...so that we had some firm basis on which to talk to people about exactly how all this happened and some basis on which to design some sensible policies for the transitions that you mentioned: if people lose their job, what do we do about it? At the moment we do not have the firm evidence on all of that and there is a very important research job that we have to do there.⁶¹

10.54 Mr Davis, ACCI, endorsed this view about employment and trade liberalisation. However, he wanted business to be active in conveying to people the benefits and burdens of liberalisation. He told the Committee:

I think it is well recognised that the message most people want to hear is about jobs. Trade liberalisation is about winners and losers. It is about that balance and the time frame. They are difficult arguments, but I think it does behove business and governments—and I do say business first—to start to explain those. Governments can communicate to people through the media and when they go on to the stump, so to speak. But business has these people in their workplace every day of the week. They are not a captive audience, but it is a good opportunity to get out there and speak to them.⁶²

60 *ibid.*, p. 517.

61 *ibid.*, p. 518.

62 *Committee Hansard*, 29 September 1997, p. 46.

10.55 Mr Darby Higgs, Deputy Director of the Australian APEC Study Centre, suggested that the current mood in Australia is a threat to its long-term relations with APEC and the region. He argued that there was a strong inclination to put up barriers to things foreign—to halt tariff reductions, to slow migration. He stated:

The community is plainly very uneasy about its economic future and security. Political leaders in all quarters are responding to this unease by seeking to empathise with those concerns to win political advantage by doing this, rather than offering Australians a vision of a bright future which is within our grasp.

No one has questioned our full-blooded participation in APEC. But we are acting in a way which compromises our interests in APEC. APEC symbolises our future. It envisages merging Australia's market with those in the region—this means freer movement of goods and people, not less—and it envisages even closer relations with our Asian neighbours as well as the United States.

Our political leaders need to accept the challenge [and] explain to Australians why that is where our future lies, not to pander to darker fears that Australians currently harbour about the future.⁶³

In a similar vein, but looking at the broader issue of globalisation, Ms Randal spoke of people feeling disempowered and alienated by what they perceive as their inability to have any voice in decisions taken by international structures.⁶⁴

10.56 Clearly, public education about APEC in Australia is wanting. Few Australians have a sound appreciation of APEC, its activities and how such activities impact on the country. The Committee welcomes the work being done by the Australian APEC Study Centre but realises that a greater effort must be made by those involved in APEC work to convey to the Australian people the significance of APEC and its importance to Australia's future.

10.57 The Committee is further sensitive to the uncertainty that exists in the broader community about the impact of trade liberalisation and employment. Again, it urges those involved in APEC to address those fears through open and public debate and through education programs based on sound and comprehensive research. It endorses the Centre's recommendation that 'Further resources are needed to inform the broader community about the benefits of Australia's engagement with Asia...A broader information program is needed which emphasises the central role of APEC in that relationship'.⁶⁵

63 Submission no. 12, pp. 8–9.

64 *Committee Hansard*, 3 February 1998, p. 370.

65 Submission no.12, p. 12.

10.58 In October 1997, the Australian Minister for Foreign Affairs, Mr Alexander Downer, clearly stated that Australia is committed to the Asia Pacific for the long haul, and the highest priority in Australia's foreign policy 'is to make a lasting contribution to the region'.⁶⁶

10.59 In this report, the Committee has established that Australia, through its initiative, drive and expertise has on numerous occasions provided APEC with strong leadership that has carried the region closer to the goal of free and open trade and investment. Australia's continued leadership and active and constructive engagement in APEC is central to the future development of the Australian economy.

John Hogg
Chairman

66 Alexander Downer, 'Australia's Asia Pacific endeavour: speech to the Asia Society, New York, 1 October 1997.

APPENDIX 1

SUBMISSIONS AND SUPPLEMENTARY SUBMISSIONS AUTHORISED FOR PUBLICATION BY THE COMMITTEE

Amnesty International Australia (Submission 58)

AusAID (Submission 57)

Australia House Consultancy and Training (Submission 1)

Australia-Japan Research Centre, Australian National University (Submission 29)

Australian Academy of Science (Submission 34)

Australian Academy of Technological Sciences and Engineering (Submission 35)

Australian APEC Study Centre (Submission 12)

Australian Chamber of Commerce and Industry (Submission 25)

Australian Conservation Foundation (Submission 32)

Australian Council for Overseas Aid (Submission 37)

Australian Council of Trade Unions (Submission 5)

Australian Customs Service (Submission 39)

Australian Shipowners Association (Submission 20)

Australian Telecommunications Industry Association (Submission 21)

Australian Wheat Board (Submission 46)

Camilleri, Professor Joseph, La Trobe University (Submission 48)

Centre for Research Policy, University of Wollongong (Submission 18)

Commonwealth Scientific Industrial Research Organisation (CSIRO) (Submission 22)

Construction Forestry Mining Energy Union (Submission 3)

Cooperative Research Centres Association, Australian National University
(Submission 30)

Department of Administrative Services (Submission 38)

Department of Communication and the Arts (Submission 42)

Department of Employment, Education, Training and Youth Affairs (Submission 40)

Department of Foreign Affairs and Trade (Submission 19)

Department of Industry, Science and Tourism (Submission 41)

Department of Primary Industries and Energy (Submission 36)

Department of Transport and Regional Development (Submission 26)

Doble, Ms M J (Submission 10)

Dr Andrew Elek (Submission 55)

Environment Australia (Submission 43)

Foundation for Development Cooperation (Submissions 14 and 14A)

George, Dr Jim, Australian National University (Submission 45)

House, Mr Eric (Submissions 24 and 24A)

Jayasuriya, Associate Professor Sisira, La Trobe University (Submission 54)

Leaver, Mr Richard, Flinders University (Submission 56)

McCormack, Mr Denis (Submission 7)

McKinley, Dr Michael, Australian National University (Submission 44)

Mineral Policy Institute (Submission 27)

Moore, Ms Evonne (Submission 6)

MTIA–Australia’s Manufacturing Engineering & Construction Industry Association (Submission 28)

National Association of Testing Authorities Australia (Submission 23)

National Standards Commission (Submission 9)

O'Donnell, Dr C (Submissions 2, 2A and 2B)

Plastics and Chemicals Industries Association (Submission 53)

Qantas Airways Limited (Submissions 33 and 33A)

Queensland Government (Submission 47)

Ravenhill, Dr John, Australian National University (Submission 52)

Research Institute for Asia and the Pacific, University of Sydney (Submission 17)

Singh, Dr Kunwar Raj (Submission 16)

Slater, Richard J (Submission 4)

Short, Rod (Submission 11)

Snape, Professor Richard, Monash University (Submission 49)

Soesastro, Dr Hadi, Director, Centre for Strategic and International Studies, Jakarta and the Australian National University (Submission 50)

South Australian Government (Submission 51)

Standards Australia (Submission 15)

Ranald, Patricia, University of New South Wales, (Submission 8)

Victorian Government (Submission 13)

World Vision Australia (Submission 31)

SUBMISSION NOT AUTHORISED FOR RELEASE

National Farmers Federation (CONFIDENTIAL)

**WITNESSES WHO APPEARED BEFORE
THE COMMITTEE AT PUBLIC HEARINGS**

Monday, 29 September 1997

Ms Michelle Doble

Australian Academy of Science

Professor Michael Pitman, Foreign Secretary

Australian Chamber of Commerce and Industry

Mr Brent Davis, Head of International Affairs

Monday, 20 October 1997

Department of Foreign Affairs and Trade

Mr Peter Grey, Deputy Secretary and Ambassador for APEC

Mr Anthony Hely, First Assistant Secretary

Ms Pamela Fayle, First Assistant Secretary, Market
Development Division

Mr Philip Sparkes, Assistant Secretary, APEC Branch

Ms Elizabeth Schick, Director, APEC Economic and Technical
Cooperation Section

Ms Julia Feeney, Executive Officer, APEC Branch

Monday, 27 October 1997

Australian Electrical & Electronic Manufacturers' Association

Mr Alex Gosman, Executive Director

Mr Bryan Douglas, Deputy Director

Australian Customs Service

Mr Stephen Holloway, Acting National Manager, Executive Support
Branch

Mr Tim Chapman, Director, Multilateral International Section

Department of Transport and Regional Development

Mr John Bowdler, Deputy Secretary

Mr Mike Kimberlee, Director, International Projects, Federal Office of
Road Safety

Mr Tony Griffiths, Director, APEC and Multilateral Team, Trade
Coordination

Mr James Wolfe, Director, International Aviation Policy

Department of Workplace Relations and Small Business

Mr Adrian Beresford-Wylie, Team Leader, International Maritime Transport Division

Monday, 17 November 1997

Australia's Manufacturing, Engineering & Construction Industry Association (MTIA)

Ms Vivienne Filling, Principal Adviser

Australian Conservation Foundation

Ms Anna Reynolds, National Liaison Officer

Mr Mark Horstman, Research Coordinator

Department of Primary Industries and Energy

Mr Robert Alderson, First Assistant Secretary, Energy Division

Mr David Cox, Director, Environment and Trade, Fisheries and Aquaculture

Dr Dennis Gebbie, Acting First Assistant Secretary, Corporate Division

Ms Kerri Hartland, Assistant Secretary, International Energy Branch, Energy Division

Mr Rienhard Thieme, Director, APEC and Trade Policy Section, International Branch

Australian Bureau of Agricultural and Resource Economics

Mr Ivan Roberts, Senior Economist, Agriculture Branch

Monday, 24 November 1997

Department of Industry, Science and Tourism

Mr Drew Andison, Manager, Standards and Conformance Policy

Mr Michael Edwards, Director, International Section, Sport and tourism Division

Mr Bill Galway, Manager, APEC and Trade Policy Section, International Branch, Industry Policy Division

Mr Jerry William, Assistant Manager, APEC and Trade Policy

Mr Jim Wright, Head, Industry Policy Division

Department of Employment, Education, Training and Youth Affairs

Ms Jennifer Gordon, Acting First Assistant Secretary, International Division

Ms Barbara Bennett, Assistant Secretary, International Policy Branch, International Division

Ms Sara Cowan, Director, APEC, North and South Asia Section, International Division

Mr John Rowling, Assistant Secretary, Australian International Education Foundation, International Division

Department of the Environment

Mr Howard Bamsey, Deputy Secretary
 Mr Leo Cruise, Director, International Unit
 Ms Naomi Dumbrell, Policy Adviser, International Unit
 Ms Christine Ellis, Director, Environment Industries Focus Unit
 Mr Paul Pollard, Director, Environmental Economics Unit
 Ms Louise Rose, Acting Director, Water Policy Section, Biodiversity
 Group
 Ms Margaret Tailby, Director, Clean Seas Section
 Ms Wendy Taylor, Project Officer, International Unit

Monday 2 February 1998*Australian Council for Overseas Aid*

Ms Janet Hunt, Executive Director
 Dr Edna Ross, Director, Advocacy and Public Policy

Dr John Ravenhill, Australian National University

Dr Hadi Soesastro, Research School of Pacific & Asian Studies, Australian
 National University and Director, Centre for Strategic and International
 Studies, Jakarta

Professor Joseph Camilleri, La Trobe University

Commonwealth Scientific and Industrial Research Organisation

Dr Colin Adam, Deputy Chief Executive
 Dr Thelma Heyde, Principal Secretary
 Dr Barry Inglis, Director, National Measurement Laboratory,
 Telecommunications and Industrial Physics
 Mr Peter Martin, Deputy Manager, International Scientific Liaison

National Farmers' Federation

Mr Lyall Howard, Director, Trade and Quarantine
 Dr Andrew Stoeckel, Consultant
 Mr John Watson, Senior Vice President

Tuesday 3 February 1998

Dr Carol O'Donnell

Ms Patricia Ranald, University of New South Wales

Mineral Policy Institute

Mr Timothy Connor, Research Officer

Qantas Airways

Mr John Kerr, General Manager, International Relations
Mr David Callaghan, Manager, International Relations

Centre for Research Policy, Faculty of Commerce, University of Wollongong

Mr Matthias Ngui, Research Fellow

APEC Business Advisory Council

Mr Michael Crouch, AM, Australian Representative
Dr Imelda Roche, AO, Australian Representative

Standards Australia

Mr Frederick Archer, Associate Director, International and Corporate Secretariat
Mr Peter Walsh, General Manager, Standardisation Policy and Development

National Standards Commission

Mr John Birch, Executive Director

National Association of Testing Authorities

Mr Anthony Russell, Deputy Chief Executive

Construction, Forestry, Mining and Energy Union

Mr Stan Sharkey, National Secretary
Mr Robert Williams, Education Officer

Wednesday 4 February 1998*Plastics and Chemicals Industries Association*

Mr Robert Bryce, General Manager

APEC Chemical Industry Coalition Task Force

Mr Bruce McAllen, Chairman

Professor Sisira Jayasuriya, Associate Professor, School of Business, La Trobe University

Professor Richard Snape, Monash University

Australian APEC Study Centre

Mr Alan Oxley, Chairman
Professor John McKay, Director

Thursday 5 February 1998*Australian Wheat Board*

Mr Matthew Foran, Government Relations Adviser

Mr Timothy Dewan, Regional Manager Marketing for South East Asia

Australian Council of Trade Unions

Mr Tim Harcourt, Research Officer

Plastics and Chemicals Industries Association

Mr Robert Bryce,

APEC Chemical Industry Coalition Task Force

Mr Bruce McAllen, Chairman

Dr Andrew Elek

Friday 6 February 1998*AUSPECC*

Dr Christopher Findlay, Associate Professor Economics, University of Adelaide

Mr Bijit Bora, Lecturer in Economics, University of South Australia

South Australian Government

Dr David Blackstock, Senior Researcher, Premier's Office

Mr Simon Fraser, Acting Manager, Trade Policy, Department of Industry and Trade

Mr James Hallion, Executive Director, Industry Policy and Infrastructure, Department of Industry and Trade

Mr Casey Lau, Senior Manager, Office of Asian Business

Centre for Economic Studies

Professor Cliff Walsh, Executive Director

Mr Richard Leaver, Flinders University

Friday 6 March 1998

Dr Michael McKinley, Senior Lecturer, Global Politics, Department of Political Science

Research Institute for Asia and the Pacific, University of Sydney

Dr Rikki Kersten, Director

Australian Food Council

Mr Mitchell Hooke, Executive Director and CEO

Centre for Practice of International Trade
Professor David Robertson, Director

Australian-Japan Research Centre, Australian National University
Professor Peter Drysdale, Executive Director
Professor Ross Garnaut, Professor of Economics

Monday, 23 March 1998

AusAID

Dr Robert Glasser, Acting Assistant Director General, Mekong Branch
Dr Robert McGregor, Program manager, Asia Links, Asia Regional
Section, Mekong Branch

Federation of Automotive Products Manufacturers
Mr Malcolm Stewart, Director

Department of Communications and the Arts

Mr Richard Thwaites, Assistant Secretary, Trade and Development
Branch, Telecommunications Division
Mr Colin Oliver, Director, Regional Cooperation, Trade and
Development Branch

Monday, 30 March 1998

Department of Foreign Affairs and Trade

Ms Pamela Fayle, First Assistant Secretary, Market Development
Division
Mr Michael Potts, Assistant Secretary, Trade Policy Issues and
Industrials Branch
Mr Philip Sparkes, Assistant Secretary, APEC Branch
Mr Roderick Smith, Director, Regional Trade Liberalisation Section

Thursday, 18 February 1999

Department of Foreign Affairs and Trade

Ms Joanna Hewitt, Deputy Secretary and Ambassador for APEC
Ms Pamela Fayle, First Assistant Secretary, Market Development
Division
Mr Philip Sparkes, Assistant Secretary, APEC Branch
Mr Paul Comfort, Director, Trade and Investment Liberalisation Branch
Mr Mohan Mathews, Executive Officer, APEC Branch

APEC NON-BINDING INVESTMENT

PRINCIPLES

Jakarta, November 1994

In the spirit of APEC's underlying approach of open regionalism,

Recognising the importance of investment to economic development, the stimulation of growth, the creation of jobs and the flow of technology in the Asia-Pacific region,

Emphasising the importance of promoting domestic environments that are conducive to attracting foreign investment, such as stable growth with low inflation, adequate infrastructure, adequately developed human resources, and protection of intellectual property rights,

Reflecting that most APEC economies are both sources and recipients of foreign investment,

Aiming to increase investment, including investment in small and medium enterprises, and to develop supporting industries,

Acknowledging the diversity in the level and pace of development of member economies as may be reflected in their investment regimes, and committed to ongoing efforts towards the improvement and further liberalisation of their investment regimes,

Without prejudice to applicable bilateral and multilateral treaties and other international instruments,

Recognising the importance of fully implementing the Uruguay Round TRIMs Agreement,

APEC members aspire to the following non-binding principles:

Transparency

- Member economies will make all laws, regulations, administrative guidelines and policies pertaining to investment in their economies publicly available in a prompt, transparent and readily accessible manner.

Non-discrimination between source economies

- Member economies will extend to investors from any economy treatment in relation to the establishment, expansion and operation of their investments that is no less favourable than that accorded to investors from any other economy in like situations, without prejudice to relevant international obligations and principles.

National treatment

- With exceptions as provided for in domestic laws, regulations and policies, member economies will accord to foreign investors in relation to the establishment, expansion, operation and protection of their investments, treatment no less favourable than that accorded in like situations to domestic investors.

Investment incentives

- Member economies will not relax health, safety, and environmental regulations as an incentive to encourage foreign investment.

Performance requirements

- Member economies will minimise the use of performance requirements that distort or limit expansion of trade and investment.

Expropriation and compensation

- Member economies will not expropriate foreign investments or take measures that have a similar effect, except for a public purpose and on a non-discriminatory basis, in accordance with the laws of each economy and principles of international law and against the prompt payment of adequate and effective compensation.

Repatriation and convertibility

- Member economies will further liberalise towards the goal of the free and prompt transfer of funds related to foreign investment, such as profits, dividends, royalties, loan payments and liquidations, in freely convertible currency.

Settlement of disputes

- Member economies accept that disputes arising in connection with a foreign investment will be settled promptly through consultations and negotiations between the parties to the dispute or, failing this, through procedures for arbitration in accordance with members' international commitments or through other arbitration procedures acceptable to both parties.

Entry and sojourn of personnel

- Member economies will permit the temporary entry and sojourn of key foreign technical and managerial personnel for the purpose of engaging in activities connected with foreign investment, subject to relevant laws and regulations.

Avoidance of double taxation

- Member economies will endeavour to avoid double taxation related to foreign investment.

Investor behaviour

- Acceptance of foreign investment is facilitated when foreign investors abide by the host economy's laws, regulations, administrative guidelines and policies, just as domestic investors should.

Removal of barriers to capital exports

- Member economies accept that regulatory and institutional barriers to the outflow of investment will be minimised.

APPENDIX 4

Taken from Statement of the Chair, Meeting of APEC Ministers Responsible for Trade, Auckland, 29–30 June 1999.

Trade facilitation issues—

- better communicate APEC's work on trade facilitation in order to improve understanding and increase support from business and others for this work, which is important.
- improve the ease of business travel by simplifying arrangements and reducing the amount of paperwork associated with moving people on short term assignments. Urge all APEC economies to join the APEC Business Travel Card Scheme.
- Reduce the compliance costs associated with trade, which are especially severe for SMEs, through improved cooperation in such areas as customs and standards. Existing processes are duly complex and inconsistent and APEC's progress is to slow. Also cross border costs are often arbitrary, too high, changeable and not appealable.
- Modernise and harmonise customs systems across the region including by establishing electronic data interchange systems and shared data banks. Harmonise product and commodity classifications. Simplify and harmonise customs procedures, guidelines and documentation requirements. Benchmark progress against best practice standards. Again, progress is too slow.
- Improve coordination of APEC work on electronic commerce and recognise the role of the private sector in leading the work agenda in this area. Needs more effective ministerial involvement/leadership.
- There are no borders in e-commerce but there are in legal systems. APEC should intensify work on cross-border fraud and virus contamination issues associated with electronic commerce. This is an area of increasing significance and cross-border enforcement is essential
- Work towards harmonising qualifications and recognising skills acquired in the region.
- The complexity and inconsistency of tax systems is a major problem.

APPENDIX 5

Taken from Eleventh APEC Ministerial Meeting (Auckland, New Zealand, 9–10 September 1999)

ANNEX A: APEC TRADE FACILITATION ACHIEVEMENTS

- **Faster customs clearances**

Faster customs clearances through direct electronic communication with Customs authorities without paperwork.

- **More consistent customs valuations**

Standard procedures for more consistent and transparent customs valuations of traded goods.

- **Expanded E-commerce and paperless trading**

Improved electronic access to markets for business and commitment to a goal of paperless trading by 2005 for developed and 2010 for developing economies, or as soon as possible thereafter.

- **Simplified business travel**

Simpler business travel with multiple entry visas, internet visa information and visa-free short-term entry via APEC Business Travel Card.

- **Alignment of standards for food, electrical, machinery and rubber products**

Alignment of domestic standards with international standards for goods such as radios, televisions, videos, refrigerators, air-conditioners, rubber gloves and food labelling, by 2005.

- **Lower cost of trade in electrical equipment**

Lower cost of trade in electrical goods such as computers, toasters, televisions, radios and power-tools through a single test for conformity assessments.

- **Lower cost of trade in telecommunications equipment**

Lower cost of trade in telecommunications goods such as phones, faxes, modems, PABXs and radio transmitters worth an estimated \$US 50 billion per year, through a single test for conformity assessments.

- **Simplified sales of telecommunications services**

Simplified negotiation of telecommunications contracts and easier commercial access to telecommunications networks.

- **Less risk for investment in energy infrastructure**

Better informed investment decisions in energy infrastructure through the Manual of Best Practice Principles for Independent Power Producers and the Natural Gas Initiative.

- **Market access information for architects, engineers and accountants**

Instant market access information for architects, engineers and accountants.

- **Less waste in fresh seafood trade**

Less wastage and shorter transport times for fresh seafood.

- **Better Y2K preparedness**

Transparent Y2K preparedness, risk assessment and contingency planning.

- **Market access information**

Internet access to information on tariffs, investment, e-commerce, intellectual property, business travel, government procurement, business opportunities, marine ports and labour markets.

APPENDIX 6

The Asia Pacific Legal Metrology Forum

The Asia-Pacific Legal Metrology Forum (APLMF) was established in 1994 on the initiative of the Australian National Standards Commission. The forum has developed an active program that supports the APEC agenda. It seeks to establish the requirements for mutual recognition of measurements and test results and harmonising legislative and technical requirements. The APLMF attends the APEC Standards and Conformance Sub Committee meetings and is recognised by that Committee as the Specialist Regional Body (SRB) for trade and legal metrology.¹

The Asia Pacific Laboratory Accreditation Cooperation

The Asia Pacific Laboratory Accreditation Cooperation (APLAC) was established, also as an Australian initiative, to enable laboratory accreditation organisations in the region to harmonise practices and to provide assistance to each other. The majority of APEC economies are also members of APLAC.

APLAC's major aim is to provide for a multilateral mutual recognition agreement between all those accreditation bodies which can demonstrate to their peers that they meet world class standards of operation. This demonstration of competency by the accreditation bodies, according to NATA, is essential for the development of confidence in the laboratories that they accredit, and thus, confidence in the test data accompanying traded products.²

As part of an overall development plan to support the Bogor objectives to promote market access, the SCSC set an objective to establish a multilateral mutual recognition agreement within APLAC by the year 2000, with a membership of accreditation bodies in at least six, and ideally nine, member economies.³ The first step toward this goal was taken last year when five APEC countries were among the signatories to the Asia-Pacific Laboratory Accreditation Conference Mutual Recognition Arrangement. This landmark agreement was achieved largely through the leadership provided by NATA and made possible by the funding support provided by the Australian government (through DIST and AusAID).⁴ At the 1997 Ministers' Meeting in Vancouver, ministers urged additional members to participate in APLAC.

1 National Standards Commission, submission no. 9, p. 2.

2 NATA, submission no. 23, p. 4.

3 *ibid.*, p. 8.

4 *ibid.*