

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.apecsec.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*, 1996, 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.

