

## CHAPTER 9

### SUBREGIONAL GROUPINGS—STEPPING STONES OR STUMBLING BLOCKS?

9.1 In this chapter, the Committee addresses term of reference c)—Australia in relation to APEC with particular reference to ‘the importance to APEC of subregional groupings including the Association of South East Asian Nations (ASEAN), North American Free Trade Area (NAFTA), Asia-Europe Meeting (ASEM), East Asia Economic Caucus (EAEC) and Australia-New Zealand Economic Relations Agreement (CER)’.

9.2 In addition to the groupings named above, the Committee will also include in this chapter the proposed Free Trade Area of the Americas (FTAA); the ASEAN Free Trade Area (AFTA) as part of its examination of ASEAN; and the AFTA-CER linkage.

9.3 The first section of this chapter reviews the general debate on regional trade groupings and whether they support or undermine the multilateral trading system. The second section examines APEC’s objectives and assesses its role as a trading group within the global setting, particularly its relationship to the WTO. The third section analyses the importance of subregional groupings to APEC’s objective of promoting free and open trade. The last section looks at the implications that the subregional groupings in the Asia Pacific region have for Australia’s economic and trade objectives.

#### Overview of regional trading groups

9.4 Over the last decade, regional trading arrangements have proliferated. Since GATT came into force in 1947, 194 regional trading agreements have been notified to that organisation or its successor the WTO<sup>1</sup>. The extension of the European Union and APEC, the formation of NAFTA, and Mercosur, proposals for a Trans-Atlantic Free Trade Area and moves to establish a Free Trade Area of the Americas as well as a range of initiatives to set up trading groups, such as the AFTA-CER linkage, suggest that the trend toward the formation of regional trading groups has not abated. Indeed, since the creation of the WTO in 1995, 67 additional arrangements have been notified to the WTO, some of which are in the area of trade in services.<sup>2</sup>

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1 Renato Ruggiero, Director-General of the WTO, ‘Regional Initiatives, Global Impact: Cooperation and the Multilateral System’, 7 November 1997, <http://www.wto.org/wto/speeches/rome2.htm> (8 October 1999). For more recent figures see WTO, ‘Regional Integration and the Multilateral Trading System’, <http://www.WTO.org/WTO/develop/regional.htm> (8 October 1999).

2 WTO, ‘Regional Integration and the Multilateral Trading System’, Internet site: <http://www.WTO.org/WTO/develop/regional.htm> (8 October 1999).

*Regional trading groups—building blocks?*

9.5 The emergence of trading groups especially in the first half of this decade caused widespread concern. In 1990, the then Prime Minister of Singapore, Mr Lee Kuan Yew, referred to the possibility of three great trading camps forming, one centred on the Deutsche Mark in Europe, another on the United States Dollar in the Americas and the third on the Yen in Asia.<sup>3</sup> Three years later the APEC Eminent Persons Group maintained that the global trading system was at risk. They pointed to the increase in trade protection; the rapid rise in the number of trade disputes; and the escalation of inward-looking regionalism.<sup>4</sup> In particular, they noted recent signs that the European Community was turning inward and shirking its global responsibilities and that the proposed NAFTA would be a preferential trading arrangement indicating that the United States might be abdicating its traditional role as leader of the global trading system.

9.6 The fear that the world economy would fragment into trading blocs subsided with the successful conclusion of the Uruguay Round in 1994 and the establishment of the WTO. Observers began to acknowledge that regional arrangements could support multilateralism.<sup>5</sup>

9.7 In 1995, a report by the OECD suggested that the formation of regional groupings may stimulate rather than frustrate the multilateral trading system. It argued that regional trading groups could:

- reduce protectionists' pressures by acting as a model for multilateral trade and investment liberalisation—negotiations can be more easily and expeditiously managed where fewer parties are involved;
- encourage economies to be more competitive and better prepared to accept, economically and politically, multilateral liberalisations;
- contribute, through a greater awareness of interdependence, to a greater acceptance of international rules and more independent procedures for their enforcement; and
- act as a regional laboratory or test bed for multilateral agreements—regional trading groups could be seen as a preliminary step towards multilateral implementation of rules or procedures facilitating the synergy in negotiations

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3 See R.J.L. Hawke, 'APEC or regional agreements—the real implications, *Australian Quarterly*, vol. 64, no. 4 Summer 1992, pp. 339–49; see also statement by P.J. Keating, House of Representatives Debates, 23 November 1993, p. 3380.

4 *A Vision for APEC: Towards an Asia Pacific Community*, Report of the Eminent Persons Group to APEC Ministers, APEC, October, 1993, pp. 16–17; see also comments Australian Pacific Economic Cooperation Committee, 6<sup>th</sup> Report to the Australian Government, 1992, p. 2.

5 WTO, *Regionalism and the World Trading System*, WTO, Geneva, April 1995, p. 1.

and the cross-fertilisation of ideas between regional and multilateral negotiations.<sup>6</sup>

#### 9.8 Put simply by Mr Fred Bergsten:

As the urgency of competitive liberalization accelerated over the last decade or so, however, the regional approach has increasingly come to dominate the process. It simply turns out to be less time-consuming and less complicated to work out mutually agreeable arrangements with a few neighbours than with the full membership of well over 100 countries in the WTO. Moreover, regional groupings are demonstrably willing to proceed much more boldly: many of them have decided to adopt totally free trade...whereas none of the global conclaves to date have even considered such an ambitious goal.<sup>7</sup>

He further asserted that ‘the fears of some observers that regionalism would derail globalisation have been demonstrably overcome’.<sup>8</sup>

9.9 A number of witnesses appearing before the Committee shared the view that regional groups complement multilateralism. Professor Ravenhill told the Committee that there is little evidence that trading blocs have inhibited world trade. He argued that the emerging trend shows an overall movement on tariffs to be downward and that trading blocs are not encouraging foreign investors to come in behind high tariff walls. Put succinctly, the overall movement on tariffs has been downwards.<sup>9</sup> Indeed, the MTIA submitted that regional trading groups are a supplement and not an alternative to multilateralism.<sup>10</sup>

### **Regional trading groups—stumbling blocks?**

9.10 Despite the view that regional trading agreements tend to support the multilateral trading system, niggling doubts about possible long-term trends persist. There is a natural tendency for countries or economies excluded from a trading arrangement to be wary of such a group. Non-members may interpret the establishment of a trading group as an attempt to form an exclusive inward-looking body with the potential to implement discriminatory measures against them. Moves to form such trading groups could in turn erode the mutual trust necessary to underpin the maintenance of a healthy multilateral trading system and contaminate an environment conducive to free and open trade and investment.

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6 OECD, *Regional Integration and the Multilateral Trading System: Synergy and Divergence*, OECD, Paris, 1995, pp. 14, 62–5.

7 C. Fred Bergsten, ‘Competitive Liberalization and Global Free Trade: A Vision for the Early 21<sup>st</sup> Century’, APEC Working Paper 96–15, Institute for International Economics, <http://www.iie.com/9615.htm> (12 September 1997).

8 *ibid.*

9 Professor John Ravenhill, Committee *Hansard*, APEC Inquiry, 2 February 1998, p. 298.

10 MTIA, submission no. 28, p. 138.

9.11 Members of a regional trading group may develop a ‘fortress mentality’ and come to regard their strengthened regional market as a substitute for participation in the multilateral system. Also, membership of a regional trading group may lead to a greater reliance on protectionism and ultimately come to be accepted as an alternative to the global trading system. This in turn may lead to escalation in global protection if other countries retaliate by erecting barriers to trade. Thus, some commentators believe that regional trading groups, with their potential to turn protectionist and discriminatory, create a climate of fear and uncertainty that inhibits the development of an open multilateral trading system and poses a threat to the global trading economy.

9.12 Mr Robert D. Hormans, Vice Chairman of Goldmans Sachs International (1994) stated:

Unless structured to complement the global thrust for open markets, regional free-trade groupings could turn inward and erect protectionist barriers that would cripple the potential growth of the world economy. In itself, parochialism could be a source of major friction and conflict, hence the need for strong countervailing leadership during the hiatus between multilateral negotiating rounds.<sup>11</sup>

9.13 Mr Hormans noted that when competitive imports threaten a sensitive industry in a free-trade area, there is a tendency to protect that industry at the expense of outside imports. He also pointed out that foreign fears of losing regional markets may divert investment into those markets for defensive reasons; and that recessions and structural uncompetitiveness can ‘turn a trade region’s vision inward’.<sup>12</sup>

9.14 Moreover, Mr Renato Ruggiero, the Director-General of the WTO (1997), raised doubts about the motives behind the dramatic expansion of regional arrangements. He suggested that in some cases these initiatives are less about promoting regional economic efficiency or cooperation and more about securing regional preferences—‘even regional spheres of influence, in a world marked by growing competition for markets, for investments and for technology’.<sup>13</sup> He stressed the importance of ensuring that the foundation of the trading system is non-discriminatory and regionalism and multilateralism ‘converge in their goals and aspirations’.<sup>14</sup>

9.15 An OECD workshop held in 1995 added a note of caution to the view that regional trading arrangements may support the multilateral system. It accepted the strong argument that regionalism has tended to nudge forward the multilateral

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11 Robert D. Hormans, vice chairman of Goldmans Sach International, ‘Making regionalism safe’, *Global issues in transition*, No. 10, September 1994.

12 *ibid.*

13 Renato Ruggiero, Director-General of the WTO, ‘Regional Initiatives, Global Impact: Cooperation and the Multilateral System’, 7 November 1997, <http://www.WTO.org/WTO/speeches.rome2.htm>.

14 *ibid.*

process—that regionalism and multilateralism have been generally complementary. Nonetheless, some participants drew attention to the possibility that regional trading groups ‘may turn inward, whether for political or perceived economic reasons, and in such cases they may restrict the trade of third countries.’<sup>15</sup> The workshop warned that a key challenge was ‘to seek to enhance and extend the mutually reinforcing nature of this complex relationship’ and that regionalism’s largely positive contribution to date should not go unquestioned for the future.<sup>16</sup> Further, it highlighted the need for ‘continued vigilance on the impact of regional arrangements on the health of the multilateral trading system’. In summary it noted that:

multilateral surveillance of regional integration arrangements was a desirable objective, but that procedures for doing so needed refinement.<sup>17</sup>

9.16 This issue about the formation of regional trading groups and their implications for the global economy was also raised by the WTO. In its annual report for 1996, it expressed misgivings about the growth of regional trading arrangements and their compatibility with the multilateral trading system. It also took note of the emerging trend toward continent-wide free trade agreements and identified two main concerns:

- the fragmentation of the multilateral trading system; and
- the shifting of political momentum from multilateralism to regionalism.<sup>18</sup>

9.17 The WTO told its members that they were confronted with the problem of how to ensure the complementarity and mutual strengthening of regionalism and multilateralism. Accepting the irreversibility of the trend towards regionalism, the WTO established a Committee on Regional Trade Agreements in February 1996. The Committee is to ensure that regional trade agreements conform to WTO Rules and, in a wider sense, reinforce, not undermine, the multilateral system.<sup>19</sup>

9.18 Despite the force of the argument that regional trading arrangements tend to reinforce the objective of free and open trade; the underlying concern about their potential to weaken the multilateral system remains. Thus, while the debate over the impact of regionalism on the world global trading system has intensified since the 1990s, the findings, though positive, are not conclusive.<sup>20</sup>

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15 OECD, *Regionalism and its Place in the Multilateral Trading System*, OECD, Paris, 1996, p. 19.

16 *ibid.*, p. 3.

17 *ibid.*, p. 34.

18 World Trade Organization, *Annual Report 1996*, p. 141.

19 *ibid.*

20 Tan Kong Yam, ‘Regionalism in the Pacific Basin: ASEAN, APEC and Global Free Trade’, *The Journal of Contemporary Issues in Business and Government*, vol. 2, no. 2. 19096, p. 74.

## **APEC—part of the global trading system**

9.19 The debate over whether regional trading arrangements help or hinder the multilateral trading system is relevant to APEC both in the context of where it stands in the global multilateral system; and whether subgroups among its own members support its commitment to open and free trade or complicate its place in the world trading system.

### *Commitment to free and open trade in the Asia Pacific region and in the global economy*

9.20 The founding members of APEC made clear their understanding that APEC would not be a trading bloc. The Chairman in his summary of APEC's inaugural meeting in 1989 emphasised one of the core and enduring commitments undertaken by APEC members—that the continuing economic success of the region 'depends on preserving and improving the multilateral trading system through progressive enhancement of, and adherence to, the GATT framework'.<sup>21</sup> From the outset, APEC was intended to encourage regional economic cooperation in a way that would foster an open multilateral trading system. This commitment remains rock solid.

9.21 Thus, in the Seoul Declaration of 1991, in which Ministers spelt out APEC's goals, each of the four key objectives related not only to the Asia Pacific region but to the world economy as well. The objectives were:

- a) to sustain the growth and development of the region for the common good of its people and, in this way, to contribute to the growth and development of the world economy;
- b) to enhance the positive gains, both for the region and the world economy, resulting from increasing economic interdependence, including by encouraging the flow of goods, services, capital and technology;
- c) to develop and strengthen the open multilateral trading system in the interest of Asia-Pacific and all other economies; and
- d) to reduce barriers to trade in goods and services and investment among participants in a manner consistent with GATT principles, where applicable, and without detriment to other economies.<sup>22</sup>

9.22 In 1994, APEC leaders in a forthright statement again clearly placed their regional goals within the global setting. They said:

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21 Ministerial-Level Meeting Joint Statement, November 1989, Documentation, Department of Foreign Affairs and trade, Canberra, 1989, p. 14.

22 Asia-Pacific Economic Cooperation, Third Ministerial Meeting, Seoul, 12–14 November 1991.

We, the economic leaders of APEC, came together at Bogor, Indonesia today, to chart the future course of our economic cooperation which will enhance the prospects of an accelerated, balanced and equitable economic growth not only in the Asia-Pacific region, but throughout the world as well.

...

We wish to emphasize our strong opposition to the creation of an inward-looking trading block that would divert from the pursuit of global free trade. We are determined to pursue free and open trade and investment in the Asia-Pacific in a manner that will encourage and strengthen trade and investment liberalization in the world as a whole. Thus, the outcome of trade and investment liberalization in the Asia-Pacific will not only be the actual reduction of barriers among APEC economies but also between APEC economies and non-APEC economies.<sup>23</sup>

9.23 APEC members clearly felt that together they had, at various stages of difficulties during the long drawn out Uruguay Round of negotiations, assisted in securing a satisfactory conclusion to the Round.

9.24 Witnesses before the Committee agreed that APEC had helped to bring the Uruguay Round negotiations to a successful conclusion and has consistently promoted unilateral trade liberalisation and transparency in trade. They saw APEC not merely as a complementary subset of the WTO but as an effective lobby group able to assume a leadership role in the WTO and to accelerate the pace of global trade liberalisation and facilitation.

9.25 Their view was upheld by the Director-General of the WTO who acknowledged APEC's contribution to the global trading system. He told APEC Trade Ministers in 1997, 'APEC is well placed to play a leading and creative part. As a new configuration in international economic relations, APEC has played a very valuable energizing role, at the multilateral level as well as regional.'<sup>24</sup>

9.26 ABAC representatives agreed that APEC has and could serve as a 'ginger group' for multilateral agreements. They felt that the way in which the links between APEC and the WTO develop will be important; that APEC and the WTO have great potential to feed off one another.

APEC has come to realise in its short history that we have considerable influence over developments within the WTO.

APEC's less formal structure allows it to take an ambitious position on multilateral liberalisation issues and APEC leaders and ministers have made

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

24 Renato Ruggiero, Director-General of the WTO, 'Implementing the WTO Singapore Declaration in 1997 and beyond', Address to APEC Trade Ministers, Montreal, 10 May 1997, <http://www.wto.org/wto/speeches/apec2.htm>.

good use of this in their agreement to increase the pace of multilateral liberalisation.<sup>25</sup>

9.27 The Information Technology Agreement (ITA) stands as an example of APEC's ability to take a definite and successful part in developing regional agreements and in hastening the adoption of international standards. The agreement was nurtured in APEC but agreed to and implemented in the WTO.<sup>26</sup> As pointed out by the Director-General of the WTO 'no one should underestimate the role played by APEC in shaping the outcome of the Agreement.'<sup>27</sup> Alan Oxley simply remarked that APEC certainly gave the ITA a lot of horsepower in the WTO.<sup>28</sup> The WTO's Agreement on Basic Telecommunications Services provides another example of how APEC has successfully lobbied support in the WTO. Similarly, APEC initiatives in the area of customs procedures are having a much broader influence.

9.28 More recently the relationship between APEC and the WTO has been further reinforced. In 1998, APEC Ministers in Kuala Lumpur agreed to refer the early voluntary sectoral liberalisation initiative to the WTO. The push for APEC to take on a major role in developing the WTO's future agenda gathered momentum after this meeting.<sup>29</sup> The United States, in particular, throughout 1999 promoted APEC as a 'launching pad' for the new round of WTO negotiations due to commence soon after the APEC Leaders' meeting in Auckland.<sup>30</sup> The United States Ambassador Susan Esserman maintained that the Auckland 'will be a key meeting for helping to set the agenda for the WTO'.<sup>31</sup>

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25 ABAC, *Committee Hansard*, 3 February 1998, p. 413.

26 Hadi Soesastro, submission no. 50, p. 7. See also Professor John Ravenhill, *Committee Hansard*, 2 February 1998, p. 303; Statement of the Chair, APEC Trade Ministers, Montreal, Canada, 8–10 May 1997; USIA: The United States and APEC, Transcript: Deputy USTR Fisher, 16 June, Worldnet Program on APEC, <http://www.usia.gov/regional/ea/apec/fishr616.htm> (23 July 1999); Professor Snape, *Committee Hansard*, 4 February 1998, p. 495; MTIA, submission no. 28, p. 9; Renato Ruggiero, Director-General of the WTO, 'Implementing the WTO Singapore Declaration in 1997 and beyond' Address to APEC Trade Ministers, Montreal, 10 May 1997, <http://www.wto.org/wto/speeches/apec2.htm> and also Chapter 1, para 1.96.

27 Address to APEC Trade Ministers, 'Implementing the WTO Singapore Declaration in 1997 and beyond', Montreal, Canada, 10 May 1997.

28 Alan Oxley, *Committee Hansard*, 4 February 1998, p. 514.

29 See Statement of PECC Chairman Roberto R. Romulo at the Meeting of APEC Ministers Responsible for Trade, Auckland, June 1999, <http://www.PECC.net/st990630.htm> (8 October 1999).

30 USIA Washington File, EPF406, 1 July 1999, Transcript: 'Fisher very pleased with APEC Trade Ministers' Meeting'.

31 USIA: The United States and APEC, Transcript of Press Conference, Ambassador Richard W. Fisher and Ambassador Susan G. Esserman, Herald Theater, Aotea Center, Auckland, APEC Trade Ministers' Meeting, 28 June 1999, <http://www.usia.gov/regional/ea/apec/fishessr.htm> (23 July 1999).



9.29 Within APEC there is also growing support for a number of their members China, Russia, Chinese Taipei and Vietnam, to become members of the WTO.<sup>32</sup> The United States is particularly keen to see China a member of the WTO.<sup>33</sup>

9.30 Having enunciated plainly their objectives to support the multilateral trade framework, APEC members are also conscious of the trading groups that have formed within their region and of the implications that such subregional arrangements have for APEC. The subregional trading arrangements that take in the Asia Pacific region include—the North American Free Trade Agreement (NAFTA) and the proposed Free Trade Area of the Americas (FTAA), ASEAN and AFTA, the East Asian Economic Caucus (EAEC), and the Closer Economic Cooperation (CER).<sup>34</sup> Some important linkages have also been forged between regional groups such as the AFTA-CER link and the Asia Europe Meeting (ASEM). Opinion is divided about whether they pose a threat to APEC's goal of free and open trade.

9.31 In 1994, APEC's Eminent Persons Group (EPG) identified a twofold risk in the growth of subregional trading arrangements in the Asia-Pacific region. It stated:

In the short run, it creates new trade discrimination within the broader region. Hence it could generate important economic costs to non-members of the groupings and new sources of divisiveness. In the longer run, it could create new entrenched interests that would resist broader liberalization and hence impede APEC-wide (or global) agreements.

Continued subregional proliferation could thus dim the prospects for APEC (and global) liberalization. This suggests that the organization may face a narrow window of time within which to bring the trade preferences maintained within the subregional arrangements into a broader framework.

**Our recommendation that Leaders and Ministers move promptly to launch the APEC-wide initiatives proposed in this Report is reinforced by the need to accommodate the subregional groupings into broader APEC arrangements.**<sup>35</sup>

9.32 The EPG did recognise, however, a positive side to the emergence of subregional economic groups. It suggested that if these groups possessed an outward orientation, they could 'act as a powerful stimulus to move toward free trade in APEC as a whole'. It argued that this could be achieved by ensuring consistency between the

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32 Statement of PECC Chairman Roberto R. Romulo at the Meeting of APEC Ministers Responsible for Trade, Auckland, June 1999.

33 USIA: The United States and APEC, 'The Public Consensus for Trade in the Pacific', Ambassador Richard Fisher, Deputy US Trade Representative, APEC Panel, Auckland, New Zealand, 28 June 1999, <http://www.usia.gov/regional/ea/apec/fisher28.htm> (23 July 1999).

34 Six APEC economies are not members of a STRA—Japan, Korea, China, Hong Kong, Papua New Guinea.

35 *Achieving the APEC Vision: free and open trade in the Asia Pacific*, Second Report of the Eminent Persons Group, APEC Secretariat, Singapore, August, 1994, p. 30.

subregional groupings and the APEC-wide process.<sup>36</sup> APEC Leaders asked the EPG to investigate further the interrelations between APEC and the existing subregional groupings and to explore options that would promote consistency in their relations and prevent any conflict between them.<sup>37</sup>

9.33 In responding to this request, the EPG conducted further studies into subregional groupings in the APEC region. It concluded that APEC's goal of free and open trade in the region would ultimately eliminate all margins of preference that now existed between APEC economies and hence between subregional groups within APEC. The EPG, however, was concerned about the intervening period and the implications for APEC should the subregional trading arrangements (SRTAs) accelerate their own liberalisation program and should individual SRTAs establish links.

9.34 Again the underlying uncertainty about regional trading groups surfaced. The EPG accepted that the acceleration of liberalisation in SRTAs and linkages between individual SRTAs represented means through which the Bogor commitment to free trade could be pursued. It was also aware, however, that such arrangements could:

divert member economies from achieving APEC-wide free trade by offering an alternative that some might view as more comfortable and even as more desirable.<sup>38</sup>

9.35 The EPG recognised that both the acceleration of liberalisation in SRTAs and coalitions of SRTAs posed the following fundamental question for APEC—would they be trade-creating or trade-diverting? It could see that:

Both SRTA acceleration and SRTA linkage would produce the usual conflicting effects on trade flows. On the one hand, they would increase margins of preferences between members and non-members. Some trade would be diverted from non-members to members as a result. On the other hand, further integration could be expected to increase economic growth among the members and thus create additional trade opportunities for non-members.<sup>39</sup>

9.36 The APEC Economic Committee conducted a study on the impact of subregionalism on APEC in 1997. It found that SRTAs on balance have generated a net trade-creating effect, providing political momentum for the multilateral process

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36 *ibid.*

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

38 *Implementing the APEC Vision*, Third Report of the Eminent Persons Group, APEC Secretariat, Singapore, August, 1995, p. 26.

39 *ibid.*, pp. 26–7.

and creating competitive pressures amongst each other for more rapid and deeper liberalisation.<sup>40</sup>

9.37 Mr Darby Higgs, from the Australian APEC Study Centre, accepted that subregional groupings within APEC have the theoretical potential to cause trade diversion, and hence slow the pace of economic integration and the benefits that flow from it. Even so, he argued that, in practice, the influence of the subregional groupings reinforces the move towards trade liberalisation.<sup>41</sup> This view was supported by the findings of Mr Satoru Okuda from the APEC Study Center in Japan. He found that the level of trade diversion created by NAFTA countries had levelled out after 1980 and remained the same after NAFTA's launch in 1992. In addition, he found that the effect calculated for AFTA and CER was positive 'which means that they did not radiate a trade diversion effect, but instead a trade creation effect against non-members'. He concluded, 'So the enhancement of sub-regional trade agreements in APEC proceeded quite well, in light of the "principle of Open Sub-Regionalism"'.<sup>42</sup>

9.38 The second set of issues regarded as important by the EPG was the effect of SRTAs on the dynamics of trade policy. In considering whether SRTAs had the potential to either foster or inhibit the move for trade and investment liberalisation in the APEC region, the EPG concluded that there was:

no *a priori* basis on which to judge whether acceleration of SRTA liberalization and/or SRTA linkages would contribute to, or detract from, implementation of the Bogor commitment to achieve free and open trade and investment in the Asia Pacific region. Such steps could either promote or deter the process. The cardinal issue is how any such initiatives are pursued.<sup>43</sup>

9.39 In order to determine whether SRTAs were to assist APEC's progress toward free and open trade, the EPG set down a minimum requirement. It stressed that any SRTA acceleration or linkage must be fully consistent with the WTO. To fulfil this requirement, the EPG pointed out SRTAs must:

- cover substantially all trade among the economies involved;
- include substantial sectoral coverage of services; set a target date for completing the process; and

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40 APEC Economic Committee, *The Impact of Subregionalism on APEC*, APEC, November 1997, p. iii.

41 Submission no. 12, p. 6.

42 S. Okuda, 'Can a Sub-Regional Group Enhance the Tie?', in *The Deepening Economic Interdependence in the APEC Region*, K. Omura, ed., APEC Study Centre, Institute of Developing Economics, Tokyo, March 1998, pp. 67–68.

43 *Implementing the APEC Vision*, Third Report of the Eminent Persons Group, APEC Secretariat, Singapore, August 1995, p. 28.

- avoid the creation of any new barriers to non-members.<sup>44</sup>

### **Subregional groupings within APEC**

9.40 In the following section, the Committee looks at the subregional groups within APEC, their histories, objectives and the extent to which they support APEC's objectives. It establishes how firmly they have set themselves on the road to regional and global free and open trade and how willing they are to assist APEC along this route. The Committee has used as a reference the minimum requirements set down by the EPG to determine whether SRTAs complement APEC's progress toward an open trading system. Overall, though, the Committee was by evidence that showed the extent to which SRTAs are equipped or intend to minimise all sources of discrimination in trade and investment against outside economies and their endeavours to ensure that they keep in step with APEC's goals.

### *NAFTA*

9.41 Negotiations for a free trade agreement between the United States, Canada and Mexico started in Toronto, Canada in June 1991 and were completed in August 1992 in Washington D.C. The agreement, which formally established a free trade zone between the United States, Canada and Mexico, was signed on 17 December 1992 and supplemented in 1993 by the negotiation of 'side agreements' on labour, the environment, and safeguards. The respective legislatures gave their approval and NAFTA and its side agreements came into effect on 1 January 1994.<sup>45</sup>

9.42 The principal objectives of the agreement are:

- to eliminate barriers to trade in, and facilitate the cross-border movement of, goods and services among the three countries;
- to promote conditions of fair competition in the free trade area; and
- to increase substantially investment opportunities of the members.<sup>46</sup>

9.43 The NAFTA is a detailed and complicated agreement that incorporates special arrangements for some sensitive sectors such as automobiles, clothing and textiles, electronics and agricultural products. Allowing for the differences in trade patterns among the member economies, NAFTA contains separate bilateral agreements on products such as automobiles, clothing and textiles, telecommunications and agriculture. The agreement provides for the progressive elimination of tariff and non-tariff barriers between the three countries over a period of up to 15 years although it

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44 *ibid.*, p. 29.

45 Organisation of American States, 'Free Trade Agreements', <http://www.oas.org/EN/PROG/TRADE/free43e.htm> (8 November 1997)

46 Canada-Mexico-United States: North America Free Trade Agreement, Chapter One, Article 102: Objectives. Three other objectives are defined in this Article.

allows members to phase out these barriers according to different timetables. The phase-out period varies among sectors with some of the more sensitive sectors extending for the full period. NAFTA covers most products except some agricultural products. A product must satisfy the specified North American rules of origin before being eligible for tariff preference.

9.44 Professor Richard Snape described NAFTA as a very ambitious initiative, incorporating countries with markedly different living standards, legal systems and traditions. The agreement goes well beyond the traditional area of frontier barriers to goods, and draws in the deeper issues of integration. According to Professor Snape the agreement:

...attempts to lock in Mexican economic reforms, to manage trade in difficult products, to grant preferential access to each other's markets for goods, services and investment, to upgrade Mexico's intellectual property protection regime, and to secure enforcement of each country's environmental and labour laws—which in intent refers mainly to Mexico.<sup>47</sup>

9.45 The agreement is also notable for its specific inclusion of a number of new issues such as investment, financial services, competition policy, labour and the environment.<sup>48</sup> These provisions exceed the level and scope of commitments reached in the Uruguay Round agreements and could provide an incentive for other regions to push the boundaries of trade reform beyond those set down in the Uruguay Round. Of particular note is the inclusion of dispute settlement procedures designed to provide expeditious and effective means to resolve disagreements. Ms Doble noted that, 'one immediate lesson which can be learned from NAFTA is that although gains or concessions may be difficult to come by, negotiations on a range of issues is, in fact, permissible within the context of trade discussion'.<sup>49</sup>

9.46 Clearly, NAFTA is intended to promote and facilitate trade and investment flows among the three member countries. The members, however, also took cognizance of their place in the world trading system. In the preamble to the agreement they resolved:

- to contribute to the harmonious development and expansion of world trade and provide a catalyst to broader international cooperation; and
- to build on their respective rights and obligations under the *General Agreement on Tariffs and Trade* and other multilateral and bilateral instruments of cooperation.<sup>50</sup>

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47 Richard Snape, 'Which Regional Trade Agreement?', *Regional Integration and the Asia-Pacific*, Bijit Bora and Christopher Findlay, eds., Oxford University Press, 1996, pp. 55–56.

48 Bijit Bora, 'North American Free Trade Agreement', *Regional Integration and the Asia-Pacific*, Bijit Bora and Christopher Findlay, eds., Oxford University Press, 1996, p. 175.

49 Submission no. 10, p. 4.

50 Preamble to Canada–Mexico–United States: North America Free Trade Agreement.

One of their stated objectives was to ‘establish a framework for further trilateral, regional and multilateral cooperation to expand and enhance the benefits of this Agreement’.<sup>51</sup> Despite this formal commitment to support the multilateral trading system and to extend the benefits of the agreement, some observers have expressed reservations about discrimination to non-members.

9.47 In 1994, DFAT acknowledged that doubts still lingered about the future impact of NAFTA. It stressed that a key determinant of NAFTA’s impact on outside countries would be what happens to its external barriers.<sup>52</sup> Three years on, DFAT observed:

...there is only limited evidence that NAFTA members are extending the benefits of preferential arrangements. The increase in Canada’s foreign investment threshold review was a NAFTA initiative which was extended to all WTO members. Mexico has also extended NAFTA-initiated tariff cuts on machinery and electronic inputs to non-NAFTA members. However, were the MFN tariff rate for NAFTA member economies to remain at current levels of 7 percent for Canada, 13 percent for Mexico and 6 percent for the United States, there would be significant likelihood of trade diversion as tariffs are eliminated within the arrangement.<sup>53</sup>

9.48 DFAT was particularly concerned about NAFTA’s rules of origin. It noted:

...restrictive rules of origin for a number of sectors, including motor vehicles and textiles, have the potential to divert trade and investment away from excluded countries. Expansion of NAFTA to the rest of Latin America could restrict external market access to the whole Western Hemisphere.<sup>54</sup>

9.49 Similarly, the Pacific Economic Cooperation Council (PECC) accepted that one of the main potential limitations with regard to greater market access was NAFTA’s restrictive rules of origin of products, especially the specific rules for the automotive, textiles and high technology sectors. It pointed out that the difficulties of administering rules of origin could amount to administrative barriers.<sup>55</sup>

9.50 Mr Bijit Bora supported this view. He noted that the process with respect to border measures ‘is extremely limited because of the restrictive rules defining the origin of products’. He suggested that the objective in applying these rules of origin

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51 Chapter One, Article 102: Objectives, Canada-Mexico-United States: North America Free Trade Agreement.

52 East Asia Analytical Unit, DFAT, *ASEAN Free Trade Area: Trading Bloc or Building Bloc?*, AGPS, Canberra, 1994, p. 8.

53 Submission no. 19, p. 26.

54 East Asia Analytical Unit, DFAT, *ASEAN Free Trade Area: Trading Bloc or Building Bloc?*, AGPS, Canberra, 1994, p. 8.

55 PECC, *Milestones in APEC Liberalisation: A Map of Market Opening Measures by APEC Economies*, a Report by the Pacific Economic Cooperation Council for APEC, APEC Secretariat, Singapore, 1995, p. 119.

was not to liberalise trade but ‘to restrict incoming trade, to build national industries in sectors regarded as strategically important, and to encourage incoming investment’. In summary, he stated that the net effect of the rules of origin was to raise external barriers.<sup>56</sup> Mr Bora took account of the argument put forward by NAFTA members that their agreement is consistent with the GATT since it conforms to Article XXIV. Nevertheless, he argued that even those in agreement with the basic thrust of NAFTA draw attention to its rules of origin as a major flaw in the agreement. He warned that ‘a volatile political environment can alter specific provisions and even the intent of an agreement...rules of origin more than any other provision can be abused by protectionists’.<sup>57</sup>

9.51 NAFTA’s complicated and, in some sectors, most restrictive rules of origin, are not compatible with the principles of free and open trade. A WTO study found that ‘rules of origin have been recognised as being more susceptible than other, more transparent, measures to influence by domestic protectionist interests. Moreover, the administration of rules of origin imposes additional transaction costs on traders seeking to document whether they satisfy rules of origin’.<sup>58</sup>

9.52 The hub and spoke structure of NAFTA has also raised doubts about its potential to complement the world trading system. Some people see the possibility of it developing into a structure that will hinder rather than foster free and open trade.

9.53 Professor Richard Snape expressed his concern about the hub and spoke model of NAFTA and the likelihood that new members would be added by some form of ‘docking’ on to the existing agreement. He gave warning of ‘the possible development of a discriminatory hub and spoke system with the hub setting and interpreting the rules, and its subsequent evolution’.<sup>59</sup> He predicted:

The more discriminatory it becomes the greater the temptation for excluded countries to join—and the temptation could extend across the Pacific. If NAFTA is to be the hub for dockings by other countries, there will be a strong temptation for these other countries to have preferential and discriminatory trade agreements with each other also.<sup>60</sup>

9.54 Adding weight to this argument, Professor David Robertson told the Committee that the hub and spoke system of some trading groups:

...does contain the threat that the big fellows—whether it is the US or the European Union—will, in fact, use their bargaining power to extract things

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56 Bijit Bora, ‘North American Free Trade Agreement, *Regional Integration and the Asia-Pacific*, Bijit Bora and Christopher Findlay, eds., Oxford University Press, 1996, pp. 174–5.

57 *ibid.*, pp. 179–80.

58 WTO, *Regionalism and the World Trading System*, WTO, Geneva, April 1995, pp. 48–9.

59 Richard Snape, *NAFTA, the Americas, AFTA and CER: reinforcement or competition for APEC?*, Pacific Economic Paper No. 254, Australia-Japan Research Centre, April 1996, p. 11.

60 *ibid.*

from individual countries without forming an overall free trade area. They just have a centre and a lot of rays going out. So there are dangers that lurk in this hub and spoke approach to regionalism which is evident in the US.<sup>61</sup>

9.55 NAFTA has the potential to contribute to APEC's objectives of free and open trade. It is ambitious in scope and may offer leadership by providing prototypes such as its dispute settlement and environmental provisions. It has formally recognised the importance of the multilateral trading system and given a commitment to meet WTO obligations. NAFTA has set a definite timetable in which to achieve its objectives. Its complex and restrictive rules of origin, however, do not contribute to the climate of openness and cooperation conducive to building a free and open trading system and its hub and spoke structure does not fit comfortably with APEC's ethos of 'open regionalism'.

#### *The Free Trade Area of the Americas (FTAA)*

9.56 In December 1994, 34 leaders from countries in the Western Hemisphere met in Miami and resolved to start immediately to construct the 'Free Trade Area of the Americas' in which barriers to trade and investment would be eliminated.<sup>62</sup> They were committed to bringing the negotiations to a conclusion by no later than 2005 and agreed that substantial progress toward meeting this objective would be made by the end of the century.

In their plan of action, the leaders agreed:

- to work toward balanced and comprehensive agreements that maximise market openness;
- to achieve concrete progress by the end of the century;
- to further secure the observance and promotion of workers' rights; and
- to make trade liberalisation policies and environmental policies mutually supportive.<sup>63</sup>

9.57 Together with their commitment to pursue economic integration and free trade in the hemisphere, they also resolved to build on their strong commitment to multilateral rules and disciplines. They endorsed full and rapid implementation of the Uruguay Round and active multilateral negotiations in the WTO. They also included

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61 Professor David Robertson, *Committee Hansard*, 6 March 1998, p. 740.

62 Antigua and Barbuda, Argentina, Bahamas, Barbados, Belize, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Dominica, Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, St. Vincent and the Grenadines, St. Lucia, St. Kitts and Nevis, Suriname, Trinidad and Tobago, Uruguay, the United States of America, and Venezuela. Canada, Chile, Mexico and the US are members of APEC, Peru was admitted to APEC in 1998.

63 Ambassador Richard Fisher, 'The FTAA; a Commitment to Fair and Open Trade', USIA Washington File, 11 March 1998.



in this endorsement the full and prompt implementation of bilateral and subregional trade agreements, and other trade arrangements that are consistent with the provisions of GATT/WTO and that do not raise barriers to other nations.<sup>64</sup>

9.58 The extent of their commitment to WTO obligations is significant. All countries within the proposed FTAA, with the exception of the Bahamas, are members of the WTO. At the Denver Trade Ministerial Meeting in June 1995, the Ministers reiterated that the FTAA would be WTO-consistent; that it would apply WTO obligations as the baseline for negotiations.<sup>65</sup> Mr Miguel Rodriguez, Director of the Trade Unit, Organization of American States, explained that 'FTAA cannot contain measures that conflict with members' obligations to the World Trade Organization (WTO)'. In other words, he argued that 'while the FTAA should enhance the terms of trade between countries in the Americas, it cannot do so by erecting market barriers to other countries.'<sup>66</sup> His message that the FTAA was not to be an inward-looking bloc, designed to build barriers to non-participants was clear. He expected that the FTAA would endeavour to strive towards higher liberalisation that would move ahead of present global standards.<sup>67</sup> Moreover, he suggested that the FTAA could 'serve as a vehicle to "lock in" the market-opening measures of the 1990s and make a return to protectionism a less seductive option'.<sup>68</sup>

9.59 His view that FTAA members would seek to go beyond WTO commitments had support. The Deputy United States Trade Representative, Ambassador Richard Fisher, suggested that the developing countries in the hemisphere, which had been given longer periods to meet their WTO commitments, should accelerate meeting these commitments by 2000. He stated that this would allow the FTAA to be built on a WTO 'floor'. He went further by stating: 'there is no reason to negotiate an FTAA if we stop at existing WTO provisions. The FTAA will thus build well beyond the WTO and be future oriented'.<sup>69</sup>

9.60 Mr Cesar Gaviria, Secretary General, Organization of American States, argued in 1998 that the FTAA would send a strong signal to trading partners outside the region. He asserted:

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64 Organization of American States, Trade Unit, Summit of the Americas, Part II, 'Promoting Prosperity Through Economic Integration and Free Trade', Section 9.1, Plan of Action, <http://www.sice.oas.org/root/ftaa/miami/sapoae.stm> (18 August 1997).

65 Ambassador Richard Fisher, 'The FTAA; a Commitment to Fair and Open Trade', USIA Washington File, 11 March 1998.

66 Miguel Rodriguez, 'Trade Liberalisation in the Americas: Challenges and Opportunities', in USIS Washington File, 11 March 1998.

67 *ibid.*

68 Miguel Rodriguez, 'Trade Liberalisation in the Americas: Challenges and Opportunities', in USIS Washington File, 11 March 1998.

69 Ambassador Richard Fisher, 'The FTAA; a Commitment to Fair and Open Trade', USIA Washington File, 11 March 1998.

Since last year we have clearly established that the Free Trade Area of the Americas will not raise barriers to trade or investment...Rather than closing markets, they contribute to maintaining an open trading environment. Rather than curtailing investment, they cultivate them. This is not an inward-orientated integration but an endeavour aimed in part towards increased trade with the rest of the world.<sup>70</sup>

9.61 At the Santiago Summit in April 1998, the leaders of the countries of the Americas reaffirmed their determination to conclude the negotiations of the FTAA no later than 2005 and asserted that the agreement would be WTO-consistent. Mr Renato Ruggiero, Director-General of the WTO, saw promise in the development of the FTAA and was sure it would 'become a powerful force in favour of the global path when the time will be right'.<sup>71</sup>

9.62 FTAA has barely left the drawing board and it is too early to anticipate its final form. Nevertheless, its members' commitment to the WTO and to international economic cooperation suggests that as it takes shape, it will be well placed to contribute to the multilateral trading system. As with NAFTA, the FTAA is looking to address broader issues dealing with education, the environment and labour. Again it may provide innovative ideas for APEC and other regional trading groups looking to broaden their scope beyond trade and investment liberalisation.

#### *ASEAN and AFTA*

9.63 The Association of Southeast Asian Nations (ASEAN) was established on 8 August 1967 with the signing of the Bangkok Declaration. The five founding members were Indonesia, Malaysia, the Philippines, Singapore and Thailand. Brunei Darussalam joined in 1984, Vietnam in 1995, Laos and Myanmar in 1997, and Cambodia in 1999. ASEAN is a voluntary association with 'no requirement or intention to cede any powers or regulation or enforcement to any supra-national institution'. The principles underpinning ASEAN are 'openness, mutual respect, mutual benefit and evolution through encouraging a convergence of views in ways which reflect shared interests'.<sup>72</sup>

9.64 In January 1992, at the fourth ASEAN Summit in Singapore, the ASEAN Heads of Government agreed to establish a free trade area. In doing so, they acknowledged that in part they were seeking to safeguard their 'collective interests in response to the formation of large and powerful economic groupings among the

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70 Cesar Gaviria, Secretary General, Organization of American States, 'The FTAA and the Summit of the Americas Process', 18 March 1998, <http://www.oas.org/EN/PINFO/SG/318cre.htm> (10 October 1999).

71 Second Summit of the Americas, Santiago Declaration, 19 April 1998, [http://www.sice.oas.org/ftaa/santiago/sapoa\\_el.stm](http://www.sice.oas.org/ftaa/santiago/sapoa_el.stm) (11 October 1999); Renato Ruggiero, Director-General, WTO, address to the Second Summit of the Americas, Santiago de Chile, <http://www.wto.org/wto/speeches/santiago.htm> (8 October 1999).

72 Andrew Elek, Hadi Soesastro, *ASEAN, APEC and ASEM: Concentric circles and 'open clubs'*, Institute of Strategic and International Studies, Kuala Lumpur, 1997, p. 3.

developed countries...’ The agreement sought to increase ASEAN’s competitiveness as a production base geared for the world market. At the same time, ASEAN ministers recognised that a critical step toward this goal would be the liberalisation of trade in the region through the elimination of intra-regional tariffs and the removal of non-tariff barriers. But rather than forming an inward-looking trading bloc, ASEAN leaders made clear that they would uphold the principles of free and open trade and work towards maintaining and strengthening an open multilateral trading system.<sup>73</sup>

9.65 The ASEAN Free Trade Area (AFTA) officially came into operation in January 1993 and uses the Common Effective Preferential Tariff (CEPT) as the mechanism to reduce tariffs.<sup>74</sup> Under this scheme, the ASEAN countries received uniform preferential treatment in intra-ASEAN trade and were required to reduce tariffs, over a 15-year period, on all manufactured items.

9.66 The AFTA has been reviewed and renegotiated at subsequent meetings of ASEAN Economic Ministers. Most importantly, with the conclusion of the Uruguay Round, the emerging significance of APEC and the NAFTA arrangement, the original AFTA agreement had its time frame trimmed back and the scope of the agreement broadened. In September 1994, at the Fifth AFTA Council Meeting in Chiangmai, the Council decided to accelerate AFTA by reducing tariffs to 0–5 per cent within ASEAN by the year 2003 instead of 2008.<sup>75</sup> The protocol to amend the CEPT Scheme was signed in 1995. The product coverage of CEPT was broadened to include unprocessed agricultural products.<sup>76</sup>

9.67 AFTA members do not see their trading group as a protective trading bloc. It is consistent with the GATT and is intended to be an outward-looking arrangement that does not raise trade barriers against non-ASEAN economies.<sup>77</sup> CEPT allows for an ASEAN country that reduces its tariffs to 0–5 per cent on a most-favoured nation basis to enjoy the CEPT concessions from other ASEAN members. This provision facilitates both intra-ASEAN liberalisation as well as liberalisation on a most favoured

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73 Singapore Declaration of 1992, Fourth ASEAN Summit, Singapore, 28 January 1992. See also AFTA Reader, vol. 1, Questions and Answers on the CEPT for AFTA, ASEAN Secretariat, November 1993, <http://www.asean.or.id/reader/vol1/afv1q.htm>.

74 Singapore Declaration of 1992, Fourth ASEAN Summit, Singapore, 27–28 January 1992.

75 Joint Press Statement, the Fifth AFTA Council Meeting, Thailand, 21 September 1994.

76 See Protocol to Amend the Agreement on the Common Effective Preferential Tariff Scheme for the ASEAN Free Trade Area and the Protocol to Amend the Framework Agreement on Enhancing ASEAN Economic Cooperation both signed 15 December 1995 in Bangkok.

77 AFTA Reader, vol 1, Questions and Answers on the CEPT for AFTA, ASEAN Secretariat, November 1993; see also OECD, Apiradi Tantraporn, ‘ASEAN and Regional Economic Cooperation’, in *Regionalism and its place in the multilateral trade system*, OECD, Paris, 1996, pp. 49–52.

nation basis.<sup>78</sup> AFTA has a 40 per cent value-added rule of origin that allows cumulation between two or more countries within the ASEAN.<sup>79</sup>

9.68 Some witnesses were concerned that AFTA would emerge as a preferential trading group that discriminated against non-members. The Queensland Government noted: ‘all evidence points towards organisations such as AFTA and NAFTA proceeding with trade liberalisation at a pace faster than that being achieved under APEC’.<sup>80</sup> Professor Robertson argued that AFTA is a conventional regional trading arrangement that depends on trade discrimination to raise economic welfare. He suggested that AFTA is not consistent with the APEC creed of ‘open regionalism’ and could lead to complications in the long run.<sup>81</sup>

9.69 Mr Mitchell Hooke, Chief Executive Officer, Australian Food Council, spelt out the implications of trade liberalisation within AFTA. He suggested that ‘AFTA will provide for tariffs of between zero and five per cent on nearly all intra-ASEAN trade by 2003 and will establish preferential margins in the order of 55 to 60 per cent to the detriment of non-AFTA suppliers, including Australia’.<sup>82</sup> He stressed that these are ‘pretty substantial walls to be climbing over’.<sup>83</sup>

9.70 On the other hand, Dr Soesastro argued that AFTA is never going to become a closed trading bloc—‘it just cannot afford to become one’. Rather, he observed that the trend over recent years is for AFTA to act as a training ground for ASEAN countries to open up their markets. He told the Committee:

If one looks at the schedule of tariff reductions that each of the ASEAN countries has introduced, at the same time that they are reducing their AFTA preferences—the tariffs that apply to the other ASEAN countries—they are doing it unilaterally for the rest of the world as well. It could either be done at the same time or with a lag time of around six months or one year. That has become the pattern.<sup>84</sup>

9.71 Professor Ravenhill endorsed Dr Soesastro’s viewpoint—that as economies within ASEAN have attempted to meet their obligations under the AFTA, they have also tended to offer these trade concessions to non-member states as well. He noted, ‘it is not in their interests to create a closed trading bloc which accounts for only

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78 See answers to questions nos 15 and 16, *AFTA Reader*, vol 1, Questions and Answers on the CEPT for AFTA, ASEAN Secretariat, November 1993.

79 William E James, ‘APEC and Preferential Rules of Origin: Stumbling Blocks for Liberalization of Trade?’, *Journal of World Trade*, vol. 31, no. 3, June 1997, p. 126.

80 Submission no. 47, pp. 12–13.

81 Professor David Robertson, Chapter 1, ‘AFTA-CER Linkages: a Beginning’ to be published in volume AFTA-CER, *A Way Forward*, Allen & Unwin, Singapore, in correspondence to the Committee, 10 February 1998.

82 Australian Food Council, *Committee Hansard*, 6 March 1998, p. 730.

83 *ibid.*, p. 737.

84 Dr Hadi Soesastro, *Committee Hansard*, 2 February 1998, p. 289.

20 per cent of their trade'.<sup>85</sup> Professor Snape agreed with this finding. He told the Committee that most of the liberalisation that has been done in AFTA has been extended to other countries as well, 'so it has not in fact been forming a markedly preferential bloc'.<sup>86</sup>

9.72 Professor Garnaut further underlined the point that AFTA has in practice reinforced tendencies to externalise liberalisation. He maintained that 'Malaysia thoroughly and explicitly and others more or less implicitly, have minimised discrimination against outsiders as the external tariff has been reduced within AFTA'.<sup>87</sup> Thus, he asserts, AFTA can be accepted as a subset of APEC's open regionalism in the global context. DFAT also argued that, by and large, when ASEAN economies have removed or reduced their tariffs they have done so on a MFN basis. DFAT submitted:

Some AFTA economies are minimising or eliminating the preferential element of the arrangement by committing themselves to reduce their MFN tariffs at the same time as they cut preferential rates. The Philippines 1996 IAP outlines a tariff reduction scheme which will see its MFN tariff on most products fall to the preferential rate by 2004. Its intention is to have a single tariff rate for all products imported from anywhere in the world by 2005. Indonesia is committed to reducing its MFN tariff on most products to a maximum of 10 percent by 2003. Intentions in some other ASEAN economies are less clearly marked.<sup>88</sup>

9.73 Ms Fayle from DFAT explained to the Committee that the degree of preferential treatment emerging at the moment is fairly minimal, and the greater impact 'has been on investment flows rather than trade flows in the sense that international investors have often been investing in ASEAN in order to get behind the perceived preferential walls that they expect to build up rather than investing in other locations, such as Australia'.<sup>89</sup>

9.74 MTIA agreed. It argued, 'While barrier reductions under AFTA are undertaken on a preferential and reciprocal basis, it has been the case that AFTA members have in some instances also reduced external tariffs for selected items on a most favoured nation basis'. It added, however, the following qualification—'there is

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85 Professor John Ravenhill, *Committee Hansard*, 2 February 1998, p. 300.

86 Professor Snape, *Committee Hansard*, 4 February 1998, p. 500. This view was expressed by writers such as Kunio Igusa and Hiromitsu Shimada, 'AFTA and Japan' in *AFTA in the Changing International Economy*, Institute of South East Asian Studies, Singapore, 1996, p. 161.

87 Ross Garnaut, *Open Regionalism and Trade Liberalisation*, Institute of South East Asian Studies, Singapore, 1996, p. 117. The Australian Telecommunications Industry Association also indicated that a number of ASEAN countries had significantly reduced their tariffs. See *Committee Hansard*, 27 October 1997, p. 108.

88 Submission no. 19, p. 26.

89 DFAT, *Committee Hansard*, 30 March 1998, p. 828.

no guarantee that non-discriminatory reductions in tariffs will keep pace with the preferential and reciprocal reduction in tariffs under AFTA'.<sup>90</sup>

9.75 ASEAN and APEC principles are mutually reinforcing. ASEAN strongly influenced the formulation of the principles underpinning APEC and continues to support them. It made clear its understanding of APEC and of its own guiding principles when it set down terms for its participation in APEC. At the twenty-third ASEAN ministerial meeting in July 1990, ASEAN ministers asserted:

...APEC should continue to be a loose, exploratory and informal consultative process, that APEC process should not dilute ASEAN's identity and that it should not be directed towards the establishment of an economic trading bloc, as this would be contrary to ASEAN's support for the establishment of a more fair and freer multilateral trading system.<sup>91</sup>

9.76 AFTA has demonstrated that it is an effective and valuable subgroup of APEC and the world trading system by: actively promulgating its views on the benefits of free and open trade; providing leadership and support for international organisations such as the WTO; implementing practical measures that clearly demonstrate the benefits of free and open trade; and allowing some of the benefits of its agreement to extend to non-members. The AFTA agreement offers transparency and a degree of certainty that it will keep in step with APEC's progress. There is the potential for it to broaden its agenda to take up issues such as services and investment. Clearly some witnesses were unconvinced about the readiness of AFTA members to dismantle their barriers to trade but the trend so far is encouraging for free trade and investment in the region.

### *EAEC*

9.77 In December 1990, the Malaysian Prime Minister, Dr Mahathir Mohamad, proposed the formation of an East Asian Trade Group. The group was intended to counter what it perceived as protectionist trends in the European Community and in the Americas. It was to include ASEAN countries, Hong Kong, China, South Korea, Taiwan, Japan and other countries in the Indochina area.<sup>92</sup> According to Dr Mahathir, Australia and New Zealand are part of Australasia and not East Asia, and since EAEC was to be a geographical grouping they would not qualify for membership.<sup>93</sup> Although the US, Canada and Australia were to be excluded, EAEG was not envisaged as a trade bloc but rather:

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90 MTIA, submission no. 28, p. 10.

91 Joint Communique of the Twenty-third ASEAN Ministerial Meeting, Jakarta, 24–25 July 1990, <http://www.asean.or.id/politics/pramm23htm> (23 March 1998).

92 Michael G. Plummer and Pearl Imada-Iboshi, 'AFTA, NAFTA and US Interests' in Mohamed Ariff et al., *AFTA in the Changing International Economy*, Institute of South East Asian Studies, 1996, pp. 120–121.

93 Transcript of press conference by Dr Mahathir Mohamad, Osaka, 19 November 1995, <http://mitinetra.miti.gov.my/apeck/yabpm.html>.

a low level economic alliance, a mutual protection society, a pressure group or a “megaphone to magnify” the group’s voice at the Uruguay Round for instance.<sup>94</sup>

9.78 At the ASEAN Trade Ministers Meeting in Kuala Lumpur in October 1991, Ministers supported EAEC as an ASEAN initiative after Indonesia was successful in having the name changed to East Asian Economic Caucus.<sup>95</sup> In 1994, Dr Mahathir asserted that any East Asian scheme for economic cooperation, including the East Asian Economic Caucus, ‘must be wedded to this idea of open regionalism’.<sup>96</sup> He stated further, in November 1995, that EAEC ‘is merely a caucus, not a structured organisation. It will enable the countries of East Asia to discuss problems, which would then be brought to APEC’.<sup>97</sup> At the Thirtieth ASEAN Ministerial Meeting in July 1997, the Foreign Ministers approved of the increasing cooperation among ‘potential EAEC members and were hopeful that the Caucus would soon be formally instituted for the benefit of members’. It should be noted that DFAT underlined the point that EAEC has never met—‘it is a proposal that is around but there has never been a formal meeting of that particular grouping’.<sup>98</sup>

9.79 Australia and the United States objected strongly to the suggested formation of such a group, and Japan has given the proposal lukewarm support.<sup>99</sup> Dr Hadi Soesastro argued that Indonesia and Japan, both influential members of any likely EAEC, are ‘never going to accept this grouping being turned into a trading bloc. It is more or less a club’.<sup>100</sup> Thus, to date EAEC has not taken a prominent role in the region, rather it remains a consultative body under the umbrella of APEC and discussions about its role continue within and outside APEC.<sup>101</sup>

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94 Quote taken from Noordin Sophiee, ‘Misunderstanding and the East Asian Economic Group, the *New Straits Times*, 19 January 1991, reproduced in Tan Kong Yam et al., ‘ASEAN and Pacific Economic Cooperation’ in *ASEAN Economic Bulletin*, vol. 8, no. 3, p. 326.

95 Tan Kong Yam, ‘Regionalism in the Pacific Basin: ASEAN, APEC and Global Free Trade’, *The Journal of Contemporary Issues in Business and Government*, vol. 2, no. 2, 1996, p. 81.

96 Mahathir Bin Mohamad, ‘The Pacific Era—A Vision for the Future’, address 27th International General Meeting of the Pacific Basin Economic Council, Kuala Lumpur, 1994.

97 Transcript of press conference by Dr Mahathir Mohamad, Osaka, 19 November 1995, <http://mitinetra.miti.gov.my/apec/yabpm.html>. See chapter 2, ‘Asia Pacific Economic Cooperation: from Idea to 2020 Vision, paras, 2.50–2.52.

98 Joint Communique, the Thirtieth ASEAN Ministerial Meeting, 24–25 July 1997, <http://www.asean.or.id/politics/pramm30htm> (27 March 1998); *Committee Hansard*, 30 March 1998, p. 830.

99 Mari Pangestu, ‘The ASEAN: Economies; Economic and Trade Prospects in the 1990s, the *Sydney Papers Conference*, 1993, pp. 64–5; Yuichiro Nagatomi, ‘Economic Regionalism and the EAEC’, *Japan Review of International Affairs*, vol. 9, no. 3, Summer, 1995, pp. 208–9.

100 Hadi Soesastro, *Committee Hansard*, 2 February 1998, p. 290.

101 Richard Snape, Jan Adams and David Morgan, *Regional Trade Agreements: Implications and Options for Australia*, AGPS, Canberra, 1993.



9.80 A number of witnesses, however, looked warily upon the emergence of EAEC. Professor Ravenhill spoke of a fault line beginning to emerge in APEC ‘which brings on the one side the likes of the United States and Australia with a number of other countries on the other side, Malaysia in particular but...including the Philippines, and with a number of countries sitting on the sidelines and that includes Japan’.<sup>102</sup> He suggested that should tensions and differences intensify, the East Asia group in due course will become more feasible.<sup>103</sup> He further drew attention to the intentions of Dr Mahathir who, as host of the thirtieth anniversary of ASEAN, took the opportunity to invite China, Korea and Japan to the meeting. Professor Ravenhill told the Committee:

My understanding is that there was a general sense, yet to be formalised, that that summit of those countries—ASEAN plus three—will be, in due course, institutionalised. In fact, I would be very surprised if they were not to meet again later this year in 1998. So it may well be that we may be seeing slowly an East Asian economic caucus emerging but by another name and with a less formal structure. That too will have very significant implications for APEC should that come to pass.<sup>104</sup>

9.81 Professor Snape also raised concerns about tensions between some APEC members. He pointed out that should frustration grow in Asia with the trade tactics of the United States, or with a discriminatory expansion of an Americas trade bloc, North East Asia economies could show more interest in the East Asia Economic Caucus and AFTA could provide an existing trade agreement basis for development of the EAEC. A countervailing force, he pointed out, is the very concept of EAEC which may help to discourage unfriendly trade policies on the Eastern side of the Pacific.<sup>105</sup>

9.82 Professor Peter Drysdale saw the problem in light of ‘reciprocitarianism’ in Washington trade politics and how that might affect the cohesion of APEC. He submitted:

The tendency of the United States to conduct aspects of its trade relations bilaterally, and to see bilateral reciprocity in its trade negotiations, is well known. It is also understandable. For a hegemonic power—which the United States still is—there is a natural temptation to use muscle to force market opening (in the name of both self-interest and the general good). APEC has been a useful forum in which tensions between the United States and Japan, resulting from such actions by the United States, can be diffused and calmed.<sup>106</sup>

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102 Professor John Ravenhill, *Committee Hansard*, 2 February 1998, pp. 307–8.

103 *ibid.*, p. 308.

104 *ibid.*

105 Richard H. Snape, *NAFTA, the Americas, AFTA and CER: reinforcement or competition for APEC?*, Australia–Japan Research Centre, Pacific Economic Paper no. 254, April 1996, p. 9.

106 Submission no. 29, p. 9.



Should the trade tactics of the United States get out of hand, he wondered whether the resulting friction would ‘tend to fracture that APEC process into the East Asian side, strengthening the idea of an East Asian economic caucus, or whether or not it could be managed within the framework of multilateral systems and negotiations’.<sup>107</sup>

9.83 Professor Joe Camilleri argued that if EAEC were to gather momentum and attract institutional backing or infrastructure, then the world trading system would be approaching the three trade blocs idea—one based on NAFTA, one based in the European Union and one based in East Asia. He pointed out:

APEC was meant to be an answer to that question by locking in the NAFTA countries and this potential East Asian economic grouping into one where their differences and competing interests would somehow be negotiated and reconciled.<sup>108</sup>

He maintained that APEC is ‘first and foremost an OECD edifice’; that APEC reflects the perspectives and priorities of advanced industrial economies. He stated that by contrast ASEAN bears very much the imprint of the newly industrialising and less developed societies of the region. He suggested that the friction that has arisen in response to the Malaysian proposal for an East Asia economic grouping is ‘but the symptom of a deeper but as yet poorly articulated fault line’.<sup>109</sup>

9.84 At the moment EAEC does not pose a threat to APEC—it is not a formal trading group and it has not formally met. Even so, some witnesses view it as a storm cloud and a potential source of discord in APEC. But EAEC is more likely to react to shifts in the United States’ trade policy. Should NAFTA become a closed trading bloc or the United States favour a more protectionist policy, Asian economies, which view EAEC as an ‘insurance policy’, may look to EAEC as a ‘fall back option’.<sup>110</sup> Thus, EAEC continues to be significant ‘conceptually if not in form’.<sup>111</sup>

### *CER*

9.85 The Closer Economic Relations Agreement between Australia and New Zealand (CER also known as ANZCERTA) came into effect on 1 January 1983. It replaced the New Zealand Australia Free Trade Agreement (NAFTA) which had been in operation since 1 January 1966. CER is a free trade area with a clearly stated

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

108 *Committee Hansard*, 2 February 1998, p. 317.

109 Professor Joseph Camilleri, submission no. 48, p. 3.

110 Mari Pangestu, ‘The ASEAN: Economies; Economic and Trade Prospects in the 1990s’, the *Sydney Papers Conference*, 1993, pp. 64–5.

111 Michael G. Plummer and Pearl Imada-Iboshi, ‘AFTA, NAFTA and US Interests’ in Mohamed Ariff et al., *AFTA in the Changing International Economy*, Institute of South East Asian Studies, 1996, pp. 120–121.

objective of removing all border restrictions on trade in goods. The objectives of CER as given in Article 1 are:

- to strengthen the broader relationship between Australia and New Zealand;
- to develop closer economic relations between the Member States through a mutually beneficial expansion of free trade between New Zealand and Australia ;
- to eliminate barriers to trade between Australia and New Zealand in a gradual and progressive manner under an agreed timetable and with a minimum of disruption; and
- to develop trade between New Zealand and Australia under conditions of fair competition.<sup>112</sup>

9.86 In the preamble to the agreement, both countries declared that the free trade provisions are part of a more fundamental desire to maintain closer economic relations and to strengthen and foster links and cooperation in fields such as investment, marketing, movement of people, tourism and transport. They believed that a closer economic relationship would lead ‘to a more effective use of resources and an increased capacity to contribute to the development of the region through closer economic and trading links with other countries, particularly those of the South Pacific and South East Asia’. Both countries also acknowledged their rights and obligations under the GATT.<sup>113</sup>

9.87 In a joint communique issued in 1985 after a CER ministerial meeting, ministers emphasised that the agreement was outward-looking and established a basis from which closer economic relationship could be advanced to the benefit of both countries and the region.<sup>114</sup>

9.88 Although some areas of the agreement could be further improved, CER has been a notable success and provides a model which others may wish to follow. A study undertaken for the Committee for Economic Development of Australia detailed the progress made to date as follows:

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112 Article 1, Objectives, Australia and New Zealand Closer Economic Relations—Trade Agreement, AGPS, Canberra, 1983.

113 Preamble, Australia and New Zealand Closer Economic Relations—Trade Agreement, AGPS, Canberra, 1983, pp. 5–6.

114 Australia New Zealand Closer Economic Relations Ministerial Meeting, Canberra, 15–16 August 1985; Joint Communique in *CER Future Progress*, Papers relating to the Australia-New Zealand Closer Economic Relations Ministerial Meeting, Canberra, 15–16 August, Office of New Zealand Relations, Australian Department of Trade, p. 3.

Free trade in goods	Achieved by CER in 1990
Free trade in services	Promising beginning made in 1990, and much progress since then, though serious difficulties now being experienced in a small number of sensitive service sectors
Free movement of labour	Traditional feature of trans-Tasman relations covered by the Trans-Tasman Travel Arrangements
Free movement of capital	Significant reduction in impediments resulting from unilateral liberalisation by each partner, but no specific bilateral agreement to remove remaining impediments. <sup>115</sup>

9.89 In addition, CER has made significant headway in removing non-tariff barriers to trade and investment flows. Marked progress has also been made in areas such as liberalisation and integration of government purchasing procedures, harmonisation of standards, conformance procedures and aspects of business law; streamlining and harmonisation of customs procedures; and agreement to refrain from direct government supports. The replacement of anti-dumping regulations by harmonised provisions in relevant sections of the two countries' competition laws was an innovative move.<sup>116</sup> CER applies rules of origin which require a 50 per cent domestic content test.<sup>117</sup>

9.90 Another feature that marks CER as a progressive regional trading arrangement is the tendency whereby bilateral liberalisation within CER has been accompanied in both Australia and New Zealand by progressive unilateral reduction of trade impediments against third countries. According to Professor Lloyd:

CER is the most outstanding example of an open regional trading arrangement. The success of CER prepared the way for unilateral liberalisation of trade in goods and services with third countries on a most favoured nation (MFN) basis.

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115 P.J. Lloyd, *Completing CER*, Report of a CEDA/Australian APEC Study Centre Round-table on the Closer Economic Relations Trade Agreement, CEDA Information Paper No. 52, CEDA, Melbourne, August 1997, p. 1. Alan Oxley noted that free movement of labour had been achieved in CER but not in the areas of the free movement of capital and services. Submission no. 12, pp. 6–7.

116 *ibid.*, p. 2.

117 William E. James, 'APEC and Preferential Rules of Origin: Stumbling Blocks for Liberalization of Trade?', *Journal of World Trade*, vol. 3, no. 3, June 1997, p. 126. PECC, *Milestones in APEC Liberalisation: A Map of Market Opening Measures by APEC Economies*, a Report by the Pacific Economic Cooperation Council for APEC, APEC Secretariat, Singapore, 1995, p. 107 stated: '...goods partly manufactured in either Australia or New Zealand are exempt from import duties if the last process of manufacture is performed in one of the two members and the expenditure on materials, labour and overhead is not less than 50 per cent of the factory or works cost of goods in their final stage. The definition of expenditures and costs are clearly specified'.

9.91 In 1999, Australia and New Zealand established a Joint Prime Ministerial Task Force on Bilateral Economic Relations to examine ways to build on the strong economic foundation already existing through CER. In August 1999, both countries discussed broadening the scope of the agreement and agreed to consider extending the agreement to other countries or regional groups.<sup>118</sup>

9.92 CER has also created a climate that has generated within business a sound appreciation of the benefits to be obtained from free and open trade. PECC concluded that ‘the demonstrated success of ANZCERTA and of the ability of firms to gain export experience and to compete in export markets through expansion of trans-Tasman trade has had a significant effect in shifting the balance of business opinion in both economies to take a more favourable view of trade liberalisation and deregulation’.<sup>119</sup>

9.93 CER supports APEC objectives:

- it covers a comprehensive range of products and services;
- its rules of origin are straightforward; it does not seek to create any new forms of discrimination against a third country,
- it has demonstrated a preparedness to break down existing barriers to trade and investment for non-members; and
- it has established a clear schedule for trade liberalisation which allows for scrutiny and transparency.

### **SRTA linkages**

9.94 Two major linkages involving APEC SRTAs have been initiated—the AFTA-CER linkage and the Asia-Europe Meeting (ASEM). One of the main objectives for establishing linkages between regions would be to find ways of tapping into the differing strengths and comparative advantages of both regions for their mutual benefit. Such an association enables the two regions to promote themselves as a cohesive and dynamic economic force, and to boost their economic growth and development. Regional linkages provide an ideal training ground on which to trial an initiative.

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118 P.J. Lloyd, *Completing CER*, Report of a CEDA/Australian APEC Study Centre Round-table on the Closer Economic Relations Trade Agreement, CEDA Information Paper No. 52, CEDA, Melbourne, August 1997, pp. 2–3. See also PECC, *Milestones in APEC Liberalisation: A Map of Market Opening Measures by APEC Economies*, a Report by the Pacific Economic Cooperation Council for APEC, APEC Secretariat, Singapore, 1995, p. 110; Australia/New Zealand Communiqué on the CER Task Force, New Zealand Executive Government News Release Archive, 4 August 1999; and, Trade Minister Welcomes Constructive Approach to CER Extension, New Zealand Executive Government News Release Archive, 4 August 1999, <http://www.executive.govt.nz/> (24 September 1999).

119 PECC, *Milestones in APEC Liberalisation: A Map of Market Opening Measures by APEC Economies*, a Report by the Pacific Economic Cooperation Council for APEC, APEC Secretariat, Singapore, 1995, p. 110.

9.95 Dr Elek recognised that linking the preferential trading arrangements contained in existing subregional agreements would require substantial and difficult negotiations and create new sources of discrimination, division and tension among APEC members. Nevertheless he could see the potential in initiating fruitful links between existing groups. He maintained:

...such links could extend the understandings reached in each sub-regional arrangement on issues such as international investment, dispute settlements and some product standards. Correspondingly, it is feasible to consider the extension of such understandings to the whole region, based on those already contained in some current agreements, adapting them as necessary to conform to the principles of transparency, non-discrimination and national treatment.<sup>120</sup>

#### *AFTA-CER*

9.96 The proposal for an AFTA-CER link has recently been explored. On 9 September 1995 at an informal consultation between the ASEAN Economic Ministers and Ministers from the CER countries, Ministers reaffirmed their commitment to the multilateral trading system. They also agreed on the need for both regional arrangements to reinforce the process of liberalisation within the WTO framework. They agreed to establish a link between the two regions promoting the 'open regionalism' concept of AFTA and CER. The Ministers anticipated that the ASEAN-CER linkage should 'provide tangible benefits to their business communities and would build upon existing complementarities between the two free trade areas'. It was intended that the linkage would focus on practical, business-oriented ways to remove impediments to doing trade and business between the two regions and lead to greater trade and investment flows between them.<sup>121</sup>

9.97 The ministerial consultations are the nucleus of the AFTA-CER linkage. They provide a valuable opportunity for the Ministers to exchange views on a range of regional and global issues, to establish priorities for their association and to determine the future direction of the linkage. At the second informal consultations between Economic Ministers from AFTA and CER countries held in Jakarta in September 1996, Ministers signed a Memorandum of Understanding to promote cooperation on standards and conformance between ASEAN and CER countries.<sup>122</sup> The Ministers

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120 Andrew Elek, 'APEC: An Open Economic Association in the Asia-Pacific Region', in Bijit Bora and Christopher Findlay, *Regional Integration and the Asia-Pacific*, Oxford, 1996, p. 233.

121 Informal Consultation between AEM and the Ministers from the CER Countries, 9 September 1995, Brunei, Darussalam, <http://www.asean.or.id/CER/cer1.htm> (23 March 1998); and, P.J. Keating, Address to the Chinese Chamber of Commerce, 'Australia and Asia: the next steps', Perth, 15 February 1995. Mr Keating states that early discussions were undertaken on the suggestion of the Thai Deputy Prime Minister, Dr Supachai, in April 1994.

122 Joint Press Release, the Second Informal AEM-CER Consultations, 13 September 1996, Jakarta, <http://www.asean.or.id/CER/cer2.htm> (23 March 1998). See also Department of Foreign Affairs and Trade, *The New ASEANs: Vietnam, Burma, Cambodia and Laos*, Canberra, 1997, p. 352; and Australian Telecommunications Industry Association, submission no. 21.

underlined the value of such arrangements as the foundation for future collaborative work under the AFTA-CER linkage.

9.98 The communique from that meeting called on the private sector to identify constraints on business that hinder trade in goods and services and investment flows in order to ‘enhance understanding and to create a climate for a more liberal and freer trade and investment access between both regions’.<sup>123</sup> Cooperation between AFTA and CER has focused on trade facilitation rather than liberalisation and has generally involved technical assistance and information sharing.<sup>124</sup>

9.99 Mr Peter Walsh, General Manager, Standardisation Policy and Development, Standards Australia, saw great value in strengthening regional alliances, such as a linkage between Australasia and ASEAN. He told the Committee:

We think that there would be some increased value in that [alliance] perhaps as a mechanism for regional alignment of standards based on international standards rather than necessarily through the total APEC environment because of the differences of the big players...<sup>125</sup>

9.100 MTIA also appreciated that benefits would come from an AFTA and CER association including higher levels of economic activity, exports and real consumption. It maintained that these benefits would result from:

- expansion of trade as a result of the removal of tariff and non-tariff barriers;
- improvement in productivity as a result of dynamic effects including more competition, and the exploitation of economies of scale;
- fostering of closer business links, cultural exchange and business networks;
- increased investment; and
- complementary effect of an AFTA-CER free trade area on trade liberalisation under APEC and the World Trade Organisation.<sup>126</sup>

9.101 It believed that an AFTA-CER free trade area would ‘present the opportunity to AFTA members to implement trade reforms in some sensitive sectors of the economy in preparation for the processes of wider liberalisation under APEC and the WTO’. Further, it stated that the manner in which AFTA is being implemented and

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123 Joint Press Release, the Second Informal AEM-CER Consultations, 13 September 1996, Jakarta, <http://www.asean.or.id/cer/cer2.htm>; Professor David Robertson, Chapter 1, ‘AFTA-CER Linkages: a Beginning’ to be published in volume AFTA-CER, *A Way Forward*, Allen & Unwin, Singapore, in Correspondence to the Committee, 10 February 1998.

124 P.J. Lloyd, Completing CER, Report of a CEDA/Australian APEC Study Centre Round-table on the Closer Economic Relations Trade Agreement, CEDA Information Paper No. 52, CEDA, Melbourne, August 1997, p. 4.

125 *Committee Hansard*, 3 February 1998, p. 426.

126 Submission no. 28, pp. 11–12.

the way in which CER operates, complements and facilitates multilateral trade. It submitted:

An AFTA-CER free trade area, by encouraging members of the respective arrangements to build institutional arrangements for addressing regional trade issues, has the potential to provide an important stimulus to APEC liberalisation and the 1999 WTO negotiations.<sup>127</sup>

9.102 Professor Robertson pointed out that one of the serious confusions in the AFTA-CER discussion is the absence of a clear definition of the type of institutional linkage under consideration. He noted:

When ASEAN industrialisation and growth were rampant and when preferences among AFTA members threatened market access for Australian and New Zealand producers, business organisations in the CER countries showed strong interest in the formation of closer links with AFTA. However, the nature of these proposed 'links' was never defined. ASEAN ministers were reluctant to go beyond trade facilitation.<sup>128</sup>

9.103 Ms Pamela Fayle, DFAT, agreed that the agenda had focused on trade facilitation issues more than the liberalisation issues. She thought that that was partly due to a desire not to overlap with activities in APEC and WTO and other forums and not necessarily because of a reluctance or a resistance on the part of ASEAN Ministers.<sup>129</sup>

9.104 Although the AFTA-CER link, to the moment, has concentrated on trade facilitation measures, particularly standards and conformance, it nonetheless is laying solid foundations on which to build and expand cooperation into other areas covered by the APEC agenda. In October 1999, the association moved to deepen their economic relationship and to develop a clearer understanding of their objectives with an agreement to establish a high-level AFTA/CER Task Force to look into the feasibility of establishing a free trade area by 2010. Without qualification, the Ministers asserted that the proposed free trade area should be WTO-consistent.<sup>130</sup> As both AFTA and CER are committed to free and open trade, they form a substantial supporting base from which APEC can push ahead with trade reform.

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127 *ibid.*, p. 13.

128 Professor David Robertson, Chapter 1, 'AFTA-CER Linkages: a Beginning' to be published in volume AFTA-CER, *A Way Forward*, Allen & Unwin, Singapore, in Correspondence to the Committee, 10 February 1998.

129 DFAT, *Committee Hansard*, 30 March 1998, p. 829.

130 Joint Press Statement, the Fourth Informal Consultation between the ASEAN Economic Ministers and the Ministers from the CER Countries, 1 October 1999, Singapore, <http://www.asean.or.id/economic/aem/31/jpscer04.htm> (14 October 1999); AFTA & CER to Investigate free Trade Area, New Zealand Executive News Release Archive, 1 October 1999, <http://www.executive.govt.nz/> (14 October 1999); and, Trade Minister Announces AFTA-CER Free Trade Taskforce, Media Release, Australian Minister for Trade, Mark Vaile, 5 October 1999, [http://www.dfat.gov.au/media/releases/vaile/mvt029\\_99.html](http://www.dfat.gov.au/media/releases/vaile/mvt029_99.html) (14 October 1999).

*ASEM*

9.105 In March 1996, the inaugural Asia-Europe Meeting (ASEM) was held in Bangkok. The heads of state and government from ten Asian and 15 European nations attended the gathering. The meeting recognised ‘the need to strive for a common goal of maintaining and enhancing peace and stability, as well as creating conditions conducive for economic and social development’. The meeting forged a new comprehensive Asia-Europe Partnership for Greater Growth which aimed at strengthening links between Asia and Europe.

9.106 The meeting recognised that the economic dynamism and diversity of Asia and Europe offered great potential for synergy between the two regions. It noted that opportunities exist for the regions to expand the market for goods, capital equipment and infrastructure development projects, and to increase the flow of capital, expertise and technology.<sup>131</sup>

9.107 As well as stating its resolve to generate greater two-way trade and investment flows between Asia and Europe, the meeting agreed that the ASEM process should complement and reinforce efforts to strengthen the open and rules-based trading system embodied in the WTO. Furthermore, it agreed to undertake facilitation and improvement of customs procedures and standards conformance to promote greater trade and investment between Asia and Europe.<sup>132</sup>

9.108 The meeting stressed the need to improve development cooperation between the two regions, giving priority to poverty alleviation, promoting the role of women and cooperating in the public health sector.<sup>133</sup> As stated by the Commission of the European Communities:

ASEM should primarily function as a political catalyst for achieving mutual understanding and enhanced awareness through dialogue. The key characteristics of the ASEM process include its informal nature, its high-level participation and its multi-dimensionality, and it is these which will define the added value which ASEM can offer, and on which its unique potential for reinforcing Asia-Pacific links will be based.<sup>134</sup>

9.109 At the ASEM Economic Ministers’ Meeting in September 1997, ministers reiterated their commitment to the primacy of the multilateral trading system and emphasised its importance in meeting the twin objectives of ASEM business and economic dialogue and cooperation.<sup>135</sup> Seven months later, at the second Asia-Europe

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131 Chairman’s Statement of the Asia-Europe Meeting, Bangkok, 2 March 1996.

132 *ibid.*

133 *ibid.*

134 Executive Summary, Commission of the European Communities, Commission Working Document, ‘Perspectives and Priorities for the ASEM Process’, Brussels, 26 June 1997.

135 Chairman’s Statement, Asia-Europe Meeting (ASEM) Economic Ministers’ Meeting, Makuhari, Japan, 27–28 September 1997, <http://www.asean.or.id/world/asemem1.htm> (21 November 1997).



Meeting in London, ASEM Leaders reaffirmed their early agreement that the ASEM process should be ‘an open and evolutionary process; enlargement should be conducted on the basis of consensus by the Heads of State and Government’.<sup>136</sup> They agreed to strengthen the WTO ‘as the main forum for negotiation and to provide the means for further global liberalisation of trade with the multilateral framework’.<sup>137</sup>

9.110 Dr Elek acknowledged that ASEM could help Europe and the Asia Pacific identify their shared economic interests and to promote practical initiatives to facilitate trade and investment between and within the two regions. He suggested that it could also serve as a means to promote cooperation in the WTO to dismantle remaining border barriers to trade and investment.<sup>138</sup> Traditional restrictions on trade, such as tariffs or quotas are not the only strategic obstacles to economic integration and he sees ASEM as an excellent initiative by Asia to tackle some of the non-traditional barriers to trade. He envisages ASEM as evolving into a forum where the two regions can start to harmonise European standards with Asian standards in a more pragmatic, sensible way.<sup>139</sup> Dr Soesastro maintained that ASEM is ‘more or less an attempt to build bridges across two regions, whereas APEC is the creation of a new region’.<sup>140</sup>

9.111 Dr Rikki Kersten had strong concerns about the exclusive membership on the Asian side of the linkage. She pointed out that although the overlapping and interlocking membership of ASEAN, NAFTA and CER with APEC has ‘the potential to strengthen the integration of the larger Asia-Pacific region and influence the region’s collective commitment to open multilateralism, subregional groupings like the EAEC and ASEM tend to reinforce what are essentially fading divisions between Asia and Western communities’. She submitted:

The thrust of the East Asia Economic Caucus (EAEC) and the exclusion of Australia from the Asia-Europe Meeting (ASEM) summit is that culture is a criterion for exclusion and by extension, that a functional, meaningful regional entity must be designed along the lines of race/ethnicity. This clearly goes against all that APEC stands for. APEC is a pioneering regional and multilateral entity in that it is the only one that combines geographical regions and economies in different stages of development in a forum based on equality of status and consensus.<sup>141</sup>

9.112 The ASEM process is significant; it is of value to East Asia in developing and maintaining open trading links with Europe. As with the AFTA-CER linkage, ASEM provides ideal opportunities for the two regions to work through and enter into

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136 Chairman’s Statement, ASEM 2, The Second Asia-Europe Meeting, London, 4 April 1998.

137 *ibid.*, p. 4.

138 Dr Andrew Elek, submission no. 55, p. 8.

139 Dr Andrew Elek, *Committee Hansard*, 5 February 1998, p. 585.

140 *Committee Hansard*, 2 February 1998, p. 290.

141 Submission no. 17, p. 4.

cooperative agreements that may in turn pave the way for the steady evolution of region-wide or global agreements. The work being done in ASEM supports the commitment of APEC to build a more open and freer trading system. The issue of Australian membership is taken up later in this chapter.

9.113 The Committee has found that in the main SRTAs have supported APEC's objectives both for the region and the world economy. To date they have:

- cultivated a climate in which members are encouraged to pursue the goal of free and open trade and to participate actively in implementing measures that will further this goal;
- adopted and strengthened the rhetoric and policy agendas of trade liberalisation and have issued joint statements that instil confidence about the future development of world trade—such actions and statements lessen the fears about fragmentation and foster a general acceptance of free and open trade as a worthy goal;
- established a timetable for implementing trade reform and disseminated information about their short and long-term goals which has provided greater transparency and certainty about the direction of trade policy within the group—this works against economies renegeing on commitments and encourages other trading groups to support the multilateral trading system;
- pioneered agreements and set new benchmarks which could pave the way for other regions to follow suit;
- built on the momentum generated by the Uruguay Round and offered leadership by breaking new ground—SRTAs not only support the WTO but could also push the ambitions and the work of the WTO beyond its current boundaries; and
- implemented practical measures, particularly in trade facilitation, that showcase the real benefits to be gained from removing barriers to trade and investment.

9.114 Linkages between subregional groupings have also tended to reinforce APEC's commitment to free and open trade. Their emphasis to date on achieving mutual understanding, on consensus-building and on promoting cooperation suggest that they are preparing the groundwork that will encourage the work of SRTAs, of SRTA linkages and APEC to complement one another.

9.115 Nonetheless, the Committee feels that there is no room for complacency and recommends that the government maintain its endeavours both bilaterally and multilaterally to encourage all countries and groups of countries to pursue the APEC goal of free and open trade.

9.116 Dr Elek suggested that managing cohesion would be one of the major challenges facing APEC. He argued that subregional groupings within APEC, such as ASEAN, are likely to deepen and broaden their cooperation and that new clubs will also form in response to shared interests. He argued that the emergence of such clubs

can help accelerate the progress of region-wide cooperative arrangements as long as they take account of the interests of all participants.<sup>142</sup>

9.117 The Committee paid close attention to Dr Elek's views and agree that members of any new regional trade agreement must act carefully to avoid harming the interests of non-members. Nevertheless, the Committee is aware of the potential of SRTAs to turn inward-looking should tensions between trading nations develop and agrees that new arrangements should be transparent, should not lead to any new forms of discrimination and should allow, if not encourage, others to join.

*Australia: 'a natural partner'*

9.118 The debate about the role of subregional groupings has direct relevance for Australia. As a medium sized country, geographically separate and culturally distinct from its neighbours, Australia is politically and economically sensitive to shifts in the world trading system particularly the emergence of trading arrangements in the Asia Pacific region. This report examines in particular the importance that AFTA and ASEM have for Australia.

*Membership of AFTA or AFTA-CER*

9.119 A number of submitters considered that the trade liberalisation process within AFTA could seriously disadvantage Australian traders. MTIA stated that Australian business people are concerned about the gap between tariffs levelled for ASEAN members and for non-members and that a priority of Australia's foreign and trade policy must be for Australia and New Zealand to obtain membership of AFTA.<sup>143</sup>

9.120 The Department of Industry, Science and Tourism also noted that it would be an advantage for Australia to be a member of AFTA because:

...it would place Australian industry on an equal footing in competing for investment and market opportunities in the region. It would also form the basis for a strong negotiating position in persuading other countries to enter into mutually beneficial trade agreements.<sup>144</sup>

9.121 Ms Fayle, DFAT, however, believed that members of ASEAN would not reach consensus and agreement on inviting Australia and New Zealand to join and that Australia is not pursuing membership at this stage. She suggested that the AFTA-CER dialogue is 'a way to keep Australia's options open in this regard'. Further, that this

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142 Dr Andrew Elek, submission no. 55, p. 7.

143 Ms Vivienne Filling, *Committee Hansard*, 17 November 1997, p. 148.

144 Department of Industry, Science and Tourism, submission no. 41, p. 8.

additional layer of dialogue that Australia has with the AFTA members is quite useful in pursuing the broader aims Australia has in APEC.<sup>145</sup>

9.122 Dr Soesastro, a visiting fellow to the ANU and Director, Centre for Strategic and International Studies, Jakarta, agreed. He maintained that Australia need not be concerned about being left out of ASEAN and AFTA, because AFTA 'is really becoming a very open arrangement'.<sup>146</sup> Instead, he sees the AFTA-CER association as a niche for Australia to come into the economic realm of South East Asia in a significant and important way. He thinks that from a South-East Asian perspective:

Australia is a very natural partner through which we can learn, and your experiences can also be transferred to us more readily. On the other hand, from Australia's point of view, it should be very important from a medium and longer term perspective if we can begin to harmonise our rules, regulations and so on. That is the most natural way to bring economies together.<sup>147</sup>

He maintained that there is real substance to the cooperation between ASEAN and CER because of the great need on the part of South East Asian countries to 'go into areas beyond liberalisation...and to move to more essential areas of managing economies and formulating regional cooperation schemes'.<sup>148</sup>

9.123 Although the Department of Industry, Science and tourism would prefer Australia to be a member of AFTA, it could see the advantages to be gained in cultivating a closer AFTA-CER association. It pointed out:

AFTA's target date for free trade is well ahead of that set by APEC. The different time frames mean that the ASEAN trading bloc countries will have a strong impact on trade and investment within the region. Countries outside the AFTA agreement (including Australia) may be disadvantaged in terms of market access and investment opportunity. Australia is looking to strengthen its ties with AFTA through the AFTA-CER dialogue process to be in a better position to access the ASEAN market. The AFTA-CER link is, therefore, an important contribution to Australia's broader APEC agenda.<sup>149</sup>

9.124 MTIA, which also canvassed Australian membership of AFTA, approved of strengthening the ties between AFTA and CER. It pointed out that the most immediate threat and opportunity to market access for Australia is AFTA, and thus argued that it

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145 DFAT, *Committee Hansard*, 30 March 1998, pp. 828–829.

146 Dr Hadi Soesastro, *Committee Hansard*, 2 February 1998 p. 289.

147 *ibid.*, pp. 289–90.

148 *ibid.*, p. 290.

149 Submission no. 41, p. 9.

is critical for Australia to give 'urgent priority in its trade, foreign and economic policy to forging a link between CER and AFTA.'<sup>150</sup> It stated:

An AFTA-CER link would serve to more closely integrate Australia with a market region of primary importance in the global economy and reinforce perceptions of Australia as an integral part of the region. It would further strengthen the influence of the region on international trade and economic issues and importantly, could be expected to counter the investment flows away from Australia as a result of preferential trade liberalisation within AFTA.<sup>151</sup>

9.125 MTIA stressed that the private sector must take responsibility to drive an AFTA-CER free trade area and that the success of the private sector initiative depends on supportive government policy.<sup>152</sup> It noted that the process to move ahead has already begun with the establishment of two working committees at the March 1997 meeting of ASEAN and CER business leaders.<sup>153</sup> MTIA has also established the ASEAN-CER Liaison Secretariat which will coordinate, under the specific ASEAN (AFTA)/CER linkages program, Australian industries' interface with the Australian Government and the New Zealand business sector.

9.126 Professor Robertson was less enthusiastic than industry bodies about the AFTA-CER association and suggested that the AFTA-CER link offers small returns and that ASEAN concerns about political solidarity and the uncertainties about the financial crisis seem to have closed this option for the present. He acknowledged that Australia had a brief opportunity to establish economic links with South East Asia and that APEC offered a formal bridge between South East Asia and the western Pacific economies. An AFTA-CER link could be a formal foundation for that bridge.<sup>154</sup>

9.127 Professor Robertson tied the importance of an AFTA-CER linkage with the geographical expansion of APEC membership in 1997 to include Russia, Peru and Vietnam. He argued that the increased membership diluted the focus of the forum in East Asia and that CER countries are becoming more isolated. Furthermore, he pointed out that 'excluded from ASEM and likely to become a smaller voice at APEC', AFTA-CER may well become the subject of more attention.<sup>155</sup>

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150 MTIA, submission no. 28, p. 10.

151 MTIA, submission to the White Paper on Foreign and Trade Policy, November 1996 in submission no. 28, p. 23.

152 MTIA, submission no. 28, p. 13.

153 *ibid.*, p. 14.

154 Professor David Robertson, A post script to 'An APEC Postscript in *East Asian Trade after the Uruguay Round*, Cambridge University Press, 1997; Correspondence to Committee, 10 February 1998, p. 5.

155 Professor David Robertson, Chapter 1, 'AFTA-CER Linkages: A Beginning' to be published for volume 'A Way Forward, ISEAS', Allen & Unwin, Singapore in correspondence to Committee, 10 February 1998, p. 12.

9.128 The AFTA-CER linkage offers Australia and ASEAN countries practical means to improve the trading environment for business in the region, especially in the nuts and bolts area of standards and conformance, customs and quarantine and transport infrastructure. It also provides many opportunities for Australia to participate in projects that will deepen and broaden economic and technical cooperation not only between the two groups but throughout the region. It is yet another means for Australia to strengthen its credentials as a valuable partner the Asia Pacific region. The agreement reached in October 1999 to establish a taskforce to explore the feasibility of an AFTA/CER free trade area by 2010 is an encouraging indication of the commitment of both groups to build stronger economic cooperation and to support each other in achieving free and open trade and investment in the wider region.

### *Membership of ASEM*

9.129 The Queensland Government warned that should momentum within APEC falter, Australia risks being excluded from what may emerge as the most important regional grouping—ASEM. It argued that ‘as ASEM offers opportunities for Australia to maintain engagement with key regional trading partners, efforts should be directed to seeking Australian involvement in the forum’.<sup>156</sup> Mr Matt Ngui also believed that ASEM could be the means for Australia to forge constructive ties with Europe. He stated that ASEM would allow Australia ‘to link some of the benefits of APEC to the European Community not only in terms of trade but also in terms of links in technology, education and training’.<sup>157</sup> To date, however, Australia has not been invited to join ASEM despite showing a keenness to do so.

9.130 Dr Elek suggested that our ‘grovelling and begging to be allowed in’ to ASEM was counterproductive and that Australia should be looking to rebuild its reputation as a natural member who would be ‘an asset to have in those discussions’.<sup>158</sup> DFAT pointed out that a number of the existing members of ASEM have pursued Australian membership on Australia’s behalf. Ms Fayle told the Committee:

They are very supportive of Australia joining. So it is not so much a matter of Australia grovelling or banging on the door to be let in; it is rather a number of other members of ASEM seeing benefit in Australia participating and being a member and supporting that view on our behalf.

9.131 She acknowledged that part of the strategy in convincing Asian members to allow Australia to join ASEM is for Australia to demonstrate its credentials for belonging to such regional organisations.<sup>159</sup> The next opportunity for Australia to be considered for membership of ASEM will be at the ASEM Leaders’ meeting in Seoul

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156 Queensland Government, submission no. 47, p. 14.

157 *Committee Hansard*, 3 February 1998, p. 399.

158 Andrew Elek, *Committee Hansard*, 5 February 1998, p. 587.

159 DFAT, *Committee Hansard*, 30 March 1998, p. 831.

in 2000. During the Senate estimates hearings in June 1998, Mr Warner from DFAT stated that for the immediate future the department has no plans to talk to anyone in any detail about ASEM and Australia's membership. He told that Committee, 'for the moment we would be happy to sit back and look at the situation and see how views develop, then some time in the next six months or in the next year to 18 months look again at how we would approach the membership issue'.<sup>160</sup>

9.132 The Committee agrees that Australian membership of ASEM is an important objective; that Australia has strong claims for membership; and that its exclusion from the group is disappointing. The Committee accepts the view that Australia should continue to demonstrate its worth as a potentially valuable participant in ASEM.

### **Recommendation**

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

### **Conclusion**

9.133 Overall, the Committee is confident that the subregional groupings in APEC are moving in the same direction toward the promotion of free and open trade and investment. It appreciates that there are tensions between groupings and between trading partners within groups and within APEC itself that could undermine the cohesion of APEC.

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160 Senate Foreign Affairs, Defence and Trade Legislation Committee, Consideration of Estimates, 10 June 1998, p. 128.

