



## APEC - A CHANCE FOR REFORM

**T**he Asia Pacific region is, and must remain, an integral part of Australia's foreign, strategic and trade policies and priorities. The primary institutional arrangement for our economic and trade engagement continues to be the Asia Pacific Economic Co-operation (APEC) grouping, a mechanism ACCI has long supported. However APEC should use this year's Sydney meetings to shift its focus more toward trade facilitation and the delivery of tangible outcomes, and allow membership for India.

Whilst Australia has a seat at the APEC table, reflecting our role as a founder-member of the grouping almost 20 years ago, and will be chair of APEC in 2007, we need to work hard to revitalise APEC if it is to serve our commercial, foreign, strategic and trade policy interests in the future.

### APEC'S MARKET POSITION

APEC has a number of important comparative, and potentially competitive, advantages in the international playing field of economic and trade diplomacy.

Its 21 member countries, taken together, make a substantial footprint on the world economy, accounting for 40 per cent of the world's population, 56 per cent of global output and 48 per cent all international trade.

Looked at another way, APEC membership embraces three of the world's largest economies (in purchasing power parity terms), and is one of very few such mechanisms able to bridge the gap between developed and developing countries.

However, APEC is not a homogenous entity, with member countries having distinctly different economic capacities.

The seven high-income members of APEC (United States of America, Canada, Japan, Australia, New Zealand, Hong Kong and Singapore) account for less than 9 per cent of the global labour force, but more than 45 per cent of the world's capital stock (that is, industrial capacity).

By comparison, the five low-income, developing country members of APEC (China, Indonesia, Thailand, the Philippines and Vietnam) account for one-third of the global labour force, but just 5 per cent of the world's productive capital capacity.

This heterogeneity is reflected in the differing levels of

economic development, and nature of trade activity of APEC member countries.

At one level, there are the highly developed nations, such as the United States of America and Japan, which are major exporters of capital and technology-intensive capital goods (and the inherent intellectual property), and final markets for labour intensive consumer goods.

At the other end of the spectrum are developing nations, such as China and Indonesia for example, who are positioned as major competitors for labour-intensive manufactured exports, using imported technologies, which underpin their industrialisation and economic development strategies.

Sitting between the two are newly industrialised nations such as South Korea and Taiwan (and prospectively Malaysia and Thailand) who import capital equipment from/export labour intensive manufactures to developed countries and export capital equipment to/import labour intensive manufactures from developing countries.

Despite this heterogeneity (or perhaps because of it), APEC has been held up as a test-centre for addressing trade and related issues not effectively included within the broader multilateral agenda.

These issues include investment, competition policy and government procurement, or those where the global agenda has moved well ahead of existing WTO agreements, for example in the area of intellectual property rights.

In an intangible sense, APEC has achieved much through its capacity to bring together in a single forum a broad spectrum of countries, with diverse levels of economic and social development, different economic and political structures and systems, and a range of approaches to governance and cultural issues.

## AUSTRALIA'S CORE INTERESTS

Australia has a range of significant economic, strategic and trade interests which can be better achieved through the presence of a robust APEC grouping, than advanced in its absence or through alternate mechanisms (for example, bilateralism).

These interests include:

- more effective engagement in Asian regionalism, and its facilitative mechanisms;
- advocacy of multilateral trade liberalisation (principally through the World Trade Organisation); and
- ensuring the engagement of major economic and strategic players (primarily the United States, but also China and to a lesser extent Japan) in more open, inclusive and transparent regional activities.

More specifically, these interests include providing Australia with a seat at the table, where leaders, ministers and senior officials can discuss issues of regional and broader significance to us.

Indeed, our presence in APEC has acted as useful leverage to gain direct participation in other, potentially competing, regional entities (e.g. the East Asian Summit).

APEC is also able to go further than almost any other regional institution in providing a platform upon which regional leaders can meet on a regular basis to discuss issues of importance, in a relatively time-efficient and informal manner.

Finally, APEC has been a useful mechanism to advance our trade liberalisation agenda and, more tangibly, to realise constructive outcomes in the trade facilitation area (e.g. the APEC Business Travel Card and potentially the Secure Trade in the APEC Region initiatives).

## APEC'S TRADE AGENDA

Trade facilitation and liberalisation have, almost since the grouping's foundation in the late 1980s, been regarded as APEC's reason for being.

Along with economic and technical co-operation (known as 'eco-tech' in the APEC lexicon - ostensibly development assistance to the lesser developed APEC members), trade facilitation and liberalisation were originally intended to be the core agenda of the APEC processes.

The early enthusiasm for APEC, especially amongst the catalyst members (Australia, Indonesia and Japan) initially papered over the different interests of other groups of members such as:

- the developing countries of ASEAN who wanted to focus on trade facilitation; and
- developed nations, such as the United States and Australia, who gave priority to trade liberalisation.

## Trade Liberalisation

Trade liberalisation would, to most outside or occasional observers of the APEC process, appear to be the main agenda item of the grouping, whether in the form of intra-APEC initiatives, or as a supporter of multilateral negotiations initially in the Uruguay Round and, more recently, in the Doha Round of WTO-based negotiations.

The zenith of APEC's trade liberalisation agenda (and probably of APEC itself) was the landmark Bogor Declaration, made in the eponymous Indonesian town in 1994, under which all member countries committed themselves to an unprecedented outcome and timetable for trade reform in the Asia Pacific region.

That is, 'free and open trade and investment by 2010 for developed countries, and 2020 for developing countries'.

The nadir of APEC's trade liberalisation agenda came a mere four years later, in the Malaysian capital of Kuala Lumpur in 1998, when APEC Leaders failed to agree to a specific, accelerated program of trade liberalisation and on appropriate responses to the then recent turmoil in Asian financial markets.

Subsequently, ASEAN governments, both at Leaders and officials levels, have quietly, but tangibly, sought to deflate efforts by the more developed country members of APEC for the grouping to become a vehicle for accelerated and bolder trade liberalisation.

The ASEANs are not necessarily the only element of APEC seeing the grouping as 'bounded regionalism'. The United States, for example, opposed in the late 1990s proposals from some of the Asian members for regional financial crisis prevention and management institutions and strategies. These proposals included the creation of an Asian Monetary Fund to assist regional countries adversely impacted by sharp movements in capital flows or exchange rates.

The collapse of the so-called Early Voluntary Sectoral Liberalisation (EVSL) initiative in 1998 is seen as having

effectively removed trade liberalisation from the APEC agenda, with expressions of support for trade regionalism undermined by the surge in bilateral trade agreements amongst members (both with each other and with non-APEC member countries).

Similarly, it would appear the commitment of most APEC member countries to the Individual Action Plan (IAP) initiative (where members would undertake unilateral domestic liberalisation without expectations of reciprocity) was more rhetorical than real, with few undertaking any liberalisation beyond their WTO commitments.

APEC's footprint in the trade liberalisation agenda now extends to regular calls for high quality outcomes to the now stalled WTO Round, and to the energetic pursuit by most APEC members of bilateral or plurilateral (several country) preferential trade agreements.

The APEC Business Advisory Council (ABAC) has also been considering using APEC as a vehicle to negotiate a Free Trade Agreement of the Asia-Pacific (FTAAP). This proposal needs to be given serious consideration and ACCI gives in-principle support to it. Nonetheless, the idea cannot proceed unless there is clear and comprehensive political commitment to substantial outcomes within a reasonable timeframe.

Some argue that with manufacturing tariffs in the APEC region, on average, at around 7 per cent (in 2004), and higher peaks in politically sensitive sectors and/or subject to inflexible or locked-in programs of phased reduction (such as Australia's motor vehicles, and textiles, clothing and footwear plans), scarce trade negotiation resources may be better directed toward other areas of activity.

Such activities could usefully include a concerted effort to harmonise the core provisions of the various bilateral/plurilateral preferential trade agreements to which APEC members are party, and greater effort and resourcing in the trade facilitation area.

Other sound arguments for increasing the emphasis on trade facilitation within APEC include the grouping's deference to the WTO for trade liberalisation, ASEAN's resistance to APEC having any substantive trade liberalisation function, and members' preference for bilateralism as the vehicle for trade liberalisation.

## Trade Facilitation

In contrast to APEC's shortcomings in the area of meaningful intra-regional trade liberalisation, it has made substantial progress and useful contributions in the area

of trade facilitation - that is, tackling the administrative and regulatory impediments to international trade and commerce.

APEC has undertaken constructive trade facilitation-related work in areas ranging across:

- the negotiation of mutual recognition agreements on product standard and conformance testing requirements, the lack of compatibility and transparency of which add substantially to the cross-border trade in manufactures;
- improved transparency and greater use of electronic platforms for the provision of customs information;
- the introduction, and progressive take-up, of the much-valued APEC Business Travel Card, which streamlines the movement of business travellers between participating APEC countries; and
- the Secure Trade in the APEC Region (STAR) initiative, which encourages the adoption of regional standards to improve security for maritime transport, in particular from terrorist threats.

Regrettably, the low key and largely technical nature of much of APEC's work on the trade facilitation agenda has meant it has not been given the attention, and priority, it properly deserves.

Nevertheless, APEC's trade facilitation work is likely to be the most constructive and productive (in terms of meaningful, useful outcomes to commerce and industry) of the grouping's three core pillars.

Indeed, trade facilitation is the area most likely to attract attention and commitment from the largest number of APEC members, mostly (but not only) the developing country members (such as ASEAN) but also key developed country members such as Japan.

The APEC Trade Facilitation Action Plan Roadmap, adopted by APEC Ministers in 2005, should prove a useful mechanism for carrying forward this area of work.

Core elements of the Roadmap, set down by APEC Leaders in 2001, include the goal of a 5 per cent reduction in business transaction costs by 2006 and a further 5 per cent cut in such costs by 2010. A performance report on achieving the 2006 objective is now timely.

ACCI believes that, taken as a whole, APEC should rebalance its program of work to give greater emphasis to delivering meaningful outcomes in the area of trade

facilitation.

Beyond this, APEC Leaders should prioritise no more than 10 trade facilitation projects for active development and implementation, approving no new additions to that list until such time as previous projects have been successfully completed (and subject to rigorous performance evaluations).

## APEC LEADERS MEETINGS

The APEC Leaders meetings are the highest profile and probably the most significant element of the APEC initiative. Indeed, they are most likely the glue which holds the APEC grouping together, and sustains its credibility as a regional organisation.

Looked at another way, absent the annual Leaders Meetings, the stature, cohesion and the robustness of the APEC initiative would likely quickly diminish.

If key nations, such as China, Indonesia, Japan or the United States were to send deputies to the Leaders meeting on a sustained basis, then APEC's future would be limited.

The practical value of the APEC Leaders meetings, and in particular the seemingly unscripted informal dialogues and retreats (sometimes called "corridor diplomacy") should not be underestimated.

They provide rare and exceptional opportunities for political leaders from a broad spectrum of nations and political leanings to meet and discuss issues of immediate importance and interest to them in a bilateral or plurilateral setting without the baggage of expectations that usually accompany dedicated, and more formalised, bilateral visits.

Similarly, the APEC Leaders meetings offer political leaders the opportunity for an 'economy of effort' in building bilateral relations with their counterparts – i.e. a political leader can have 4 to 6 constructive meetings with different counterparts in a well-structured program on a single day, something generally not otherwise achievable.

The importance of the APEC Leaders meetings is well recognised by observers. A decision by then US President Bill Clinton to miss two APEC Leaders meetings was seen as signalling a loss of US interest in the grouping and, if sustained, a great risk to APEC's viability.

Similarly, informal bilateral discussions between the Chinese and the United States Presidents at APEC Leaders meetings have been credited with generating

breakthroughs on important economic matters, most notably China's accession to the World Trade Organisation.

Australian business is fully cognisant of the critical importance of the APEC Leaders meeting to the vitality of the APEC processes and supports their continuity. Absent the Leaders meetings, we share the general concern at the future of the APEC processes.

However, there is a need to reorient the formal Leaders Statements, variously named, which are generally drafted by senior officials and endorsed by heads of government at the end of each meeting.

Since the inaugural APEC Leaders meeting in 1993, Leaders Statements have tended to become sequentially bolder, more dramatic, and visionary statements of new goals, programs or activity ('competitive ambitions', or the battle of 'announceables').

Regrettably, the rhetorical flourishes and ambition contained in most of these Leaders Statements have not been matched in subsequent delivery by the Leaders themselves, their Ministers or officials.

The resulting 'announceables minus delivery gap' has not been helpful to building confidence in, or the credibility of, APEC as an organisation, or its activities.

Any 'Sydney Declaration' arising from the APEC Leaders meetings should be measured and proportional to the grouping's capacity to actually bring to fruition any promises made or vision enunciated, with a strong element of 'delivered upon' in the area of trade facilitation in the main body of any formal statement.

## APEC'S CRITICS

Critics of APEC, of which there has been many over the past five or so years, claim the grouping is suffering from diminishing relevance and a loss of focus, and has failed to deliver on its more ambitious goals and core functions of trade facilitation and liberalisation.

They also point out APEC is coming under competing pressure from other regional bodies – such as the ASEAN Regional Forum, the ASEAN Plus Three grouping, and the East Asian Summit process – each of which, in different ways, has taken on key aspects of the regional policy agenda.

Part of APEC's problem is a design flaw, relating to the diplomatic architecture and operating regime agreed as part of its foundation.

**Figure 1  
APEC's Membership**

| Year | Countries   |
|------|---|
| 1989 | Australia, Brunei, Canada, Indonesia, Japan, Malaysia, New Zealand, Philippines, Singapore, South Korea, Thailand, United States of America |
| 1991 | China, Hong Kong, Taiwan  |
| 1993 | Mexico, Papua New Guinea  |
| 1994 | Chile   |
| 1998 | Peru, Russia, Vietnam   |

In order to secure the necessary commitments from the ASEAN countries to initially participate in the APEC initiative, its original proponents had to assuage ASEAN concerns that the new body would not become an alternative to ASEAN, so APEC could operate only on the basis of consensus and voluntary compliance.

In short, APEC would not become a supra-national organisation, with decisive or directional powers, but rather 'ASEAN written large' (for all the latter's strengths and weaknesses).

### INDIAN MEMBERSHIP

The issue of the membership and composition of APEC has been largely kept off the grouping's agenda over the past decade, following the imposition of a moratorium in 1997.

However, the moratorium will come to an end this year, and the question of opening APEC membership to aspirants – most notably India – is likely to feature prominently on the agenda for the APEC Leaders meeting to be held in Sydney in September 2007.

The arguments for India's membership are simple. It is one of the largest economies in the world, regarded as one of the future engines of the world economy and quite simply just too big to ignore.

APEC membership would also reinforce India's domestic and international liberalisation agenda, and its broader 'Look East' outreach strategy (which focuses on its relations with East and South East Asia).

As part of South Asia, India satisfies the implicit 'Asian geography' test for membership.

India would also satisfy the implicit criteria for APEC membership, of having substantial and broad-based commercial and economic linkages with existing APEC countries. APEC represented 42 per cent of India's international trade in the mid 1990s - a figure growing by around 2 percentage points every three years.

There can be little doubt India's continued omission from APEC constitutes a notable gap in the grouping's composition, and places APEC at a competitive disadvantage to other Asia Pacific regional bodies where India is a member, such as the emerging East Asian Summit process.

At the business level, India is a long-standing and active member of the Confederation of Asia Pacific Chambers of Commerce and Industry (CACCI), a regional grouping of leading national chambers of commerce.

Against the background of India's economic importance, its geographic position in Asia, and its presence in existing regional business and governmental organisations, there is a strong case for its admission to formal membership of APEC.

### CONCLUSION

The future of APEC is uncertain, but ACCI believes that it is an important forum that has the potential to involve Australia in delivering meaningful trade outcomes

In recent years it has been sustained by the high profile, annual APEC Leaders meetings which allow valuable bilateral meetings to occur.

However, as to the wider economic and trade agenda, little concrete progress is made.

Australia's national interests are better served by a strong and vibrant APEC than one with a nominal role in international relations and trade policy.

Failure to revitalise APEC will create opportunities for one of the several competing regional organisations already appearing on the Asia Pacific landscape - bodies where at best Australia plays a marginal role and at worst is not even a member.

Australia should use its role at chair and host of APEC in 2007 to set in place a sustained program of action to revitalise APEC.

This agenda should include support for Indian membership, concentration on trade facilitation measures and a commitment to delivering real and measurable outcomes rather than rhetorical “vision statements.”