

1994-2004



The First Decade Since Bogor

A Business Assessment of

A P E C ' S P r o g r e s s



The APEC Business Advisory Council (ABAC) was created by the APEC Economic Leaders in November 1995 to provide them with advice on the implementation of the APEC work program and on other specific business sector priorities, and to respond to the various APEC fora requests for information about business-related issues or to provide the business perspective on specific areas.

ABAC comprises up to three members of the private sector from each economy. ABAC members are appointed by their respective Leaders, and represent a range of business sectors, including small and medium enterprises.

ACKNOWLEDGMENT

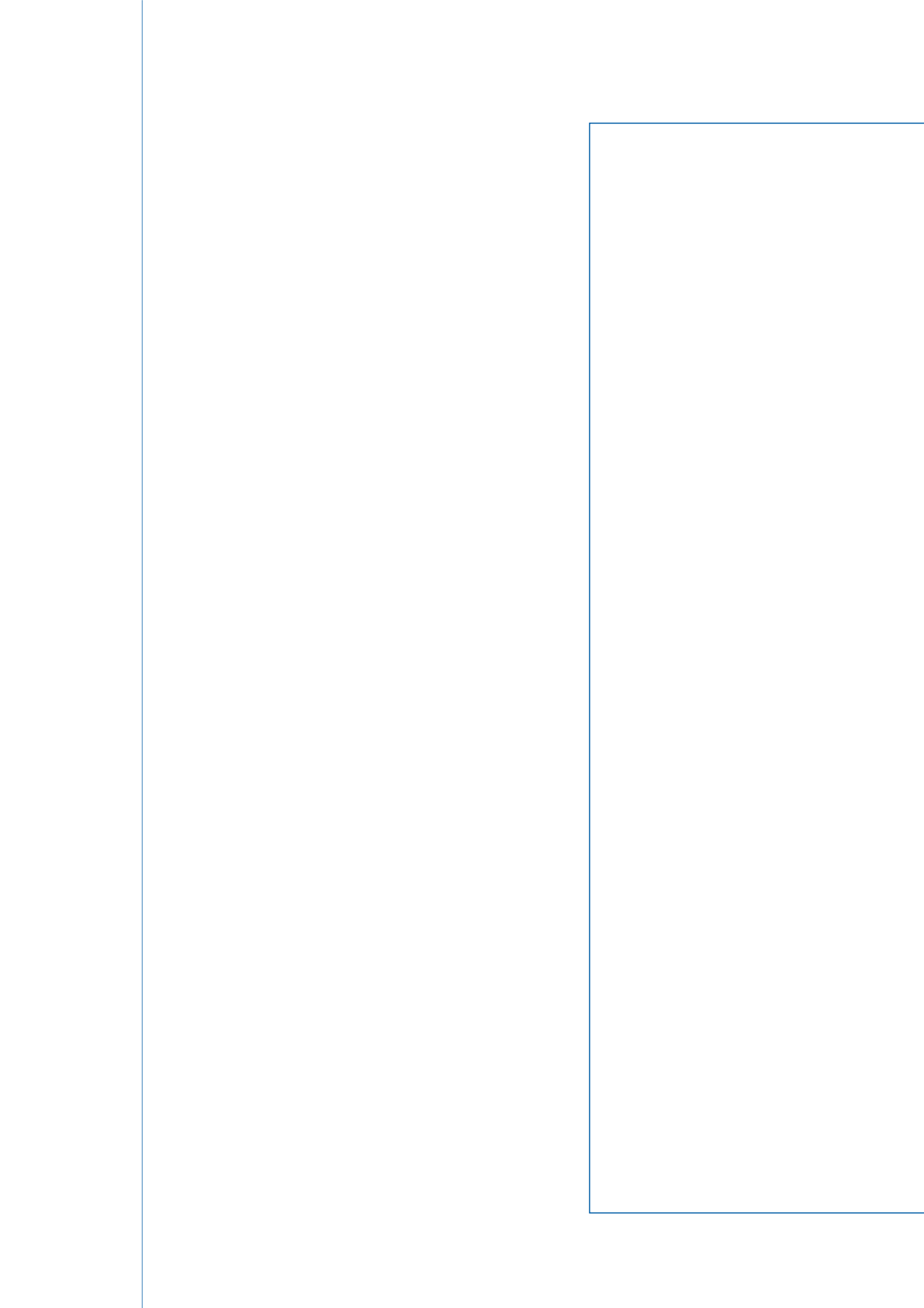
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Trade and Investment Liberalisation Working Group 2003
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EXECUTIVE SUMMARY

- 1 This report card on APEC evaluates APEC's progress since the adoption of the Bogor Goals in 1994. The paper assesses the significance of major structural shifts and economic shocks and their implications. It confirms the value of the Bogor Goals in the context of those shocks and argues that the package of liberalisation, facilitation and capacity building is just as relevant now for growth and participation in development as it were a decade ago.
- 2 APEC members have made considerable progress on liberalisation. However, some high tariffs and tariff escalation remain. There is evidence of the increased use of non-tariff barriers and the misuse of anti dumping measures. The creeping use of new forms of protectionism challenges the Bogor Goals.
- 3 There is uncertainty with the trend toward bilateral and regional trading arrangements (RTAs) in the region being inconsistent with the WTO principles and the Bogor Goals. In the absence of a common framework for RTAs, businesses will face increased costs.
- 4 APEC has contributed to economic development and confidence by its members to pursue unilateral reforms. Members have remained on course with reform programs, both during and after the Asian financial crisis; although progress has been constrained in some economies. APEC has well-developed structures and capacities. APEC must build on its strengths to respond effectively to new challenges posed by major shifts in its operating environment and maintain confidence of its members to stay on track in meeting the Bogor Goals.
- 5 The shifts include the threat of creeping protectionism as well as concerns arising from weak financial systems, deflation and structural imbalances. Threats to security in the post September 11 world and health threats in the wake of SARS have posed major new challenges. China's accession to the WTO and policies of modernization, its integration in the world economy and the advent of a new leadership are shifting China's relationship with the rest of the world. The challenge to APEC and to China is to develop ways to ensure compatibility in China's development as a major world economy with the aspirations of the broader APEC community.



- 6 The goals remain highly relevant to communities and to business despite these shifts, since they encourage a range of measures supportive of growth, stability and predictable operating environments. However, effective responses to the shifts will require balanced progress in the three legs of APEC – liberalisation, capacity building and facilitation. Finding the balance is the key challenge for APEC. The Bogor Goals should realise success in the next two decades.
- 7 To eliminate threats to liberalisation, it is essential that APEC is and is seen to be, a front-line supporter of the new Doha round. Members should work together in WTO and to ensure that bilateral and regional initiatives do not undermine WTO and the Bogor Goals as well as do not limit market access.
- 8 Greater commitment is required to capacity building and facilitation, particularly to counter the impact of terrorism on trade and commerce and to strengthen financial systems.
- 9 The Individual Action Plans (IAPs), the voluntary approach and peer reviews are central to APEC’s operations and effectiveness. Business inputs into the peer review process can be critical to the credibility of the process.
- 10 Finally, the report calls for recovering the leadership in the APEC process looking for opportunities to redouble its efforts towards the basic goals of the three APEC pillars. APEC needs to explicitly and unconditionally recognise the link between the goals of liberalization and the cooperative measures needed to improve capacities and to strengthen the region’s institutions.

RECOMMENDATIONS

- A APEC should adopt:
- a unified approach to the withdrawal of agricultural subsidies within an acceptable time-frame
 - a flatter tariff structure through:
 - a) significant reductions in the number of sectors with high tariff levels within the next five years or earlier
 - b) a time-bound phase-down of high tariffs and of “moderate” tariffs
 - a moratorium on new non-tariff barriers, subsidies and anti-dumping measures and the phasing out of each of these types of measures over a realistic time-frame

- a commitment to significant improvements in access in the four modes (including investment) identified in the services sectors, including making commitments not to raise barriers beyond those currently applied (make “binding” commitments) and the application of national treatment
 - a commitment to studying the impact of the removal of barriers to trade and investment in services sectors
- B** Bilateral and regional agreements should be consistent with the Bogor Goals and the multilateral trading system. Agreements between APEC member economies should be independently assessed to see if they meet these requirements.
- C** To strengthen capacity building, we propose:
- the formation of a new APEC Ministerial Committee on Regional and Technical cooperation, the key objectives of which would be:
 - to promote the funding and the coordination of regional capacity building initiatives aimed initially at:
 - >improving institutional capacities and regional coordination to support anti-terrorist funding and anti-money laundering and in implementing the STAR initiative to improve security at ports, airports and other points of access, and the movement of goods and people
 - >strengthening financial systems and capital markets and regional financial architecture
 - >strengthening measures for the harmonisation of standards and business facilitation
 - >promoting measures to improve corporate governance in both the public and private sectors of member economies
- D** The key ingredients of the APEC process need to be reinforced:
- the voluntary approach continued to the adoption of APEC’s agenda by individual members
 - the process of furthering reforms and liberalisation via Individual Action Plans broadened and deepened, with the goal of involving all economies in peer group reviews by 2007



THE FIRST DECADE SINCE BOGOR: A BUSINESS ASSESSMENT OF APEC'S PROGRESS

I INTRODUCTION

This is a strategic assessment of APEC and the APEC process with the purpose of evaluating the achievements of APEC and communicating the results to a wider community.

Since the establishment of the Bogor Goals, significant events, such as the Asian financial crisis, September 11, SARS and the rise of China, have changed and impacted the world. This paper assesses these impacts. Our initial conclusions affirm that the Bogor Goals still remain relevant and achievable. The three legs of APEC, liberalisation, facilitation and capacity building remain just as relevant today as they were in 1994. The three components support each other and contribute to the full participation of all economies.

We consider some structural imbalances that could have a significant impact on the path to the Bogor Goals; these include uncertainty in financial markets, government budget deficits, rising current account imbalances and shifts in international exchange rate relationships.

The need for an assessment

- 1 The objectives of an open trade and investment regime are as relevant today as when the Bogor Goals were declared in 1994. The Bogor Goals are free and open trade and investment by 2010 for developed member economies and by 2020 for developing member economies. However, the landscape facing APEC has changed dramatically since then and at this mid point in the program. It is relevant to review the vision, mission and action plans of APEC.
- 2 At the time of the inception of APEC, global economic conditions were favorable. Many APEC members were in a position to be “champions” of the APEC architecture of

concerted unilateral liberalisation. However, since the Asian crisis in 1997, the region has witnessed a range of factors impacting adversely on economic performance. While these factors have not led to major reversals in reforms and openness, the pace at which some economies have been able to continue with domestic reforms has been constrained. The factors include:

- turbulent conditions in the world's financial markets including volatile currencies
- the collapse of dot.com and major write-downs in equity markets
- serious malfeasance and failures in corporate governance in business across the region and elsewhere
- loss of business confidence
- worsening structural imbalances in some major economies
- the events of September 11 and new health threats like SARS

3 A range of major shifts now occurring will profoundly affect APEC and its operating environment. These include creeping protectionism, threats arising from terrorism, threats to the stability of financial systems and heightened political tensions. These shifts, and the emergence of China as a major economic power, will shape APEC's agenda over the next two decades. Effective responses to these developments will involve all three legs of APEC - liberalisation, facilitation and capacity building, and therefore an effective APEC response means that all three pillars will need to be strengthened. Unfortunately, of the 3 legs, the capacity building leg has been relatively slower in development and therefore, a special focus on capacity building in the developing economies supported strongly by efforts from the developed economies is required. Economies leading the APEC region also need to illustrate by example their commitment to continuous opening and liberalisation of the economies without exception in agriculture, textile and other sensitive industries and without back tracking by resorting to non-tariff barriers.

4 The objective of this assessment by ABAC is to provide business perspectives on APEC's progress on achieving its vision; the continuing relevance of the focus of its ongoing activities; and the adequacy of the drive being applied to move towards the vision.

- is APEC achieving what it set out to do? What is our assessment of the progress in meeting the Bogor Goals of free and open trade and investment liberalisation by 2010 (for developed economies) and by 2020 (for developing economies), taking into



account the major economic, political and strategic issues in the period since the declaration in 1994

- are the goals APEC set out for itself still relevant? Would a better definition of the goals be helpful in making progress
- is the APEC process working? Based on a realistic assessment of the short and medium term economic, trade, political and strategic outlook, what measures would we suggest to reinforce the attainment of the Bogor Goals within the time frame envisioned.

II A BROAD ASSESSMENT OF APEC'S PROGRESS

- 5 APEC is not a negotiation body to effect trade liberalisation. That is the role of the WTO. Nonetheless APEC has proven to be crucial to supporting trade liberalisation. With these points in mind, significant changes have occurred since the declaration of the Bogor Goals. Economic liberalisation measures have led to sizeable reductions in tariffs; some of these have been initiated unilaterally by APEC economies because they promote growth and competitiveness. There have been setbacks, particularly in the area of non-tariff barriers and anti-dumping measures. APEC has implemented many useful measures to improve business facilitation and capacity building, but more can be achieved. The main achievements are as follows:

Goods trade liberalisation

- APEC's objective is to liberalise trade to support economic growth and competitiveness in member economies; this is a cardinal objective of APEC and is not in conflict with the concept of equity in benefits arising from liberalisation. This equity was expressed in the decision that developed economies will liberalise by 2010 and developing economies by 2020.
- Since the Bogor declaration, APEC's average tariffs have declined significantly; average tariffs declined by one-third from 12% in 1995 to 7% in 2001. All the developed economy members but one has average tariffs less than 5%.

> AVERAGE TARIFFS,
APEC MEMBERS

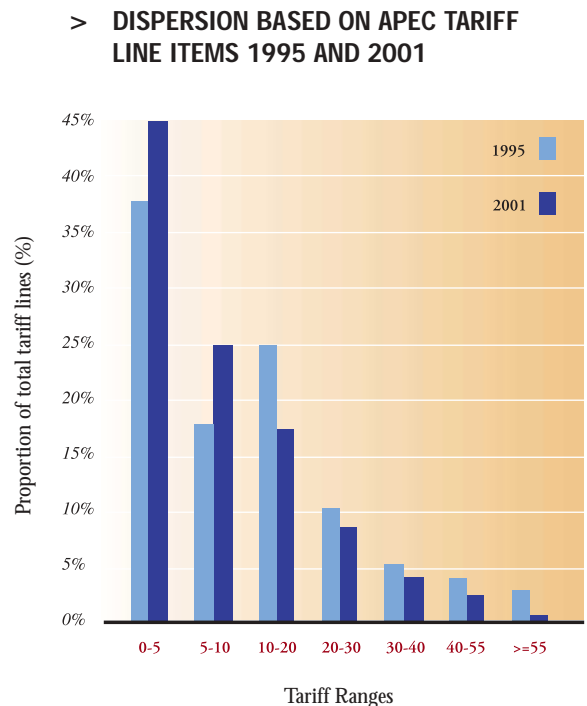


Source: ANU International Economic Data Bank

- over the last decade APEC economies have generated nearly 70% of global growth; exports (in goods and services) have increased by 113% to over US\$2.5 trillion; and foreign direct investment in APEC economies has grown by 210%.
- however, high tariff levels remain in a number of sectors that are of great export interest to the developing members of APEC, such as textiles. Tariff escalation also remains a problem for some sectors such as processed agriculture products.
- continuing high levels of protection for agricultural products and export subsidies, remain major impediments to the trade interests of APEC economies and jeopardize the realization of the Bogor Goals.
- additional commitments by APEC economies beyond the Uruguay Round commitments were generally low. The failure of the Early Voluntary Sectoral Liberalisation initiative launched in 1997 is an example of this.

Trade in services

- since the General Agreement on Trade in Services (GATS) was implemented in 1995, APEC has implemented initiatives to progress liberalisation of trade in services; however, for this to continue, more analysis is required on the effects of reducing or eliminating restrictions on services and especially for developing APEC members, the appropriate domestic regulatory framework that must be in place.
- restrictions remain relatively high in financial services - liberalisation in this sector is critical to achieving further significant useful gains
- substantial reforms have been made in the telecommunications sector, driven in part by the impact of new technology; however, reforms have not been formally committed to in the WTO and they could be reversed.



In 2001, tariffs applied to 44 percent of tariff lines were less than 5 percent (compared to 37 percent in 1995) and 24 percent were subject to tariffs of between 5 and 10 percent (compared to 18 percent in 1995). The dispersion of tariffs is decreasing.

Source: ANU International Economic Data Bank



Investment liberalisation

- investment liberalisation is likely to benefit developing economies most and based on empirical evidence, there is a strong complementary relationship between foreign direct investment and the growth in trade volume
- all the APEC economies either already have or have substantially liberalised their investment regimes. However, the commitments are not bound in the WTO and can be reversed. More importantly for the business sector, a conducive investment climate requires that the overall policy framework and the regulatory framework (including in actual implementation) of entry and establishing operations in the country, be based on the APEC Non-Binding Investment Principles of transparency, non-discrimination, comprehensiveness and neutrality.

Business facilitation

- the importance of business facilitation is underscored by a recent study done by Japan and Korea which estimated that if all APEC economies met the target proposed by the Shanghai Accord in 2001 of reducing transactions costs by 5% (over the next five years), APEC's GDP would increase by nearly 1% or equivalent to \$154 billion.
- the facilitation aspects of the Osaka Action Agenda (OAA), updated since 1995 to reflect the new changes and developments in the area of trade liberalisation and facilitation, have been pursued in APEC through various Collective Action Plans (updated annually and Individual Action Plans ('IAPs'))
- ABAC commends APEC on the following deliverables:
 - the 1997 "Blueprint for APEC Customs Modernization; Working with Business for a Faster, Better Border"
 - the APEC Business Travel Card Scheme
 - rapid information exchange on regional certification requirements
 - the APEC Mutual Recognition Arrangements for Conformity Assessment of Telecommunications equipment

and given their potential importance to reducing the costs of doing business, we urge APEC to ensure the effective implementation of these deliverables in a concerted manner.

- the development of the e-IAP website has improved accessibility and transparency of IAPs. Furthermore, the IAP Peer Review Process was improved, allowing ABAC to participate in the process. Work to improve the “business friendliness” of the IAPs is under-way.
- the conformance to international standards and benchmarks in trade and in the financial sector is an essential requisite to the growth of trade and investment; unfortunately there has only been little success in these important areas, much more needs to be done. This would require significant capacity building to improve standards and conformances across the region.

Capacity building

- the SOM Committee on ECOTECH (established in 1998) promotes cooperative activities to sustain growth, reduce disparities and ensure full participation
- the development of the APEC Food System adopted by the Leaders in 1999 is a significant APEC achievement, although much more needs to be done to implement key elements of the system.
- the joint initiative by Brunei and China on Digital Divide.
- the agenda focuses on information sharing, capacity building, training and cooperation, through:
 - policy dialogue
 - promoting and sharing best practices, information and knowledge
 - the harmonisation of standards or mutual recognition
 - training of government workers in developing economies to meet changing needs
 - a list of projects being carried, was compiled for the period 1998/2002; it showed 984 projects under six themes identified in the Manila Framework, namely:
 - >developing human capital
 - > developing stable, safe and efficient capital markets
 - > strengthening economic infrastructure
 - >harnessing technologies for the future
 - > promoting environmentally sustainable development
 - >encouraging the growth of SMEs



- greatest emphasis was placed on developing human capital; only very limited emphasis was placed on developing capital markets
- there is a declining trend in projects involving information gathering and an increasing trend toward training activities, reflecting the importance of capacity building
- overall, little progress has been made. Funding is one problem and lack of co-ordination is another. Public/private partnerships are the key to progress but will not develop without a more focused and transparent program in which participants show a greater level of accountability.

Broader community and business benefits

- 6** The positive benefits of liberalisation include the creation of 195 million jobs and a reduction in poverty by a third over the last decade. The Open Economies APEC 2000 Report estimate that over 165 million people in the region were lifted out of poverty through a lowering of trade and investment barriers and the opening of economies to increasing international competition. These achievements, in a decade, the latter part of which saw tumultuous and generally unfavorable events, says a lot about the resilience of APEC economies themselves and the quality of domestic economic reforms that have been implemented.
- 7** Part of APEC's resilience derives from the implementation of economies reform and macro commitments in the WTO and in APEC to liberalise trade and investment, including during the period the Asian financial crisis. Peer pressure has instilled confidence in domestic reforms and in policy making institutions and gives encouragement to further efforts to strengthen the peer review process of members' Individual Action Plans. Developed economy members should through the IAP and capacity building initiatives assist other economies to move closer to achieving the Bogor Goals
- 8** Businesses in APEC economies benefit from reforms aimed at improving public policies and strengthened institutions. APEC's capacity building programs for improved financial regulatory standards, transparency, accountability, legal processes and governance arrangements is particularly important to the development of predictable business environments. APEC's facilitation programs sustain business growth and further the goals of liberalisation.

- 9 APEC businesses also have a common interest in being internationally competitive. Their growth depends in part on access to markets in the rest of the world and access depends on competitiveness. Trading and sourcing inputs from trading partners who themselves are operating at world's best practice helps APEC businesses become more competitive. A free and open trade and investment regime as envisaged by APEC supports that aspect of the business environment.

III THE CHANGING LANDSCAPE FACING APEC

- 10 Major shifts in the geopolitical and economic relationships can enhance the relevance of APEC but they will require effective responses by the APEC community.

- 11 We identify four major shifts:

i) *The emergence of China*

As a major economy with its rapid growth and transformation, China creates challenges as well as opportunities for the rest of Asia and the global economy. The challenge for APEC is to develop policies that leverage on the positive benefits arising from the rise of the Chinese economy. Despite China becoming a member of WTO, a number of challenges remain in promoting trade and investment liberalisation. At the same time, ASEAN economies need to improve their investment environment as investors may look to China as presenting more opportunities.

ii) *Threats to the stability of financial systems*

Financial system weakness in economies most seriously affected by the Asian financial crisis and region-wide concerns, posed by major corporate governance failures, remain to be addressed. The challenge is to enhance capacity building measures to strengthen financial regulatory systems in an increasingly risky environment, to improve regional financial architecture, to support the development of capital markets and to promote region-wide excellence in corporate governance standards. Regional support arrangements were not in place to support economies during the Asian financial crisis.

A separate, but related, point in restarting the global economic engine, is addressing deflation. Economies suffering deflation must address this issue more directly and openly, and the European Union, Japan and the United States need to articulate the steps they will take to avoid this potential threat. Deflation is both a real issue and a perception issue. Both must be aggressively attacked and as a



minimum, the perception of planned coordinated action must exist.

iii) *The trend of creeping protectionism*

Creeping protectionism is undermining trade liberalisation. The challenges for APEC is whether it can coordinate approaches in the WTO Round to wind back - within a realistic time-frame - non-tariff barriers and anti-dumping measures and to reduce remaining high tariffs

Another crucial shift is the increasing resort to regional and bilateral free trade agreements that may make the multilateral approach to trade and investment liberalisation less effective. The growth in bilateral agreements is in part a reflection of concerns that liberalisation in the WTO is time consuming and complex. Economies find it easier to remove barriers to trade in a bilateral context. The challenge to APEC is to assess the positive and negative aspects of RTAs and their compatibility with WTO and the Bogor Goals

In responding to rising concerns about multilateralism, liberalisation and globalisation, APEC should continue as a strong advocate of those objectives. At the same time, APEC should give substance to the goals of shared development and economic and technical cooperation.

There are at least three ways of moving forward:

- a) APEC should develop a set of measures aimed at assessing whether FTAs are compatible with the WTO principles and the Bogor Goals.
- b) Against these measures, APEC should seek to ensure the full compatibility of existing and future RTAs/FTAs in Asia Pacific with WTO principles and Bogor Goals.
- c) Extending the benefits of existing and future RTAs/FTAs in Asia Pacific, through accession of new members.

iv) *Threats to security and health*

APEC is facing serious challenges due to the ramifications of the post September 11th world and in the wake of SARS. Economies face economic isolation if they do not meet international standards in delivering security and health measures. The challenges for APEC are:

- (1) to improve the responsiveness of institutions to deal effectively with regional crisis in the future

(2) to co-ordinate collective responses to assist all member economies in enhancing security and health measures

(3) to ensure new challenges such as SARS, are not used as impediments to the achievement of the Bogor Goals.

IV THE OUTLOOK FOR 2010/2020

12 APEC's achievements, judged against the events of recent years, indicate that the architecture remains sound. APEC is forward looking and the framework of openness, facilitation and capacity building remains a crucial agenda for progress. The challenges posed by the shifting landscape just described are essential to implementation and how to achieve progress on each of the three legs of APEC in a balanced manner. The crucial assessment that needs to be made is whether APEC can retain its trajectory to meet the goals set in 1994. APEC has the structures and the framework to facilitate effective responses to those challenges. There is a need to consider the issues in the changing landscape and the responses that APEC can undertake.

The emergence of China

13 China's accession to the WTO and policies of modernization, its integration in the world economy and the advent of a new leadership are shifting China's relationships with the rest of the world. The absorption of China's output of goods and services and its demands on global capital raise important challenges and opportunities. Domestic competition will increase in China as trade and investment barriers are reduced and China's exports to regional and world markets continues to grow rapidly. China already attracts major investment inflows and is itself becoming a significant investor in other markets. It is important for China to pursue vigorously the Bogor Goals with continuing progress in liberalisation, domestic reforms such that other countries can enjoy the opportunities of China's market and the emergence of regional production and service centers of which China is a central player. China's trade facilitation agenda includes improvement of customs procedures, including transparency of customs and other trade related laws; improved enforcement of IPR and improved access of service industries to all regional markets.

14 Important existing economic relationships will deepen between China and the US, China and ASEAN and China and Japan, impacting not just on China but also on the APEC region broadly and on global developments. The challenge to APEC and to China is to develop ways to ensure compatibility in China's development as a major world economy



with the aspirations of the broader APEC community. These forces point to the importance of the Bogor Goals to China and the value of China becoming a driver and a “champion” of those goals. At the same time, if other countries are to enjoy the opportunities of China’s market and the emergence of regional production and service centers of which China is a central player, then they must continue progress in liberalisation, domestic reforms and restructuring their economies.

- 15** At the “core” of the APEC community are the Leaders’ meetings, the importance of which was demonstrated by the Shanghai meeting dealing with the threats of terrorism, and earlier, by the key role Leaders and Ministers played in bringing about the successful conclusion of the Uruguay Round. The Leaders meeting with ABAC provides a rare opportunity in which Leaders receive business views, first hand and in a totally transparent way. From a “governance” perspective this gives a unique “audit” in that business is asked whether the Leaders’ aspirations for APEC are being achieved.
- 16** APEC is well positioned to support China’s economic development and that of other developing economies of the region. The role that developed members of APEC can play is not just confined to being partners in trade and investment flows but also as partners in supporting institutional capacity building and business facilitation. The goal of optimizing the benefits to all members is a central challenge for APEC over the coming decades.

For China to better reach its trade facilitation goals, it should improve its customs procedures, including transparency of customs and other trade related laws; improve enforcement of IPR; and improve access of service industries to all its regional markets.

The impact of financial instability

- 17** The Asian financial crisis revealed the impact that sharp reversals of short-term capital flows can have on fixed exchange rate mechanisms and on under-developed banking regulatory systems. The crisis highlighted the need to develop capital markets and to strengthen the prudential arrangements and internal risk management arrangements in the region’s banks. Banks, other financial institutions and regulatory agencies, face increasingly riskier operating environments. Major losses incurred in the Asian financial crises were partly a consequence of regulatory systems and governance arrangements. The crisis was deepened significantly by speculative flow of highly leveraged short-term capital. The crisis highlighted the need to develop capital markets and to strengthen the prudential arrangements and internal risk management arrangements in the region’s banks. Concurrently, there is need to work on international financial architecture to ensure transparency and surveillance of speculative and highly leveraged short-term capital flow.

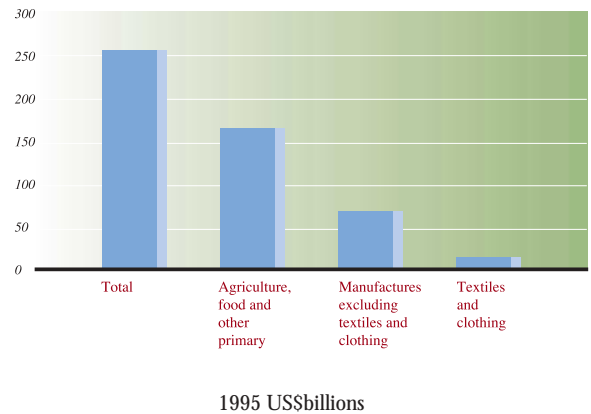
- 18 Significant losses and weakened bank balance sheets followed the ending of the dot.com bubble and the subsequent write down in asset values. These factors add uncertainty to the outlook for the region and globally and heighten the need for more intensive measures to strengthen financial systems.
- 19 APEC responded to the Asian financial crisis by supporting the adoption of international financial regulatory standards by the region's regulatory agencies, support for IMF and World Bank financial assessment programs and through capacity building programs to encourage strengthened regulatory regimes in life insurance and pensions and risk management in banking. However, in the period during and immediate following the financial crisis, the Fund's responsiveness to some economies was inadequate. ABAC notes that the Fund is implementing improvements to its governance and its transparency in its operation. APEC should strongly endorse these reforms.
- 20 In addition, more action is required to reform regulatory structures and the management practices of financial institutions in member economies. The level of non-performing loans remains critical in the two largest Asian regional economies, Japan and China, and in other economies affected by the Asian financial crisis. Terrorist activities continue to be funded through the financial systems and September 11 demonstrated the precariousness to property and casualty insurances. Significant parts of the Asian region's banking systems continue to be undercapitalized, thereby limiting the role they can play in economic recovery and in sustaining economic growth. These issues should receive priority in the affected economies. The debacle caused by recent major corporate governance failures shows that greater attention is required across the regions economies in improving governance practices.
- 21 ABAC is an advocate of public and private sector measures to support capacity building in the regions' financial regulatory institutions and in private financial institutions. It supports the implementation of the new Basel 2 capital accords in banking systems that aims to improve risk management and pricing in banks and the more efficient use of capital. Training programs to meet this need are being developed. A joint public private sector advisory committee proposed by ABAC is to be established to promote capacity building in financial sectors. A regional forum will be established to improve surveillance and the collection of data on short-term capital flows-aimed at ameliorating the impact of any future financial crisis and to improve understanding of emerging financial and economic developments.



22 Dealing with inconsistencies in trade and investment environment

The impressive growth in world trade and progress in reducing barriers to trade in goods and services have been offset by the strong rise in the incidence of non-tariff and anti-dumping measures in many economies including developing economies. Affected sectors include steel and agriculture. They offset gains from liberalisation and the costs involved – both on the economies applying them and those trading with them - are likely to be significant. As already mentioned, high tariff levels insensitive sectors that are of major export interest to developing countries and tariff escalation remain.

> GAINS FROM GLOBAL REMOVAL OF TRADE BARRIERS



Average tariffs of the APEC economies have fallen from 12 percent in 1995 to 7 percent in 2001: 7 member economies now have average tariff rates of less than 5 percent and another 6 have an average tariff between 5 and 10 percent. All the developed economy members but one have average tariffs less than 5.

Source: ANU International Economic Data Bank

23 The drift to protectionism makes it harder to achieve the Bogor Goals. The goal of liberalisation will be delivered in the new WTO Round, and APEC needs to contribute to the WTO process to reverse and, ultimately, to work for the elimination of protectionist barriers, and to reduce high tariff levels. Negotiations in the WTO on reviewing and clarifying anti-dumping rules and removing barriers to agriculture and non-agricultural market access are especially relevant. Leadership by developed member economies is crucially important.

Market access and assisting poor and developing economies to face the challenges of globalisation (capacity building) are necessary conditions for success in achieving the Bogor Goals. Comprehensive market access has to be an integral part of the APEC program. Any exceptions should be minimized, based on clear criteria, and with built in time frames for inclusion and review. APEC can also show leadership by calling for standstill and rollback on non-tariff measures.

24 Uncertainties exist as to whether new bilateral and regional trade agreements are totally compatible with the objectives of WTO and the Bogor Goals. This is a particular concern where the agreements are between members of APEC. Designed correctly, FTAs and RTAs could spur us to achieve the Bogor Goals and drive forward the multilateral trade agenda. FTAs and RTAs that are fully consistent with WTO and the principles of Bogor Goals should be encouraged. Of concern is the selectivity in goods and services

product coverage in some agreements that are being negotiated. Logic suggests that selectivity in product coverage distorts trade and investment flows and in so doing creates tensions with the Bogor Goals. Because of the global nature of business, agreements that are not comprehensive will act as a disincentive to investment. APEC should ensure that all FTAs and RTAs negotiated between member economies are held to the highest standards and not disadvantage those firms whose governments are not party to a particular agreement. There exist a number of studies which can serve as the basis of further discussion of these issues.

- 25 In the absence of a common framework for bilateral and regional agreements, businesses will also face increased costs of having to comply with different regulations in different agreements for the same product (the so called 'spaghetti effect'). The burden of the cost will be felt more heavily by small and medium sized businesses. Studies on rules of origin have also shown that diversion away from the least cost option and having to comply with different requirements in different rules of origin regimes (which includes specifications on transformation process) due to preferential trade agreements, will affect regional production networks and the benefits from economies of scale in production. There are concerns that the proliferation of such arrangements between APEC members will encourage others in other regions and distract attention and resources from the central objectives being pursued in the new WTO round. APEC should examine the prospect of a common framework for these agreements, including a model rule of origin for FTAs and RTAs negotiated between member economies.

Threats to security and health

- 26 Major new challenges have been posed by threats to security in the post September 11 world and health threats in the wake of SARS. These threats give urgency and a new meaning to the concept of facilitation and capacity building. APEC is well placed to develop capacity building measures needed to assist communities and businesses secure the environment for trade and commerce and the movement of people. Priority should be given for the STAR initiative in strengthening security in ports, airports and other points of access for the secure movement of goods and services and people. Priority should also be given to strengthening regional capacity to respond to such region-wide emergencies as the SARS crisis, which might include exchange of best practices in medical procedures, training and equipment to assist border officials in screening procedures. Communications methods, such as the APEC Emerging Diseases Network should be bolstered to ensure citizens receive urgent communications regarding disease transmission.



- 27 APEC economies will implement security and health related policies best suited to their own situation. However, insofar as these policies impact on cross-border trade and commerce and the movement of people, requiring region-wide measures, APEC provides an excellent framework in which measures can be developed and implemented.

V WHAT AND HOW CAN APEC DELIVER

- 28 Effective responses to the shifts identified in this review will go a long way to achieving the Bogor Goals. Progress on trade and investment liberalisation will require new efforts and greater purpose in supporting the new WTO Round. Affirmative plans are needed to facilitate economic and business development and to promote capacity building to ensure an equitable sharing of the benefits of liberalisation across the APEC community.

- 29 APEC needs to develop measures to deliver on liberalisation, facilitation and capacity building.

a) *Liberalisation*

- 30 APEC should be a front-line supporter of the new Doha Round. Actions by its members should be consistent with WTO and the Bogor declaration. Any negative signals by APEC would undermine its credibility and could well retard the prospects for success in the Doha Round. APEC should consider cooperative action to eliminate barriers to trade and to promote further liberalisation. Specific recommendations outlined earlier in this paper will go a long way to achieving that outcome. In order to guarantee the developing economies to fully benefit from free trade of goods and services and mobility of capital and people, market access should be subject to minimum restrictions, if any.

b) *Facilitation*

- 31 ABAC strongly supports APEC's trade facilitation action plan and ABAC has made many recommendations in four target areas – customs, procedures, standards and conformance, the mobility of business people and e-commerce. ABAC strongly endorses the campaign to reduce transactions costs by 5% by 2006. ABAC will support action to further these initiatives, as they will yield considerable gains in the period ahead. Facilitation region-wide would be impeded if responses to counter terrorist activities are inadequate.

- 32 The STAR initiative to develop practical and efficient means of enhancing security and efficiencies in APEC's seaports, airports and in other access points will require intensive

region-wide cooperation. An integral aspect of that cooperation, involving governments and business will be to develop measures to facilitate the adoption of agreed standards and procedures. Success will contribute to growth and prosperity for the region – even in an environment made more uncertain by terrorist threats.

- 33** Burden-sharing will be an integral aspect of measures to secure trade and commerce and the safe movement of people. The costs of these measures represent a type of security tax across all APEC communities but the tax can be lowered by the efficient use of technology and by agreements cooperatively arrived at on best standards and practices.

c) Capacity Building

- 34** More is required by APEC in strengthening capacities - of institutions, in regional cooperative arrangements and in human resources. Region-wide capacity building programs will be needed to develop institutions and human skills to implement the security and health initiatives. A key challenge will be to adjust business and personal activities in responding to terrorism and health threats in the most efficient and practical ways.

Capacity building, being the transfer of skills and knowledge, is the linkage to ensure liberalisation through facilitation. There needs to be a structured, orderly program in specific, pre-determined areas as previously recommended by us in 1998/9 – water, energy, health being primary areas for capacity building programs. This is in addition to, of course, the strengthening and observance of international standards and benchmarks.

Moreover, capacity building should be characterized as the cooperative action the region needs to put in place to facilitate the liberalisation effort: by reducing the costs of doing business and providing the weaker economies with the means to cope with the challenges of liberalisation. Cooperation for designing and implementing institutional and governance reforms should be considered. A high-level regional cooperation program and a method of implementing it will add significant meaning to capacity building.

- 35** As noted earlier, important capacity building measures have and are being implemented to support financial sector developments and to promote regional and international financial arrangements so that financial systems are robust and capable of supporting economic growth generated by trade liberalisation. Financial institutions and systems face an increasingly risky environment posing challenges for public regulatory agencies and for commercial financial institutions.



- 36** Region-wide cooperation should add materially to the effectiveness of responses by APEC member economies. However, this will require continued intensive capacity building programs in APEC to improve and deepen financial systems and to improve skills and procedures in institutions. This should be an essential aspect of APEC's ongoing work. APEC should also support reforms to the international financial architecture to improve global responses in dealing with failures in domestic financial systems – to prevent them from turning into sources of contagion capable of impacting region-wide or globally. APEC should promote new regional issues that emerge from time to time. Another critical area is capacity building to support the development of SMEs and micro-enterprises, which constitutes the majority of businesses in the APEC region.
- 37** Bottom Line: Success requires leadership. APEC must continue to provide this leadership on a regional basis and look for opportunities to redouble its efforts where possible. Our overwhelming conclusion is that member economies should take specific action to explicitly and unconditionally recognize the link between the goals of liberalisation and the cooperative measures needed to improve capacities and to strengthen the region's institutions. The recommendations included in this paper would make that link better define the real intent of the Bogor declaration and give a constructive impetus to the attainment of the Bogor Goals in the time frame envisioned.

- **APEC Member Economies**

Australia
Brunei Darussalam
Canada
Chile
People's Republic of China
Hong Kong, China
Indonesia
Japan
Republic of Korea
Malaysia
Mexico
New Zealand
Papua New Guinea
Peru
Republic of Philippines
Russia Federation
Singapore
Chinese Taipei
Thailand
United States
Vietnam

