

APEC 2013

Indonesian leadership in Bogor, then Bali

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1994 was a very important meeting of APEC leaders. Their Bogor Declaration has defined APEC's style of cooperation, modeled on the success of ASEAN as a pioneer of an essentially voluntary, outward-looking and results-oriented cooperation among a very diverse group of economies. The Bogor Goals for free and open trade and investment by 2020 have defined much of APEC's work program for the past two decades.

The region is now much closer to free and open trade and investment. As APEC hosts for 2013, Indonesia has the opportunity to define what APEC should expect to achieve by 2020 and to shape APEC's trajectory to 2030 and beyond. That trajectory can be based on the strategy for balanced, inclusive, sustainable, innovative, and secure growth, endorsed by APEC leaders in 2010 and the agreed theme for 2013 – *Resilient Asia Pacific, Engine of Global Growth*.

At their November 2013 meeting, APEC leaders can endorse ambitious, measurable but realistic targets for many of APEC's ongoing work to promote regional economic integration and to support structural adjustment in Asia Pacific economies needed to sustain resilience and to contribute to global growth.

Some of these targets can define how close Asia Pacific can expect to move towards the agreed ideal of free and open trade and investment. These can be accompanied by targets for measurable progress towards the even more ambitious vision of a seamless regional economy adopted by APEC leaders in 2011. Such targets could include measures of improved connectivity and ease of doing business.

By setting and making measurable progress towards targets which promote resilience and make international commerce cheaper, easier and faster, APEC will come to be seen as an effective process of cooperation. That, in turn, will help to mobilise the significant resources that will be needed to be invested in infrastructure and capacity-building needed to sustain high quality growth beyond 2020.

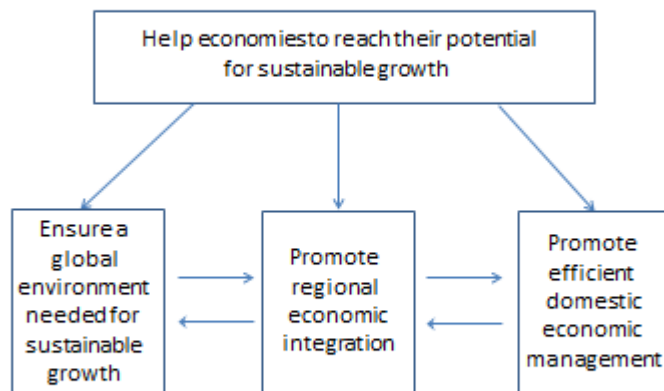
Looking ahead APEC can learn a lot from ASEAN's commitment and impressive progress towards an ASEAN Economic Community (AEC) by 2015. They may not

meet all the objectives adopted in the AEC Blueprint but, by 2015, ASEAN economies will be more integrated than almost any other group of economies.

Global, regional and domestic objectives

APEC's over-arching objective is to help our economies reach their potential for high quality growth. Regional economic integration is just one of the means to promote high quality economic development. Asia Pacific economies also need to help each other meet domestic objectives and to help maintain the conditions needed for global development.

Objectives of regional economic cooperation



Global interests

As the most dynamic part of the global economy the Asia Pacific can, and should, contribute to solving serious global problems. Asia Pacific economies will not realise their potential unless there is a robust recovery from the global financial crisis and global warming can be contained.

To help deal with these challenges, Asia Pacific governments need to identify shared regional interests, then look for ways to inject them into global forums. APEC's most effective contribution to the world will be to set positive examples.

Indonesia has already drawn the G20's attention to the opportunity to accelerate investment in infrastructure. Much more of Asia's savings can be directed to filling huge gaps in economic infrastructure, including in Asia Pacific economies. This is a major priority for APEC 2013.

Accelerating investment in infrastructure will improve connectivity, promoting inclusive growth as well as regional economic integration. It will also contribute to reviving global demand and confidence in recovery.¹

If APEC can set out a targeted strategy for a significant scaling up investment in infrastructure in 2013, the G20 can follow that up under Australia's leadership in 2014. This is an example of how APEC can be a pathfinder in the G20 and create synergy between regional and global economic cooperation.

Domestic policy challenges

Focusing on investment in infrastructure will also show how APEC contributes to policy-making and institutional development in member economies; in this case, to create a better environment for investment, including private sector investment in infrastructure.

All Asia Pacific economies can learn from each other to improve the capacity to select and prepare projects with potential high economic rates of return, then, to draw on successful experience to set pricing and risk sharing policies needed to translate potential economic returns to predictable cash flows.

Indonesia has already nominated several other areas for policy-oriented sharing or expertise and experience, including:

- administrative and regulatory reform to support medium-term strategies for growth.
- mobilising private sector financing for infrastructure.
- implementing social protection programs in well-targeted and affordable ways.
- financial inclusion, including through innovative use of mobile technology.
- institutional arrangements and software to improve budget and public expenditure accounting.

These are just some of the ways the Economic Committee and the Committee on Trade and Investment are already contributing to policy development in the region. It should be possible to set targets for what economies expect to achieve, for example by measuring improvements in the efficiency of institutions.

¹ The potential contribution of accelerate investment in economic to global economic recovery is summarized in Elek (2011) How can Asia help fix the global economy?, *East Asia Forum*, October 2, available at: <http://www.eastasiaforum.org/2011/10/02/how-can-asia-help-fix-the-global-economy/> Lin and Dömeland (2012) Beyond Keynesianism : global infrastructure investments in times of crisis, World Bank *Policy Research Paper*, WPS 5940 recommends a coordinated global initiative for investment in infrastructure .

Economic integration in the Asia Pacific

In 1994, the high border barriers to trade were a serious constraint to realising the economic potential of the Asia Pacific. That is why APEC leaders set the Bogor goal of free and open trade and investment.

Since 1994, a consistent commitment to the Bogor vision has led to significant liberalization of trade and investment. Asia Pacific liberalization has been faster and more comprehensive than in any other region. The extent of trade and investment integration among our economies already compares favorably with what has been achieved by the European Union.² This success is certainly welcome. But there is much more to be done.

The international economy has been transformed by the revolution in information and communications technology. International commerce now involves far more than trade, or even investment. Richard Baldwin has described today's international commerce as:

*an intertwining of trade in goods, international investment in production facilities, training, technology and long-term business relationships; and the use of infrastructure services to coordinate dispersed production.*³

Within this new environment, achieving APEC's already agreed long-term objective of a seamless regional economy will need more than free and open trade and investment.

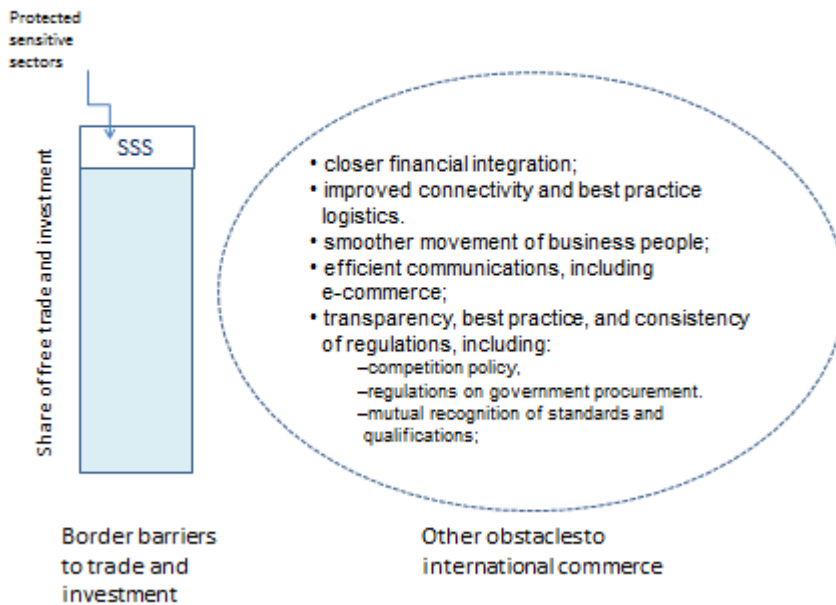
Looking ahead, the most substantial problems are behind-the-border regulatory barriers, inadequate transport, telecommunications, limited institutional capacity, shallow capital and bond markets and weak financial integration.

The business sector is well aware of these new constraints on closer integration. They are telling governments to shift the focus of regional economic integration. Dealing with across-the-border problems of connectivity and behind-the-border problems of needless differences in economic regulations is now more important to them than further liberalization of border barriers.

APEC now needs to complement an environment of already largely free trade by focusing on new opportunities to promote economic integration.

² Shiro Armstrong and Peter Drysdale (2011) "The influence of economics and politics on the structure of world trade and investment flows", in *The Politics and Economics of integration in Asia and the Pacific*, ed. Shiro Armstrong, Routledge.

³ Richard Baldwin (2011) 21st Century Regionalism: Filling the gap between 21st century trade and 20th century trade rules, Centre for Economic Policy Research, Policy Insight No. 56, May; available at: <http://www.cepr.org/pubs/PolicyInsights/PolicyInsight56.pdf>



The right-hand side of this diagram lists the many issues that need to be tackled to move towards a seamless regional economy. APEC has been doing good work on all of these issues for many years. Setting measurable and realistic goals for progress on these important dimensions of mutually beneficial economic integration can help mobilise political commitment and resources. Accelerating cooperation on all these issues to make international commerce cheaper, easier and faster will require a massive capacity-building in all Asia Pacific economies in the coming decades.

Attainable Bogor goals

Turning to potential targets, the top priority is to set attainable goals for free and open trade and investment by 2020.

The Bogor goals were not defined in precise terms in 1994 –that is probably why APEC leaders accepted them. At that time, it was sufficient to express an ideal of free and open trade and investment to give a clear sense of direction for regional economic integration. Now that we are much closer to the ideal and to 2020, it is time for a reality check.

There has never been, and never will be, a region of completely free and open trade and investment. We need to accept political reality in order to set attainable targets for 2020.

There are only a few sectors where governments still want to shelter producers from international competition or international investment. Due to political pressures, many APEC governments protect some agricultural commodities and low-technology manufactures. Many governments also want to keep restrictions to trade in services

or to international investment in some sensitive sectors. That is not going to change by 2020.

Nevertheless, APEC leaders should be able to commit 2020 targets which would demonstrate clearly that the Asia Pacific of 2020 is a region of essentially free and open trade and investment.

APEC leaders could commit to a region where almost 100 per cent of the value of trade in goods faces no tariffs or quantitative restrictions. They could also commit to an environment of free trade in services and national treatment of international investment, except for a short negative list of sectors, which should cover no more than a very small share of Asia Pacific economies. Such targets would be valid end-points for the commitments made in 1994.

A few products and sectors would remain protected, but would account for very small proportions of economic activity. APEC governments can follow up their initiative to ensure free trade in information technology products and some environmental products, by agreeing that all new products should be freely traded.⁴ In that case, the shares of trade and investment still impeded by traditional border barriers will shrink very rapidly towards zero.

Towards a seamless regional economy

Against this background, it is efficient to shift the emphasis of regional economic integration to where the biggest gains can be obtained.

The Director-General of the World Trade Organization has pointed out that:

every extra day required to ship goods, reduces trade by 1 per cent. On an average sea voyage of 20 days, one extra day at sea results in 4.5 per cent drop in trade between any two trading partners. Overall, the OECD estimates that for its Members, the fees, formalities and clearance procedures constitute roughly 10 per cent of the value of any trade transaction. This is almost double the worldwide average trade weighted tariff. Globally, that is close to \$2 trillion.⁵

The mounting evidence of far greater potential gains from dealing with across-the-border and behind-the-border obstacles to international commerce suggests that any

⁴ Elek, A (2008) "Immunising future trade against protectionists: preventing the emergence of more sensitive sectors", *Asia Pacific Economic Papers*, No.372 sets out a proposal that could ensure that all new products will be freely traded.

⁵ Lamy, P (2012) Snape Memorial Lecture 2012, available at http://www.pc.gov.au/data/assets/pdf_file/0015/120561/snape-2012-lamy.pdf. Additional evidence on the gains from trade facilitation can be found in Organisation for Economic Co-operation and Development (2005), The economic impact of trade facilitation, *Trade Policy Working Paper 21*.

efficient agenda for economic integration should no longer be held back by waiting for possible marginal gains from trade liberalization.

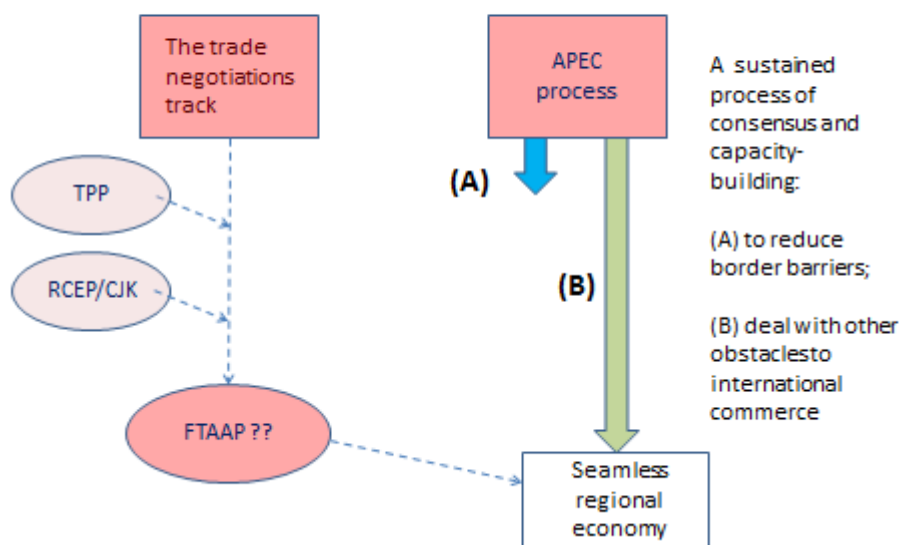
That does not mean abandoning trade liberalisation. But the time has come for an appropriate division of effort between ongoing trade negotiations and the APEC process itself.

Parallel tracks

Work towards a seamless regional economy is already proceeding along parallel tracks:

- trade negotiations that try to achieve further trade liberalization and to set rules for some new issues;
- voluntary cooperation within APEC on many other ways to make international commerce cheaper, easier and faster.

Towards a seamless regional economy



Trade negotiations

Further liberalization of trade and investment will need to deal with sensitive sectors. Any progress is most likely to be made in trade negotiations, including the Trans-Pacific Partnership (TPP), China-Japan-Korea (CJK) and Regional Comprehensive Economic Partnership (RCEP) efforts already under way.

The pace and final outcome of these trade negotiations is quite uncertain. After more than ten rounds of negotiations, the number of participants and the potential scope of a possible TPP is yet to be determined. . The TPP negotiators have made the same

mistake as those attempting to negotiate the WTO Doha Round – commitment to reach a single undertaking on almost thirty very different issues. Therefore, nothing can be agreed until all the difficult issues, such as market access and intellectual property rights can be resolved. And there is no indication that the United States is prepared to make any of the significant policy changes needed on difficult issues for a meaningful outcome. Negotiations for an RCEP and a CJK trade deal are just starting and could also experience the same kind of difficulties as the Doha Round.

If high-quality TPP, RCEP and CJK trade agreements can be concluded, APEC governments may then decide to commence negotiations towards a potential FTAAP. That would be far greater challenge.

An eventual FTAAP could achieve some further liberalization of trade in sensitive products. Chapters on new issues could also set useful region-wide disciplines to reduce needless policy obstacles to international commerce. But that would only meet part of what the business sector needs to facilitate international commerce.

However, it would be a big mistake to assume that a potential FTAAP would deliver a seamless economy in the Asia Pacific. That is evident from the experience of European economic integration. And the ASEAN Economic Community is a far more ambitious objective than any free trade area. ASEAN's experience also tells us that creating an economic community needs a lot more than negotiating chapters in trade agreement.

The APEC track

The technically simple, task of eliminating tariffs, licensing and other border barriers to trade and investment can be negotiated, subject to political will. Very different constraints need to be overcome to deal with behind-the-border issues.

ASEAN's efforts to create the ASEAN Economic Community has provided practical evidence of what is needed to make progress towards a seamless regional economy, dealing with issues including closer financial integration; improved connectivity and best practice logistics, business mobility or transparency, best practice, and consistency of regulations.

Cooperation needed to make progress towards targets for these dimensions of economic integration, as set in the 2003 ASEAN Economic Community Blueprint⁶ on these issues, is expected to lead to mutual benefits. So governments want to move in the same direction. There is little need for negotiations to persuade governments to make changes sought by others.

The real constraint to implementing commitments is the capacity to:

- design efficient arrangements for cooperation,

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- then to overcome limits of skills and institutional capability to implement agreed arrangements.

Agreeing on codes of conduct is, of course, an important part of the ASEAN Economic Community challenge. And negotiations are needed in some cases. But negotiations alone are not enough.

For example, to create a regional gas and electricity grid, ASEAN will need more than agreed rules to specify and monitor pipe pressures and voltages. Actual construction needs cooperation to raise money and to build the physical links to connect economies. Luddy (2012) contains other examples of the need for learning together to develop:

- the legal framework and the technical capacity to implement the ASEAN Single Window for reducing across-the-border transaction costs; and
- the APEC Data Privacy Framework to create a secure environment for the domestic and international electronic exchange of data.⁷

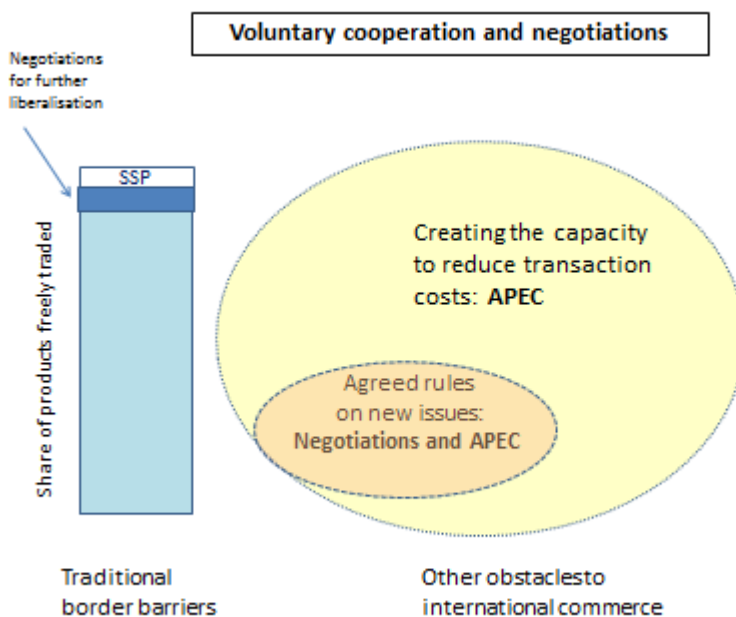
In each case legislative and regulatory reforms, to be embedded and enforced by the domestic legislation of participating economies, are being developed by consensus-building and capacity-building to design and adopt the necessary technology.

These and other experiences of practical cooperation to deal with across-the-border and behind-the-border issues, demonstrate the need to combine:

- disciplines or codes of conduct, agreed by consensus-building or by negotiations;
- with a comprehensive capacity-building effort that helps to narrow development gaps.

An efficient division of effort between APEC and trade negotiations to meet these requirements can be illustrated as follows:

⁷ Luddy (2012) "Background Briefing Note on Institutional Connectivity" Presented to the APEC symposium 2013, Jakarta, Indonesia, December.



Whatever is achieved by negotiations, there will be plenty of scope for APEC to design and implement mutually beneficial cooperative arrangements. That work is in line with the comparative advantage of a voluntary process of cooperation like APEC.

Learning from ASEAN – a blueprint for progress

APEC can also learn from ASEAN on how to set out plan for making measurable progress to reduce across-the-border and behind-the-border obstacles to international commerce.

ASEAN' detailed blueprint for the AEC, has been backed by an excellent Master Plan on Connectivity.⁸ The coverage of these plans is very similar to APEC's Osaka Action Agenda.

The big difference is that ASEAN has set a full range of specific, measurable targets for moving towards the AEC. That has attracted the political commitment and resources needed to make things happen.

APEC could draw up its own blueprint for measurable progress towards a seamless regional economy in the Asia Pacific, adding to some already agreed targets, such as improving the efficiency of supply chains.

A Bali blueprint for APEC

In addition to attainable targets for trade and investment liberalization from now to 2020, worthwhile targets can be set for other parts of the APEC growth strategy. For

⁸ The *ASEAN Master Plan on Connectivity* is available at <http://www.aseansec.org/documents/MPAC.pdf>

example, specific targets can be set to begin to meet the 2013 priority to scale up investment in economic infrastructure, especially from the private sector.

Infrastructure and connectivity

Cooperative policy development

At present, investment in infrastructure is held back by the lack of clear or consistent regulatory frameworks, weak implementing institutions and the lack of deep and broad financial markets.

To help fix these problems, APEC leaders could commit to develop an APEC-wide strategy for regulatory and legal reform and harmonisation of policies to improve prospects for investment in infrastructure. Economy-specific targets for implementing the strategy could be set for 2015 and 2020.

Financial innovation

ABAC has proposed an Asia-Pacific Financial Forum (APFF) to help promote financial sector efficiency and integration. APEC Finance Ministers will consider this idea early next year. That could help set some specific goals in this vital area.

Flagship projects

APEC leaders will want to do more than endorse further policy development. To sustain their commitment to better connectivity and achieve tangible results, APEC leaders could agree on cooperation to launch some significant flagship projects.

A flagship project for Indonesia can be selected from its MP3EI infrastructure master plan for projects at the provincial/national level. APEC as a whole could commit to a measurable improvement in the efficiency of major ports and airports by 2020 and perhaps 2025.

Another regional flagship project could be a massive upgrading of connectivity between Southeast Asia, Northeast Asia and South Asia, taking advantage of Myanmar's gradual opening.

Other objectives

During the next few months, it should be possible to take a close look at APEC's work programs. Many of these are trying to make measurable progress, so it should be possible to identify more attainable medium-term goals.

Some potential examples are as follows:

- It should be possible to build on the successful experience with APEC Business Travel Card. For example, by 2014, it may be possible to issue APEC Travel Cards to academics in order to complement APEC's agreed aim of promoting academic exchanges. By 2020, a much wider range of 'trusted

travelers' could be using APEC Travel Cards.

- It may be possible to set some meaningful targets for some important parts of the APEC Leaders' Agenda to Implement Structural Reform (LAISR).
- On the global front, APEC has already set positive examples. The commitment to free trade in information technology products in the 1990s and in some environmental goods last year are examples shows that APEC can be a pathfinder for potentially global cooperation.

Learning together

All of our governments will need to work together to reach targets that are ambitious as well as realistic. Raising our capacity for better policy-making is not just a matter of people from some economies teaching others. There is room for improvement in most institutions in all of our economies. Capacity-building is a matter of learning together.

To a very large extent, APEC's input to meeting global, regional or domestic objectives is sharing information, experience, expertise and technology to help design and implement better policies.

That is APEC's real contribution to development cooperation. Such knowledge sharing has already made APEC the world's most effective example of triangular cooperation among developed, emerging and other economies.

Learning together to meet specific goals for 2015, 2020 or beyond will need significant resources. Some of these could be diverted from the current 'micro aid program' of tiny projects that dominate the current ECOTECH agenda.

A very different and form of development cooperation now needs to be funded and focused on meeting APEC's central objectives.

Conclusion

In 2013, APEC can set well defined medium-term targets in line with the agreed 2010 strategy for high quality growth. These should include an attainable form of the Bogor goals for free and open trade and investment by 2020.

APEC can then look ahead to the next, even more ambitious ideal of a seamless regional economy in the Asia Pacific. At the same time, APEC can contribute to domestic and global policy objectives.

Setting and meeting ambitious, but realistic goals for 2020 and 2030 will allow APEC to record successes, year after year.