

The Next Ten Years of APEC: Building on a Firm Foundation

By Maarten Wevers

In Auckland in September last year, APEC Economic Leaders celebrated "ten years of unprecedented cooperation in our region, in pursuit of a vision of stability, security and prosperity for our peoples".

In their declaration, "The Auckland Challenge", Leaders committed themselves to exercising leadership to reach APEC's goals, and said they were united in their belief that "the path to increased prosperity requires continual reform and adjustment of our policies and outlook. An open regional framework, within which competition and cooperation flourish, is the best means of building a prosperous future together. We embark on APEC's second decade confident that a deepening and enduring spirit of openness, partnership and community is being built. The challenge we collectively face is to maintain our momentum and deliver on our commitment. We accept the challenge".

This strong affirmation of the APEC process was an excellent outcome to New Zealand's year in the Chair of APEC. It provides a firm foundation for the further development of the process, and the continued economic integration of the region.

Remarkably, in only ten years, APEC has become the foremost vehicle for cooperation in the Asia Pacific. It is the only forum which brings together annually regional leaders, who between them represent approximately half of global output, global trade, and global population. The Informal APEC Economic

Leaders' Meeting has become one of the most important high-level political gatherings of the international calendar.

Who would have imagined when APEC Ministers first met in Canberra in 1989 that the developed and developing member economies of APEC would have agreed a common goal of free and open trade and investment by 2010/2020? Who would have imagined the



APEC leaders prepare for a new decade of further development

Photo: Maarten Wevers

inauguration of annual Leaders' meetings? Who could have foreseen APEC membership expanding to include half of global output?

When APEC was launched, it was seen to have enormous potential for bringing the economies of the region together, and for lifting living standards through economic cooperation. In its first ten years, that potential has begun to be realised. Indeed, APEC has embarked upon a clear and ambitious path in pursuit of trade and investment growth, and achieved significance not just regionally, but also globally.

The Auckland meetings showed, yet again, the value of gathering Leaders together to give political impetus and substance to the APEC vision. Once more, they were able

to pursue bilateral political and economic objectives with colleagues in numerous formal and informal meetings.

Leaders came to Auckland in September 1999 against the background of two very difficult years for the regional economy. A number of APEC economies had suffered severe economic and social shocks, which had caused sharp reductions in economic activity, including trade and investment; widespread bankruptcies; increased unemployment; and a range of serious social consequences.

Questions had been asked, including in the business sector, about APEC's ability and willingness to respond to the crisis. In light of the lack of progress during 1998 over Early Voluntary Sectoral Liberalisation, doubts had been expressed about whether or not APEC economies really were willing to continue voluntary liberalisation in pursuit of the Bogor Goals of free and open trade and investment.

Fortunately, when APEC Ministers Responsible for Trade met in New Zealand in June, confidence and economic momentum, which had both declined in the region during 1997 and 1998, were slowly beginning to return. By the time Leaders gathered, three months later, signs of economic recovery had strengthened further. Leaders stressed they were not complacent about the risks that might impede recovery, and committed themselves to maintain the momentum for reform. They noted "we accept responsibility for resisting protectionism, opening markets further,

and addressing structural and regulatory weaknesses that contributed to the downturn since 1997. We will achieve this by strengthening our markets through regulatory reform and enhanced competition and by improving the international framework governing trade and investment flows. To this end we commit to the launch of a new Round of negotiations in the World Trade Organisation".

The outcomes of the Auckland Leaders' Meeting provided a good platform for APEC's second decade.

Firstly, the clear and uniform reaffirmation by Leaders of their commitment to the APEC process was a welcome political signal, including to business in the region. Leaders stressed their intention to continue down the APEC path, and cooperate in pursuit of economic reform, the promotion of trade and investment liberalisation and facilitation, and capacity building. They committed to ongoing reform through unilateral actions to make markets function better, improve competition and regulation, and better link economies into the international marketplace. They also acknowledged, explicitly, the need to achieve fuller participation in economic development by all of their populations; the existence of income and wealth disparities between and within economies; and the role of appropriate social safety nets. Leaders spoke of the need to build support for the APEC process, and carry their populations with them in strengthening regional linkages and open markets. This political dimension of economic reform and integration, and globalisation, was one of the challenges identified by Leaders in Auckland.

Secondly, Leaders gave a strong message of support for a new Round of multilateral trade negotiations under the World Trade Organisation. Since its inception, APEC has always worked to strengthen the multilateral trading system. APEC member economies are clearly of the view that, without the backing of improved rules to govern international trade

more broadly, efforts to develop new trade and investment opportunities in the region will deliver less. We should also recall that APEC is not an exclusive free trade or customs area. APEC's open regionalism explicitly supports the basic principles of the WTO.

When APEC Leaders first met in Seattle in 1993, their deliberations were instrumental in bringing the GATT Uruguay Round negotiations to a successful conclusion. In Auckland, Leaders emphasised they wanted APEC to continue to play a leadership role in strengthening the global economy, and pledged their "strongest possible support" for a new WTO Round. They stated "We see continued growth in international trade and investment as the best means of achieving prosperity and security".

It was clear from the "Auckland Challenge" and from the Joint Statement issued by Ministers, that the APEC process and the WTO are seen as mutually reinforcing. APEC's value lies in encouraging unilateral reforms at the border, and domestically in economies; in enhancing the effective management of economies; and in strengthening capacity in policymaking, administration and commerce. APEC's voluntarist approach complements the wider and legally binding WTO negotiations, and seeks to encourage WTO members to improve the environment for the expansion of trade globally.

At their meeting in June in Auckland, APEC Ministers responsible for Trade gave strong encouragement to possible new negotiations in the WTO. In September, Ministers reaffirmed their commitment to open regionalism and underlined the critical importance of the forthcoming negotiations. Particular emphasis was given to the interests of developing countries. Ministers called for the elimination of agricultural export subsidies, which greatly damage the interests of agricultural and developing country producers.

At the time of writing this article, the outcome of the Third Ministerial

Meeting of the World Trade Organisation in Seattle was unknown. But APEC member economies were united in Auckland in their wish to see a new Round of negotiations commence, to expand international trade and investment flows and strengthen the role of the WTO. Ministers also agreed that support for the WTO negotiations should remain a key area of APEC's ongoing work, thus emphasising continuing commitment from APEC to the WTO.

APEC members have consistently pledged to take unilateral steps to reform and open their economies, and thereby strengthen both the international economy and the competitiveness of their enterprises. This process of voluntary and unilateral actions will continue alongside any negotiations that may be agreed at the WTO Ministerial Meeting. Leaders and Ministers made clear in Auckland their expectation of progressive steps within APEC towards the Bogor Goals. APEC economies will not simply await developments in the WTO. Leaders and Ministers have directed that APEC member economies undertake further domestic measures to promote the liberalisation and facilitation of trade and investment, to strengthen the functioning of markets, and to improve economic and technical cooperation.

A third key outcome from the Auckland meetings was the work programme to strengthen the functioning of markets. This is a new area of attention for APEC, and is likely to receive emphasis in APEC's work programme for some time.

"Strengthening markets" was one of three themes proposed for New Zealand's year in the APEC Chair (along with "expanding opportunities for business", and "broadening support for APEC"). "Strengthening markets" attracted wide support from member economies, including from developing economies, as well as representatives of the business sector, and bodies such as the Pacific

Economic Cooperation Council, PECC. This theme reflected the realisation that successful economies are those that are able to grow internationally competitive firms able to innovate, adapt, attract investment, and generate employment and income. For firms to grow successfully, in addition to physical infrastructure, they require considerable "soft" market infrastructure - a solid and predictable legal and accounting framework with appropriate channels for redress; good auditing practices; transparency in regulation and governance; and sound policy and regulatory settings.

It was also apparent from the impact of the regional economic crisis that poor regulation of sectors such as banking and finance, inadequate economic and corporate governance, and inappropriate policy settings, were key factors in the collapse of those economies. Many APEC economies are keen to enhance their expertise and capacity, in both the private and public sectors, and introduce better policy settings, better rules for banking and corporate behaviour, and international legal and accounting standards in order to re-establish a sound business infrastructure.

The "strengthening markets" theme also recognises that as markets in the region are progressively opened to trade and investment at the border, through the reduction and eventual elimination of tariff, non-tariff and investment barriers, the ability of firms to develop and grow will depend on their ability to succeed in the face of full international competition. Firms need to be well-positioned to do this. The importance of "behind-the-border" issues such as industry and professional regulation, legal and competition policies, standards and conformance, and access to domestic markets will increasingly determine whether firms prosper. Do government policies and regulations impede or assist firms to compete successfully?

Let us consider the joint market between Australia and New Zealand,

where all border barriers (tariffs and quotas) have already been eliminated. A key determinant for business success in this expanded market of over 20 million consumers is the ability of firms to compete fairly in the other market. Border measures now have no impact. Traditional distinctions between domestic economic policy, and international trade and investment policies, are increasingly less relevant as firms and markets globalise. Firms will be free to make choices in their investment decisions, and will do so on the basis of rules within markets.

One outcome of the "strengthening markets" theme was adoption by Leaders of "APEC Principles to Enhance Competition and Regulatory Reform". Through implementation of these principles, economies will voluntarily seek to promote competition and good economic and corporate governance, and appropriate policy settings. All economies in the region, developing and developed, face challenges in introducing competition throughout all sectors. Even the most developed members, such as Japan and the United States, have markets which do not yet operate properly, or openly, or where firms are not yet exposed to full international or even domestic competition. Building strong and resilient markets will add a strong new dimension to APEC's ongoing work programme, one that will complement the traditional trade and investment liberalisation and facilitation initiatives, and enhance institutional and policymaking capacity, through economic and technical cooperation. Some initial projects have already been agreed, including to strengthen financial systems in the region.

Leaders and Ministers made a number of specific decisions in Auckland which will give further impetus to APEC and consolidate its role in the region. For example, Leaders adopted the "APEC Food System", which had originally been proposed by the private sector APEC Business Advisory Council, ABAC. Under this initiative, APEC

economies will build a robust regional food system that efficiently links together food production, food procession and consumption. This will be achieved through the development of rural infrastructure, promotion of trade in food products, and dissemination of technological advances in food production and processing. This initiative is of considerable significance - not just because it has emerged from the private sector and been adopted by Leaders - but also because food and agricultural markets remain much more distorted and closed to trade and investment flows than other markets. A long-term cooperative effort by APEC economies to address the sensitive food sector, if successful, will be an enormous step towards true regional economic cooperation, and will lead to significant improvements for developing economies and the rural poor in particular.

In response to another ABAC initiative, Leaders supported proposals to liberalise further the air services markets of the region, through eliminating restrictions on ground handling and computer reservations services; removing barriers to air freight providers; allowing multiple designation of airlines; and allowing inter-airline cooperative arrangements such as code-sharing. Freeing up air services is a step towards achieving the Bogor Goals of free and open trade and investment by 2010/2020, and will expand opportunities for travel and trade in the region, including in developing economies.

Leaders also adopted the "Framework for the Integration of Women in APEC". The New Zealand Prime Minister, Rt. Hon. Jenny Shipley, observed that the role of women in Asia-Pacific economies is growing and that APEC should seek to increase this participation further. The Framework is designed to ensure that women are increasingly able to contribute to and benefit from the prosperity of the region, including through the removal of barriers that limit access

to capital, technology, and education and training.

During their discussions, Leaders decided to launch work on the development of banking standards for possible adoption by APEC economies, and instructed Ministers to give priority to trade facilitation in 2000. They also said that Ministers should intensify efforts to eliminate non-tariff impediments associated with trade facilitation.

When Leaders met in Auckland they were mindful that APEC had just completed its first ten years. They looked back with satisfaction on what APEC had achieved since the inaugural Ministerial Meeting in Australia in 1989, and particularly since Leaders first gathered at Blake Island in 1993. As I noted in the introduction, Leaders celebrated ten years of unprecedented cooperation in the region, and committed themselves to continue to exercise leadership to achieve the goals that they have identified for APEC.

My strong impression was that, at Auckland, Leaders and Ministers, and the business community, reaffirmed the value that they attach to APEC, as it enters its second decade. They continue to see significant worth in the pursuit of regional economic cooperation, both for their own economies and businesses, but also for their partners. They are resolved to ensure that the collaborative and open approach that has been developed within APEC is maintained and expanded.

Future hosts - Brunei Darussalam, in 2000; China, in 2001; Mexico, in 2002; Thailand, in 2003; and Chile, in 2004 - will all have come away from Auckland with a clear road map for APEC. It is one that maintains the commitment to the core goals of achieving trade and investment liberalisation and facilitation through a combination of unilateral and collective actions; a renewed emphasis on effective economic and technical cooperation and capacity building; a new work programme to strengthen the functioning of markets, both

domestically and internationally; and an enhanced awareness of ensuring that the peoples of the APEC region are able to participate in the prosperity of the region.

The response of APEC member economies in Auckland to the East Timor crisis has also raised questions about whether or not APEC should seek to assume a more political role in future. My own view is that it is still too soon for APEC formally to move into discussion of political and security issues - and such a move



The New Zealand Prime Minister Jenny Shipley (left) and Prime Minister Obuchi Keizo (right) at the APEC Summit

Photo: Maarten Wevers

may never happen. But the Auckland meeting demonstrated how mutual understanding and trust has grown amongst APEC member economies and how this is producing dividends in other areas. The search for stability, security and prosperity encompasses and encourages a wide range of contacts and new linkages, which in turn build a sense of shared interests among Asia-Pacific economies.

Another feature of New Zealand's year in the Chair of APEC in 1999 was the enhanced dialogue with business. In addition to domestic events held in association with all Senior Officials' Meetings, there were international business dialogues initiated directly with APEC

Ministers Responsible for Small and Medium-sized Enterprises, and Trade. These were both successful, and allowed the private sector to convey views directly to Ministers on issues of concern to them. Brunei Darussalam has undertaken to continue this level of interaction with private business. There was a successful CEO Summit held in Auckland, which attracted over 250 top-level CEOs from around the region. This event too played a role in rebuilding business input to APEC, and allowed unprecedented access to Economic Leaders. Like ABAC, CEO Summit participants strongly encouraged Leaders to maintain their commitment to reform and market liberalisation, but also offered business support for rebuilding markets in the region.

One final point. It was noticeable in Auckland that a number of APEC member economies indicated they wished to embark on new initiatives in pursuit of free trade, in addition to their political commitments under APEC. New Zealand and Singapore announced they were entering negotiations on a free trade agreement, as did Chile and Korea.

There were also indications that New Zealand, Australia, Chile, Singapore and the United States might wish to consider discussions on a free trade agreement. These various proposals reflect awareness on the part of some APEC economies that, in combination with the new WTO negotiations, further efforts will be required if the Bogor Goals of free and open trade and investment are to be achieved. For many APEC economies, there remain only ten years to achieve that ambitious goal.

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Maarten Wevers was the chairperson at the APEC Senior Officials' Meeting, 1999.