

# **Presentation to Mansfield Foundation Roundtable on Asia Pacific Economic Cooperation**

## **Supplementary Submission to the Productivity Commission inquiry on FTAs and RTAs**

**Andrew Elek**

**April 2010**

---

This presentation summarises a strategy for APEC beyond 2010. It was presented on April 15, 2010 to a roundtable on “Regional Arrangements in East Asia: APEC 2010 and 2011” organised in Washington DC by the Mansfield Foundation, the United States National Center for APEC and the Australian National University.

The presentation is based on my paper “Towards a single market: a 21<sup>st</sup> century vision for Asia Pacific economic integration” which has already been submitted to the enquiry.

## Roundtable on Regional Arrangements in East Asia: APEC 2010 and 2011

Washington, D.C, April 15, 2010

Andrew Elek

---

Since the Bogor goals were set in 1994, the world economy has become far more integrated. Therefore, as we look ahead, the APEC process needs to be seen in a global context.

The most important international economic issues are now global, not regional. Financial stability, macro-economic coordination and dealing with climate change all require global solutions. And economic giants like China and India cannot be accommodated in less than a global region of genuinely open trade and investment.

The pattern of international commerce continues to be market-driven, but its nature has changed radically. Trade in finished goods is now only a just part of intertwined international movements of investment, services, components, expertise and information.

Thanks to falling costs of transport and vast leaps in information technology, global supply chains are becoming ever more important. These production networks are increasingly global, not regional.

-----

Against this background, some forms of regional cooperation are either obsolete, beside the point, or even run counter to our global interests.

For APEC to be useful in a global setting, we need to think about the rest of the world. We need to:

- project shared Asia Pacific interests into global forums, especially the G20;
- promote economic integration in ways which set examples and precedents for global integration.

For APEC to be efficient, we need to be aware of the comparative advantage of a voluntary process of cooperation.

APEC should not be expected to solve problems where:

- global solutions are needed,
  - or where negotiations are needed.
-

Voluntary cooperation and mutual encouragement have proved useful where I expected them to work, but not delivering some things they should never have been expected to deliver.

On balance, our governments can point to impressive progress on liberalisation as well as other means for reducing the cost and risks of trade.

APEC economies have lowered many of their border barriers significantly since 1989 and most products now face low, or no, border barriers. Other policies to facilitate trade and investment are already saving billions of dollars every year.

The Bogor goals have been a useful point of reference and contributed to this progress.

At the same time, we will never get rid of all impediments to trade or investment; there will always be more to do as new technology raises new issues. Therefore we should not worry too much whether the Bogor 2010 goal has been met in full.

Let us declare victory and move on.

-----

This is a time to look ahead and adopt a new vision, based on experience and the remarkable change in the nature of international commerce since 1989.

Promoting ever-closer economic integration remains the core challenge for APEC, but the nature of the impediments has shifted. That is why we have to lift our vision beyond just free trade, to deeper integration.

We need to look beyond trade liberalisation and move towards a single market.

-----

Traditional border barriers to trade in some sensitive products remain costly, but it would be unwise to continue to be preoccupied by them, for several reasons.

Firstly, if the world ever overcomes the vested interests of heavily protected producers, it will not happen in APEC. We cannot afford another debacle like the so-called Early Voluntary Sectoral Liberalisation debacle. So let us leave negotiations to other forums.

Game theory and experience to date, suggest that the WTO is most likely to make gains, difficult as that is proving to be.

Other options are also being tried. Negotiations for a TPP are under way and they may make some headway. A TPP may be ratified in a few years. Then, we can assess whether it has added significant value. If so others may be willing to join.

-----

Another reason APEC should look beyond traditional border barriers is that they affect a rapidly shrinking part of international commerce.

Today, we must find to deal with:

- problems of communications and logistics, often linked to security concerns;
- lack of efficiency, transparency, needless divergence and sometimes arbitrary implementation of economic policies in different economies.

These are the dimensions of cooperation where the marginal benefits of cooperation are now greatest.

Research, including by the OECD, the World Bank and the ADB, tells us that the potential gains from reducing transactions costs other than traditional border barriers are enormous.

- the ADB has cited potential to save up to 1 per cent of the value of traded products by reducing port clearance times by one day.
- the World Bank tells us that bringing below average APEC members half way to the APEC average efficiency would result in a 10 per cent increase in intra APEC trade, worth about US\$ 280 billion per year.
- APEC's new 2009 target, to make it making it 25 percent cheaper, faster and easier to do business within APEC economies by 2015 should reduce the average the cost of importing and exporting a container of goods by up to US\$450 per year.

-----

The declarations of APEC leaders and ministers in 2009 stressed the importance of these issues and set out the way they can be dealt with in APEC.

As they explained, dealing with trade logistics and structural adjustment is in line with the comparative advantage of a voluntary process of cooperation like APEC.

Cooperation to deal with these problems is a matter of encouraging gradually better policy-making, including policies for many areas which are well inside the borders of our economies.

The effective constraint on collective action to create a more commerce-friendly domestic as well as international environment is not political will. It is limited capacity to design and implement the necessary policy reform. And capacity cannot be created by negotiation.

For example, easier movement of business people cannot be achieved by negotiating statements of good intentions.

-----

My paper sets out an potential agenda to complement an environment of low border barriers with:

- free movement of business people and capital;
- respect for intellectual property rights;
- transparency, best practice, and consistency of regulations, including:

- competition policy,
- regulations on government procurement.
- mutual recognition of standards and qualifications;
- efficient communications, including e-commerce and trade logistics.

APEC governments have made a start on these. However, compared to the European Union, we are just scratching the surface of deep integration.

-----

We can learn from their experience.

But we have to move towards a single market in the Asia Pacific in a different way. We need to find a way to promote ever-deeper economic integration without relying on a supra-national authority.

Nor should we follow the same sequence. The European Union created a trading bloc by 1970. They needed another 20 years to realise that was nowhere near enough for genuine economic integration. It was not until the late 1980s, that the EU committed itself to moving beyond more than a free trade area. Asia Pacific cannot afford to waste so much time.

Progress on practical issues of growing concern should not be held hostage to APEC negotiations on old issues. Leave that to others.

-----

Working on these new issues does not mean we should forget about trade liberalisation. But we need to think outside the square, not beat our heads against the same wall as everyone else.

We are having so much trouble with sensitive products, we should think ahead to make sure that new products of today do not become the sensitive products of tomorrow.

One policy option is to get rid of low tariffs: where border barriers are already quite low (for example, tariffs below 5 per cent) APEC governments should be able to agree to bind these at zero.

We can also build imaginatively on the WTO's information technology agreement precedent: That agreement, initiated by APEC leaders, has meant the fastest growing part of world trade has been immunised against protectionists. We can move to ensure that all new products are also immunised.<sup>1</sup>

-----

As you can see there is much to be done.

---

<sup>1</sup> The Executive Summary of my 2008 Asia Pacific Economic Paper on this topic is attached to these remarks. The paper is available at: <http://www.crawford.anu.edu.au/pdf/pep/apep-372.pdf>

To move ahead , beyond Bogor, we need a new unifying vision.

Like the Bogor goal, a vision of a single market in the Asia Pacific is once again a point of reference.

Unlike the Bogor goals we should avoid a deadline for a never-ending challenge. It is far better to set ambitious, but realistic milestones for practical achievements.

These targets should be in areas of direct relevance for the private sector and accept that different economies will move ahead of others. As ministers explained in Singapore, the front runners can set positive examples and share their experience with others.

Within a potentially broad single market agenda, it will be essential to set priorities, along the lines suggested in my paper. Improving the efficiency of supply chains meets these criteria and an ambitious program could set a successful example and generate the confidence to do more.

Such a program will need time and money. APEC leaders have stated their intention to catalyse investment from multilateral development banks and from the private sector.

-----

In these remarks, I have tried to explain how we can follow the directions set by APEC leaders and ministers in Singapore in 2010 and 2011.

By setting a new vision of a single market we can bring the process into line with new realities and provide a clear sense of direction.

We can transform APEC into a process that is seen to be making and measurable progress on practical dimensions of ever-deeper economic integration, year after year.

And, very importantly, Asia Pacific economies can set examples for each other and the rest of the world. In due course, I am optimistic that the G20 will begin to promote global economic integration along these lines.

---

# Immunising future trade against protectionists:

## preventing the emergence of more sensitive sectors

---

### *Executive summary*

Very many goods and services are traded freely among most economies. The recent proliferation of preferential trading arrangements (PTAs) demonstrates that most economies are willing to eliminate border barriers against substantially all products from almost any other economy.

At the same time, the recent proliferation of PTAs also demonstrates the political power of producer interests in a few heavily protected sectors, which remain in all economies. The same sensitive products, which are proving hard to liberalise in the Doha Development Agenda of the WTO, or among APEC economies, are also routinely exempted from “free trade” deals. Any marginal liberalisation of border barriers to these products tends to be negated by product-specific rules of origin and by retaining the right to impose less transparent forms of protection, such as anti-dumping actions.

It will take a long time, in any forum, to reduce the number of products which are already sensitive and, hence, heavily protected by border barriers or other less transparent forms of contingent protection, such as anti-dumping. Therefore, it is desirable to prevent the emergence of new sensitive products.

This paper proposes collective action by APEC governments to immunise new products against trade policy distortions. It was possible to do so for information technology (IT) products in the 1990s. Following leadership from APEC governments, there is a WTO-wide agreement that such products should remain freely traded.

That agreement has already helped a growing share of products to remain duty free. The integrity of that agreement has been challenged by some who are seeking to narrow the definition of IT products. APEC governments are looking for ways to preserve the spirit of the Information Technology Agreement (ITA).

In addition to this defensive reaction, APEC governments could also consider a proactive option. It should be possible to build on the IT precedent to cover more, or even all, newly invented products.

The new products to be immunised against trade policy barriers would be those whose intellectual property rights (IPRs) are acknowledged. Immunisation would need to involve more than agreeing to set zero tariffs. It would also be essential to prevent future recourse to other less visible means of protection which discriminate between domestic and international sources of competition.

Such immunisation should be politically feasible. At the time of their invention, the comparative advantage of the producers of new products is created by the intellectual property embedded in new products. Therefore they are anxious to protect their IPRs.

In the longer term, such initial advantage can be eroded. For example, close substitutes may be invented, using genuinely different ideas or technology. In that case, comparative advantage would come to depend on relative prices in different economies. As products mature, there will be growing pressure for protection against international competition, risking the future emergence of more sensitive sectors.

This potential problem could be avoided if producers or marketers of new products were required to make a choice between protection of IPRs, or protection by means of trade-distorting measures aimed specifically at international competition.

The short-term costs should be negligible since no existing jobs or profits would be threatened, while the long-term gains will become significant as the share of new products continues to expand.

To implement this proposal, a group of forward-looking governments can agree that newly invented products can be protected by intellectual property rights, but will not receive protection from future border barriers, or any other trade-distorting policies.

Ideally, the such a principle could be adopted WTO-wide, but that can not be expected at the outset. However, an immunisation initiative could pioneered by a smaller group of governments which formed an open club, which provided incentives for others to join.

A group of Asia Pacific economies could lead the way, as a pathfinder initiative for progress towards APEC's agreed Bogor goals. Such an initiative can be taken by as many APEC governments as possible, as part of an effort to accelerate progress towards free and open trade and investment. In time, the policy could be adopted APEC-wide. That would set the stage for a multilateral protocol among many WTO economies which agree to immunise new products against trade