

## APEC'S ROLE IN TRADE AND INVESTMENT

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### Overview

From the start, the Asia-Pacific economies have stood for a free and open approach to trade and investment. Our governments and businesses know from first hand experience that this approach produces economic growth and development. APEC's creation and evolution over the years is a natural outcome of our economies' interaction and shared interests. APEC's role in trade and investment is the manifestation of its members' joint promotion of their shared interests.

APEC has always been positive and forward-looking. This is true whether we speak of the Bogor goals, the successful completion of a WTO Round or setting benchmark standards for regional trade agreements. A particular quality to the organization is its flexibility and the fact that the members' shared interests are not artificially bounded by a particular setting. As we head into 2007, APEC will be more than ever relevant in the WTO, in bilateral and regional agreements and through specific APEC-centred initiatives that advance member economies' interests in trade and investment liberalisation.

### APEC as "Competitive Liberalisation"

When Fred Bergsten coined the term "competitive liberalisation" he had APEC very much in mind and when people talk about competitive liberalisation in 2006, APEC continues to be a big part of the equation. When the Uruguay Round was foundering in 1993, the APEC Leaders meeting and the promise of progress in the Pacific if the GATT couldn't deliver helped to push the Round to completion. A general solidarity among APEC members in the aftermath of the Seattle WTO Ministerial helped to get the Doha Round off the ground. APEC Member Economies have always supported positive momentum in the WTO but they have also never put all of their eggs in the WTO basket.

What exactly is "competitive liberalisation"? I see it as pushing the envelope on freeing up trade. We all accept that the WTO multilateral route is the one that ideally delivers the biggest bang for the buck, but WTO is slow to deliver and the WTO does not now cover important subjects like investment, competition policy and government procurement and certain other areas of WTO coverage – like IPR protections – are now somewhat outdated. So, while we wait for the WTO to catch up, those economies that see value in moving forward in trade

liberalisation do so through regional and bilateral agreements. In many cases, these agreements serve as test beds for ideas that will later find their way into the WTO'S sphere of activity. All around APEC we see evidence of competitive liberalisation.

FTAs used to be mainly agreements between neighbours, but we now see in the APEC region agreements between the USA and Singapore, between Chile and Korea, between Japan and Mexico and a four-way deal involving Chile, Singapore, Brunei and New Zealand. And these are just a very few examples. About two-dozen FTAs and RTAs already liberalise trade between and among APEC member economies and at least ten more are under discussion. With trade in the APEC region now accounting for 48 percent of global trade, it's not hard to see the significance of this trend.

Do the agreements among APEC member economies harm the WTO? I don't think so. At the highest political level, APEC members regularly pledge their support to work for a positive outcome in WTO and this political commitment is backed up by cooperation among APEC delegations in Geneva. With a few exceptions, APEC member FTAs appear to be more compatible with the WTO's RTA rules than those negotiated outside of the APEC area. APEC best practices and model measures endorsed for FTAs and component elements like trade facilitation help to give the APEC agreements a "WTO Plus" character. In APEC, we are pushing the envelope.

### **What's Next on APEC's Trade and Investment Agenda?**

So what should be next on APEC's trade and investment agenda?

Two years ago, the APEC Business Advisory Council (ABAC) had a bold idea for the APEC Leaders' Summit. In their 2004 Report to the APEC Economic Leaders, the 60 business representatives that signed the report proposed that the Leaders should endorse the idea of a Free Trade Area of the Asia-Pacific (FTAAP). This was – and still is - a potentially exciting initiative. We all know that APEC's developed economies agreed in Bogor that they would achieve free and open trade and investment by 2010 with for developing economies aiming for 2020. In making its dramatic proposal, ABAC was motivated by a well-justified concern that the Bogor goals that are the cornerstone of APEC's trade and investment agenda are increasingly unlikely to be met through a continuation of current policies.

Nice idea, said certain of the APEC Leaders, but it won't work. Some said the economies involved in APEC are too diverse to make an FTAAP feasible. My first response is to ask whether the far greater diversity of the 150 WTO members doesn't make a meaningful result in Geneva even less likely. It was a desire to enhance their already impressive trade links that gave the initial impetus to participating governments to back the APEC idea. I find it hard to believe that if the US and Korea, China and Australia, and Japan and Mexico can reach agreements on free trade APEC cannot do it more generally.

There are also some other very good reasons to back the admittedly ambitious ABAC proposal. APEC work on trade facilitation, for example, is ahead of where this issue now stands in WTO and the FTAAP would show other WTO Members what works and what doesn't. More significantly, whatever the eventual result of the WTO negotiations, the outcome will not be "free" trade but rather another incremental ratcheting-down of protection and subsidies distorting global markets.

Earlier I noted that In the APEC region there has been an explosion of free trade agreements. While most of these FTAs have flaws, they invariably go beyond the scope and ambition of the

Doha Round. If so many APEC members are willing to do it bilaterally, why should we assume that they cannot do it collectively where the trade-offs and gains are often easier to find than they are in a strictly bilateral context? A good argument can be made that the FTAAP – through its demonstration effect - would help the Doha Round.

In an article published in FOREIGN AFFAIRS last December, Fred Bergsten noted the important role played by NAFTA and the APEC Summit in 1993 in finally moving the European Community to play ball in the final stages of the Uruguay Round. Demonstrating that he is still a strong believer in the persuasive powers of competitive liberalization, Fred wrote that the APEC Business Advisory Committee (ABAC) proposal for an APEC-wide free trade agreement is just the sort of catalyst needed in 2006 to get the Doha Round moving again. Neither Bergsten nor the ABAC proponents would expect to see an APEC FTA between now and the end of this year, but then almost nobody seems to expect results in the Doha Round without its extension. Fred's view is that merely by seriously starting the APEC FTA, recalcitrants in the Geneva negotiations might get the idea that they had better take steps to make the Doha Round succeed.

I think Fred's got a point. You can say what you want about the impact on the Doha Round of individual FTAs now under negotiation, but there is no doubt in my mind that an APEC-wide deal would be seen as qualitatively different. It would definitely have a head-turning effect.

In addition, nearly every Asia Pacific country is now involved in the negotiation of several FTAs. The fact that APEC leads the way in business-friendly initiatives like trade facilitation adds to the argument for an APEC FTA initiative. If there is a weak link in Fred's suggestion it's agriculture which is notoriously hard to deal with in an FTA context but which might prove to be more easily tackled in a multi-party APEC deal. And anyway, if Fred's right, we don't need to conclude the APEC negotiations – we only need to start them seriously to get the Doha Round back on track.

I am the first to admit that this kind of an undertaking would be difficult. But it would not be impossible. The really important thing about an APEC-wide undertaking is that it would be just that: "APEC-wide" and that makes it consistent with the principles endorsed by APEC member economies for FTAs and RTAs. The agreements need to be open in order to avoid the potential negative consequences of preferential agreements.

It would be very wrong and dangerous to the future of APEC and WTO for only certain member economies of the group to create a closed sub-regional group within APEC to which other economies were not invited. Such a group would also be contrary to agreed APEC best practice principles that call for all RTAs to be open to the possibility of accession of third parties on negotiated terms and conditions.

APEC has grown over the years and it is more than likely to grow again before too long. A precondition for APEC membership should be a willingness to push the trade liberalisation envelope consistent with APEC's commitment to open regionalism. If we allow member economies to segregate their trade interests through closed agreements in APEC, we will be contributing to the worst kind of negatively motivated discrimination. This would hurt both APEC and the WTO. Conversely, if we stick to established principles and if we can succeed in moving an APEC-wide liberalisation effort, we can probably eventually succeed in the WTO's Doha Round as well.

Thank you.